

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 September 2017
Interim Report



COMPANY INFORMATION

Board of Directors and Committees

According to Article 10 of our Articles of Incorporation, all affairs and management of Ford Otosan shall be conducted by the Board of Directors composed of at least 8 members, the total number of the members shall be even, and shall be elected for a period not exceeding three years in accordance with the provisions of the Turkish Commercial Code and regulations of the Capital Markets Board. Save for the mandatory provisions of the Corporate Governance Principles of the Capital Markets Board with respect to the independent members of the Board of Directors, the General Assembly may replace the members of the Board of Directors at any time as deemed necessary. Two of the elected board member shall meet the qualification of independence stipulated in the Corporate Governance Principles regulations of Capital Markets Board.

In our Ordinary General Assembly Meeting held on March 23rd, 2017, the number of members of our Board of Directors was defined as 14, including 2 Independent Members. Our Board of Directors that would be serving until Ordinary General Assembly Meeting in order to audit 2017 accounts are as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
Steven Armstrong	Vice Chairman
Joseph Bakaj	Member (Replacing James Duncan Farley Jr.)
Linda A. Cash	Member
O. Turgay Durak	Member
İ. Cenk Çimen	Member
William R. Periam	Member
Roelant C. de Waard	Member
Ali İhsan İlkbahar	Member
Mehmet Barmanbek	Independent Member
L.Martin Meany	Independent Member
Haydar Yenigün	Member – General Manager
Lisa K. King	Member – Deputy General Manager

Our Board of Directors has resolved the following in their meeting dated 8th September 2017.

- Mr. James Duncan Farley Jr (Vice Chairman of Board of Directors), who was elected to the Board of Directors, nominated by Class C shares during the Ordinary General Assembly on March 23, 2017, resigned from membership of the Board of Directors due to change of position in Ford Motor Company organization effective from September 08, 2017. Steven Robert Armstrong, who is currently member of Board of Directors, is assigned as the Vice Chairman of Board of Directors. Mr. Joseph Bakaj, who was nominated by Class C Shareholder Ford Motor Company, is assigned to membership of Board of Directors to serve until the next General Assembly of Shareholders.
- Mr. Steven Robert Armstrong has been elected as a member of the Remuneration Committee instead of Mr. James Duncan Farley Jr.

Shareholder Structure:

Ford Otosan's shareholder structure as of September 30th, 2017 is as follows:

Company Name	Value of Share (TL)	Number of Share	Share Capital (%)
Koç Holding A.Ş	134,953,357	13,495,335,714	38.46
Vehbi Koç Foundation	3,558,449	355,844,870	1.01
Koç Holding Retirement and Support Fund Foundation	3,259,202	325,920,231	0.93
Temel Ticaret A.Ş	2,355,885	235,588,500	0.67
Koç Group Companies	144,126,893	14,412,689,315	41.07
Ford Motor Company	143,997,037	14,399,703,676	41.04
Publicly Held	62,786,070	6,278,607,009	17.89
Total Nominal Capital (TL)	350,910,000	35,091,000,000	100

TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

1. Domestic Automotive Industry and Ford Otosan

Turkish automotive industry sales reached 640,811 units in 9M, down 1% YoY. Passenger car sales (-3% YoY) and truck sales (-7% YoY) decreased while medium commercial vehicle sales (+1% YoY) and light commercial vehicle sales (+4% YoY) increased.

The share of PCs in the total industry was 74.4%. LCV industry share was 12.5%.

The share of PCs in the total industry						
9M17	9M16	2016	2015	2014	2013	2012
74%	75%	75%	72%	73%	75%	68%

Turkish Automotive Industry Sales in 9M:

	2017 9M	2016 9M	% Change
Passenger Car	476,621	489,365	-3%
Light Commercial Vehicle	80,371	77,484	4%
Medium Commercial Vehicle	70,351	69,650	1%
Truck	11,850	12,742	-7%
Total*	640,811	650,438	-1%

* Covers all heavy commercial vehicles excluding buses and midibuses.

Source: Automotive Distributors' Association & TAID

In the first nine months, share of import vehicle sales in PC was 70%, LCV was 49%, and total industry was 65%.

Share of import vehicle	PC	LCV	Total
9M17	70%	49%	65%
9M16	76%	48%	69%
2016	75%	48%	68%

Source: Automotive Distributors' Association

As of 2017 September-end, Ford Otosan had %11.8 (%11.7**) market share in total industry. Ford Otosan's retail sales decreased by 0.8% to 75,309 (75,912) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 5.8% (5.8%) due to our focus on pricing. In the light commercial vehicle segment, our share was %24.8 (%26.8). Ford Otosan was the market leader in the medium commercial vehicle segment with %34.8 (%33.5) share. In the heavy commercial vehicle segment, Ford Otosan maintained its 2nd position with % 28.6 (%26.9) market shares.

2. Production and Capacity

In the first nine months of the year, total production volume was 259,970 (241,609), up by 8%.

91,848 (90,703) units new Transit and 117,525 (98,525) units Custom were manufactured in the Gölcük Plant, 47,012 (48,890) units Courier were manufactured in the Yeniköy Plant and 3,585 (3,491) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 84% (78%).

3. Export, Domestic and Wholesale

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be) in September the demand for light commercial vehicles up to 3.5t was up by 2.1% in Europe, our biggest export market. In the first nine months, commercial vehicle sales increased 4.0%. Changes in our main export market commercial vehicle sales were as below:

	2014	2015	2016	1Q17	1H17	Sept '17	9M17
UK	18.7%	15.6%	1.0%	-0.9%	-3.7%	-4.2%	-3.1%
Germany	7.3%	4.2%	8.5%	8.9%	3.3%	9.9%	3.5%
Italy	16.4%	12.4%	50.0%	9.4%	6.5%	-1.3%	-0.2%
Spain	33.2%	36.1%	11.2%	23.6%	16.3%	10.9%	16.4%
France	1.5%	2.0%	8.2%	10.2%	6.4%	0.5%	7.1%
Total	11.3%	11.6%	11.9%	8.1%	4.7%	2.1%	4.0%

** Data inside the brackets represent 9M16 numbers.

Exports

Export volumes grew 12% YoY to 211,695 (188,735) units with growth in the European van segment and ongoing strong demand for our products. Ford continued to rank as Europe's No.1 commercial vehicle brand in 9M17 with 13.7% market share. During this period, 80% of the Transits sold in Europe were manufactured by Ford Otosan.

Our export revenues increased by 42%, reaching 12,411 (8,720) million TL.

Domestic Sales

Domestic revenues were TL 4,727 million, up 21% YoY despite the 4% volume contraction thanks to pricing strategy and positive sales mix. Domestic wholesale volumes were 74,370 units with market contraction and pricing focus.

Total Sales

Total revenues were up 36% YoY to TL 17,138 (12,640) million on the back of 286,065 (265,903) units (+8% YoY). The share of exports in total revenues was 72%, up from 69% in 9M16.

4. Investments

In the first nine months of the year, capital expenditures were TL 595 million (TL 445 million) including capitalized R&D spending.

5. R&D Activities

In the first nine months, TL336 million (TL359 million) pre-capitalization R&D expenditure was made for various product development projects. R&D projects are carried out in line with product programs and the number of R&D engineers is 1,510.

6. Personnel

As of September 30th, 2017, Ford Otosan has a total of 11,297 employees composed of 2,644 white collar and 8,653 blue collar workers. (December 31, 2016: total of 10,261 employees composed of 2,700 white collar and 7,561 blue collar workers). Ford Otosan continues to have the highest employment in Turkish automotive sector. Our blue collar employees are as part of the Collective Bargaining Agreement which was signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) that ended on 31st August 2017. The Collective Bargaining Agreement was signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS), where our company is also a member, on December 17th, 2014 for the 01.09.2014-31.08.2017 period. Negotiations for the renewed Collective Bargaining Agreement for the next term are ongoing.

7. Profitability

Profitability was strong in 9M17 despite 1- Rising import costs resulting from weaker TL/€ (4.00 in 9M17 versus 3.28 in 9M16), higher inflation and commodity prices 2- Lower domestic volumes. Drivers were:

- + Pricing focus to offset the impact of TL depreciation, higher commodity prices and inflation
- + Positive domestic sales mix (share of import vehicles was down to 34% in 9M17 from 36% in 9M16; share of MCV + Truck was up from 35% in 9M16 to 38% in 9M17)
- + High CUR (84% in 9M17)
- + Cost reduction actions and strong OpEx control

Gross profit, despite the rising cost pressures, was up by 24% YoY to TL 1,800 million. Operating profit grew by 52% YoY to TL 1,128 million, supported by strong OpEx control and ongoing cost reduction actions. Higher net other income (TL 76 million in 9M17 vs. TL 16 million in 9M16) driven by higher fx income further supported the operating profit. EBITDA grew by 37% YoY to TL 1,482 million. Profit before tax rose by 50% YoY to TL 986 million, despite the %64 rise in net financial expenses due to the 149% higher net fx loss. Net income was booked as TL 980 million, up 54% YoY.

Margins: Gross 10.5% (down 100 bps YoY); EBITDA 8.6% (flat YoY); EBITDA excluding other income 8.2% (down 20 bps YoY); Operating 6.6% (up 70 bps YoY); and Net 5.7% (up 70 bps YoY).

8. Financing

€432 million loan repayment was made in January - September period where €512 million was borrowed in new loans. Total debt level was €843 million (€799 million) as of September-end, from €771 million at the beginning of the year. Cash balance as at the end of the period is TL 1,495 million (TL607 million).

Ford Otosan continues to follow financial risks very closely and maintains prudent policies. The main policies regarding various risks are summarized in the Note 2 of the financial statements.

9. Main Financial Indicators

Summary Balance Sheet, Million TL	30.09.2017	31.12.2016	% Change
Current Assets	5,483	4,676	17%
Property, Plant and Equipment - Net	3,330	3,303	1%
Total Assets	10,380	9,286	12%
Current Liabilities	4,490	4,308	4%
Total Liabilities	6,742	6,123	10%
Shareholders' Equity	3,638	3,164	15%
Summary Income Statement, Million TL	30.09.2017	30.09.2016	% Change
Revenues	17,138	12,640	36%
Export	12,411	8,720	42%
Domestic	4,727	3,920	21%
Gross Profit	1,800	1,452	24%
Operating Profit	1,128	744	52%
Financial (Expense) / Income	-141	-86	64%
Profit Before Tax	986	656	50%
Net Income	980	638	54%
Other Financial Data, Million TL	30.09.2017	30.09.2016	% Change
Depreciation and Amortization	353	339	4%
EBITDA	1,482	1,082	37%
Capex	-595	-445	34%
Summary Cash Flow Statement, Million TL	30.09.2017	30.09.2016	% Change
Beginning Balance of Cash & Equivalents	1,189	980	21%
Net Cash Generated from Operating Activities	952	473	101%
Net Cash Used in Investing Activities	-593	-437	36%
Net Cash Used in Financing Activities	-53	-408	NM
End of Period Balance of Cash & Equivalents	1,495	607	146%

Financial Ratios	30.09.2017	31.12.2016
Current Ratio	1.22	1.09
Liquidity Ratio	0.94	0.79
Net Financial Debt / Tangible Net Worth	0.67	0.64
Current Assets / Total Assets	0.53	0.50
Current Liabilities / Total Liabilities	0.67	0.70
Total Liabilities / Total Liabilities and Equity	0.65	0.66
Return on Equity***	35.9%	30.2%
	30.09.2017	30.09.2016
Gross Margin	10.5	11.5
EBITDA Margin	8.6	8.6
Operating Margin	6.6	5.9
Net Margin	5.7	5.0

*** Annualized net income divided by shareholders' equity.

10. Other Material Developments

- **Appointment to the Board of Directors:** - Mr. James Duncan Farley Jr (Vice Chairman of Board of Directors), who was elected to the Board of Directors, nominated by Class C shares during the Ordinary General Assembly on March 23, 2017, resigned from membership of the Board of Directors due to change of position in Ford Motor Company organization effective from September 08, 2017. Steven Robert Armstrong, who is currently member of Board of Directors, is assigned as the Vice Chairman of Board of Directors. Mr. Joseph Bakaj, who was nominated by Class C Shareholder Ford Motor Company, is assigned to membership of Board of Directors to serve until the next General Assembly of Shareholders.
- **Dividend Distribution:** TL 389,510,100 total gross cash dividend, Kr 111 gross (Kr. 94,35 net per share with 1-TL nominal value) will be distributed starting from October 31, 2017.
- **Production Capacity Increase:** Ford Otosan has taken a decision to increase the annual production capacity of the Gölcük Plant from 290,000 units to 330,000 units in order to meet increasing export demand. The investment will cost US\$52 million and planned for completion in September 2018. When finalized, the production capacity in our three plants will rise from 415,000 units per annum to 455,000 units per annum.

11. Guidance

Total Industry Volume 950K – 1,000K

Ford Otosan

Retail Sales Volume 110K-120K
Export Volume 290K-300K
Wholesale Volume 400K-420K
Production Volume 365K-375K
Capex (fixed assets) €180-200 million

FORD OTOMOTİV SANAYİ A.Ş.