

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 June 2019
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 15th, 2019, 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 2019 accounts are as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
Steven Armstrong	Vice Chairman
William R. Periam	Member
Roelant De Waard	Member
İ. Cenk Çimen	Member
O. Turgay Durak	Member
Birgit Annelies Behrendt ⁽¹⁾	Member
Joerg Beyer	Member
Ali İhsan İlkbahar	Member
Fatma Füsün Akkal Bozok	Independent Member
Leonard Meany	Independent Member
Haydar Yenigün	Member – General Manager
Lisa K. King	Member – Deputy General Manager

- (1) Mrs. Birgit Annelies Behrendt, who was elected to the Board of Directors, nominated by Class C shares during the Ordinary General Assembly on March 15, 2019, resigned due to leave of position in Ford Motor Company organization effective from May 28, 2019. As per our Board resolution dated 28 May 2019, Mr. Stuart John Rowley nominated by Class C Shares is assigned to the membership of Board of Directors to serve until the next General Assembly of Shareholders. This assignment will be submitted to the approval of the General Assembly at the next meeting.

Our Board of Directors took below decisions on March 15th and 27th, 2019:

- The Board of Directors is composed of Chairman Mr. Yıldırım Ali Koç, Board Member & Honorary Chairman Mustafa Rahmi Koç, Vice Chairman Mr. Steven Robert Armstrong, Board Member & General Manager Mr. Haydar Yenigün, Board Member & Deputy General Manager Mrs. Lisa Katharina King, Board Member Mr. İsmail Cenk Çimen, Board Member Mr. Osman Turgay Durak, Board Member Mr. Ali İhsan İlkbahar, Board Member Mrs. Birgit Annelies Behrendt, Board Member Mr. Joerg Beyer, Board Member Mr. William Richard Periam, Board Member Mr. Roelant Christiaan de Waard, Independent Board Member Mrs. Fatma Füsün Akkal Bozok and Independent Board Member Mr. Leonard Meany.

- Mrs. Fatma Füsün Akkal Bozok and Mr. Leonard Meany have been elected to the Audit Committee membership pursuant to Communiqué on Corporate Governance Serial: II, N17.1 of the Capital Markets Board (the "Communiqué" in short).
- Mr. Leonard Martin Meany has been elected as the chairman, and Mr. Ali İhsan İlkbahar, Mr. William Richard Periam and Mr. İsmail Oğuz Toprakoğlu as the members of the Corporate Governance Committee which also fulfils the duties assigned to the Nominating Committee established pursuant to the Communiqué.
- Mrs. Fatma Füsün Akkal Bozok has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. William Richard Periam as the members of the Early Determination and Management of Risk Committee established pursuant to the Communiqué.
- Mrs. Fatma Füsün Akkal Bozok has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. Steven Robert Armstrong as the members of the Remuneration Committee established pursuant to the Communiqué.

Shareholder Structure:

Ford Otosan's shareholder structure as of June 30th, 2019 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 198,883 units in 1H, down 45% YoY.

	2019 1H	2018 1H	Change
Passenger Car	156,378	275,870	-43%
Light Commercial Vehicle	19,418	38,709	-50%
Medium Commercial Vehicle	19,348	38,769	-50%
Truck	3,323	8,056	-59%
Total*	198,883	362,406	-45%

* Covers all heavy commercial vehicles excluding buses and midibuses.

Source: Automotive Distributors' Association and TAİD

The share of PCs in the total industry was 78.6%. LCV industry share was 9.8%.

he share of PCs in the total industry						
1H19	1H18	2018	2017	2016	2015	2014
79%	76%	77%	74%	75%	72%	73%

Source: Automotive Distributors' Association

In the first half, share of import vehicles in industry sales declined YoY and reached 56% in PC, 47% in LCV and 54% in total industry.

Share of import vehicles	PC	LCV	Total
1H19	56%	47%	54%
1H18	66%	48%	62%
2018	66%	50%	63%

Source: Automotive Distributors' Association

As of 1H19, Ford Otosan had 10.3% (11.3%) market share in total industry and ranked 3rd. Ford Otosan's retail sales decreased by 50% to 20,485 (40,942) compared to the same period of last year. In the passenger car segment where competition is the most intense, our market share was 3.5% due to our focus on profitability (5.3%). We maintained our leadership in the commercial vehicle segment with 35.7% market share. Our market share was 31.0% (28.4%) in light commercial vehicles, 41.7% (33.7%) in medium commercial vehicles and 28.0% (29.3%) in heavy commercial vehicles.

2. Production and Capacity

In the first half of the year, total production volume was 186,667 (198,601) down by 6%. As a result total capacity utilization rate was 82% (90%). Ford Transit was facelifted in Q2 and the transition slowed down export volumes in May and June. The export volumes will be normalized in the remainder of the year with no downside risk to our export guidance.

Plant	Model	1H19 Production	1H18 Production	Change
Gölcük	Transit	66,829	72,232	-7%
Gölcük	Custom	88,930	87,821	1%
Yeniköy	Courier	28,904	34,511	-16%
İnönü	Ford Trucks	2,004	4,037	-50%
Total		186,667	198,601	-6%

Our production capacity has increased to 455,000 units from 440,000 units as of September 2018.

** Data inside the paranthesis represent 1H18 numbers throughout the report.

3. Export, Domestic and Wholesale Review

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be), van sales (commercial vehicles up to 3.5 tons) increased 3.8% in the first half of 2019. Industry sales in our main export markets were as follows:

	2014	2015	2016	2017	2018	1Q19	April	May	June	YTD
UK	18.7%	15.6%	1.0%	-3.6%	-1.3%	8.9%	4.7%	5.4%	13.5%	8.7%
Germany	7.3%	4.2%	8.5%	4.9%	5.4%	12.1%	13.2%	23.5%	-1.4%	11.7%
Italy	16.4%	12.4%	50.0%	-3.4%	-6.0%	1.3%	15.6%	5.1%	3.0%	5.9%
Spain	33.2%	36.1%	11.2%	15.5%	7.8%	4.0%	7.8%	-0.1%	-4.4%	2.3%
France	1.5%	2.0%	8.2%	7.1%	4.6%	4.2%	12.4%	9.5%	0.4%	5.6%
Europe	11.3%	11.6%	11.9%	3.9%	3.1%	5.0%	8.4%	5.8%	-5.0%	3.8%

Exports

Ford remained Europe's No. 1 commercial vehicle brand with 99,900 vehicles sold in 2Q19, marking the highest 2Q commercial vehicle sales. 87% of the Transit family vans sold in Europe were manufactured by Ford Otosan.

Ford Otosan's export units were 168,148 (165,166) up by 2% YoY, highest 1H on record, due to market growth and ongoing demand for our vehicles. Ford Transit was facelifted in Q2 and the transition slowed down export volumes in May and June. The export volumes will be normalized in the remainder of the year with no downside risk to our export guidance.

Our export revenues increased by 33%, reaching TL 16,056 (12,099) million.

Domestic Sales

Ford Otosan's domestic revenues came in at TL 2,353 (3,374) million. The YoY decline in domestic revenues was limited to 30%, despite 51% domestic volume decline, with focus on high margin products and pricing discipline. Domestic wholesale volumes were 20,303 (41,196) units.

Total Sales

Total revenues were up 19% YoY to TL 18,409 (15,472) million on the back of 188,451 (206,362) units (-9% YoY) driven by strong export performance.

4. Investments

Capital expenditures were TL 549 (424) million including capitalized R&D spending.

5. R&D Activities

TL 284 (268) 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 1,376.

6. Employees

As of June 30th, 2019, Ford Otosan had a total of 10,713 employees: 2,478 salaried and 8,235 hourly. (December 31, 2018: total 10,598 employees: 2,512 salaried and 8,086 hourly). Our hourly employees are part of the Collective Bargaining Agreement signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) and valid until 31st August 2019.

7. Profitability

Profitability was strong in 1H19 despite considerable cost pressure resulting from weaker €/TL (+28% YoY), high inflation and contracting domestic volumes. Drivers were:

- + Rising export demand
- + Cost reduction actions and strong OpEx control
- + Sales mix and pricing discipline

Revenues (TL 18,409 million), cost of sales (TL 16,494 million) and gross profit (TL 1,915 million) were up 19%, 20% and 14% respectively. Net other income declined 85% YoY due to 261% increase in net financial expenses from operating activities. As a result, operating profit reached TL 1,215 million, up by a mere 7% YoY. OpEx/Sales was flat YoY at 3.8%. EBITDA grew 12% YoY to TL 1,576 million. Net financial expenses were 71% more YoY driven by 73% rise in net fx losses, mainly explained by prior period fx losses from cash flow hedge reserve. As a result, profit before tax declined 7% YoY to TL 878 million. Net income was down 3% to TL 888 million.

Margins: Gross 10.4% (-45 bps YoY); EBITDA 8.6% (-54 bps YoY); EBITDA excluding other income 8.5% (-24 bps YoY); Operating 6.6% (-76 bps YoY); and Net 4.8% (-111 bps YoY).

8. Financing

€369 million loan repayment was made in 1H19 where €512 million was borrowed in new loans. Total debt level was €888 million (€764 million) as of June-end, up from €745 million at the beginning of the year. Cash balance as at the end of the period is TL 1,916 million (TL 1,285 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	30.06.2019	31.12.2018	% Change
Current Assets	9.122	7.395	23%
Property, Plant and Equipment - Net	4.180	3.923	7%
Total Assets	15.240	13.184	16%
Current Liabilities	8.812	7.220	22%
Total Liabilities	11.287	9.291	21%
Shareholders' Equity	3.953	3.893	2%
Summary Income Statement, Million TL	30.06.2019	30.06.2018	% Change
Revenues	18.409	15.472	19%
Export	16.056	12.099	33%
Domestic	2.353	3.374	-30%
Gross Profit	1.915	1.679	14%
Operating Profit	1.215	1.139	7%
Financial Income/(Expense)	-336	-196	71%
Profit Before Tax	878	940	-7%
Net Income	888	919	-3%
Other Financial Data, Million TL	30.06.2019	30.06.2018	% Change
Depreciation and Amortization***	361	270	34%
EBITDA	1.576	1.408	12%
Capex	-549	-424	29%
Summary Cash Flow Statement, Million TL	30.06.2019	30.06.2018	% Change
Beginning Balance of Cash & Equivalents	1.391	1.803	-23%
Net Cash Generated from Operating Activities	991	832	19%
Net Cash Used in Investing Activities	-548	-392	40%
Net Cash Used in Financing Activities	82	-958	-109%
End of Period Balance of Cash & Equivalents	1.916	1.285	49%

***1H19 numbers include TL 22 million impact from IFRS16 due to classification from manufacturing overhead and operating expenses to D&A. Please refer to footnotes 2,10,11,33 of the financial statements for further details.

Financial Ratios	30.06.2019	31.12.2018
Current Ratio	1,04	1,02
Liquidity Ratio	0,67	0,64
Net Financial Debt / Tangible Equity	1,27	1,01
Net Debt / EBITDA****	1,32	1,08
Current Assets / Total Assets	0,60	0,56
Current Liabilities / Total Liabilities	0,78	0,78
Total Liabilities / Total Liabilities and Equity	0,74	0,70
Return on Equity *****	44,9%	43,2%
	30.06.2019	30.06.2018
Gross Margin	10,4%	10,8%
EBITDA Margin	8,6%	9,1%
Operating Margin	6,6%	7,4%
Net Margin	4,8%	5,9%

**** EBITDA is calculated on a rolling 4-quarter basis.

***** Annualized net profit/ equity.

10. Other Material Developments

- Our Board of Directors has resolved the followings in their meeting dated 28th Jun 2019: Mr. Cemil Cem Temel who has been acting as the Assistant General Manager (Kocaeli Plants & New Projects) is assigned to the Assistant General Manager (New Projects) position effective from July 01, 2019. Mr. Güven Özyurt who has been acting as the Assistant General Manager (Purchasing) is assigned to the Assistant General Manager (Operations) position which is newly created effective from July 01, 2019. Mr. Murat Senir who has been acting as the Purchasing Director is assigned as the Assistant General Manager (Purchasing) effective from July 01, 2019.
- Our Board of Directors has resolved the following in their meeting dated 18th July 2019: Mr. Dave Johnston is assigned as Deputy General Manager effective from August 01, 2019 to replace Mrs. Lisa Katharine King who has been acting as Deputy General Manager and left the Company.
- There will be a shutdown period in our plants due to scheduled annual vacation as below. During this time periodical maintenance will take place in all our plants.

	Date to Begin	Date to End
Gölcük Plant	29 July 2019	17 August 2019
Yeniköy Plant	28 July 2019	19 August 2019
İnönü Plants	27 July 2019	16 August 2019

11. Guidance

Total Industry Volume	380K – 430K
Ford Otosan:	
Retail Sales Volume	40K-50K
Export Volume	340K-350K
Wholesale Volume	380K-400K
Production Volume	375K-385K
Capex (fixed assets)	€160-180 million

FORD OTOMOTİV SANAYİ A.Ş.