

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 31 March 2018
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 19th, 2018, 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 2018 accounts are as below:

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

Our Board of Directors took below decisions on March 19th and 22nd, 2018:

- 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. Joseph Bakaj, 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 Martin Meany.
- Mrs. Fatma Füsün Akkal Bozok and Mr. Leonard Martin 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 March 19th, 2018 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 162,855 units in 1Q, up 2% YoY. Passenger car sales (up 5%) and truck sales (up 42%) increased; light commercial sales (down 9%) and medium commercial sales (down 11%) decreased.

The share of PCs in the total industry was 75%. LCV industry share was 11%.

The share of PCs in the total industry						
1Q18	1Q17	2017	2016	2015	2014	2013
75%	73%	74%	75%	72%	73%	75%

Source: Automotive Distributors' Association

Turkish Automotive Industry Sales in 1Q:

	2018 1Q	2017 1Q	Change
Passenger Car	122,310	115,963	5%
Light Commercial Vehicle	18,498	20,437	-9%
Medium Commercial Vehicle	17,622	19,690	-11%
Truck	3,874	2,728	42%
Total*	162,855	159,230	2%

* Covers all heavy commercial vehicles excluding buses and midibuses.

In the first three months, share of import vehicle sales in PC was 66%, LCV was 48%, and total industry was 62%.

Share of import vehicle	PC	LCV	Total
1Q18	66%	48%	62%
1Q17	69%	49%	64%
2017	70%	47%	69%

Source: Automotive Distributors' Association

As of 2018 March-end, Ford Otosan had 11.1% (11.8%) market share in total industry and ranked 2nd. Ford Otosan's retail sales decreased by 4% to 18,019 (18,785) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 4.9% (5.3%). Ford Otosan ranked 2nd in the light commercial vehicle segment with 26.2% (24.5%) market share, was the market leader in the medium commercial vehicle segment with 33.8% (34.1%) share, and maintained its second position in the heavy commercial vehicle segment with 32.4% (33.7%) share.

2. Production and Capacity

In the first three months of the year, total production volume was 101,200 (89,501) up by 13%. 36,194 (31,670) units Transit and 42,543 (41,019) units Custom were manufactured in the Kocaeli plant; 20,327 (15,921) units Courier were manufactured in the Yeniköy plant and 2,136 (891) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 92% (86%).

3. Export, Domestic and Wholesale

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be) in September the demand for new commercial vehicles up to 3.5t was up by 10.5% in Europe, our biggest export market. In the first three months, commercial vehicle sales increased 8.1%. Our main export market commercial vehicle sales were as below:

	2014	2015	2016	2017	Jan '18	Feb '18	Mar '18	YTD
UK	18.7%	15.6%	1.0%	-3.6%	-4.2%	6.4%	-5.6%	-3.7%
Germany	7.3%	4.2%	8.5%	4.9%	9.2%	8.8%	-6.7%	2.3%
Italy	16.4%	12.4%	50.0%	-3.4%	14.6%	6.0%	-4.7%	4.1%
Spain	33.2%	36.1%	11.2%	15.5%	16.1%	18.1%	-2.1%	9.3%
France	1.5%	2.0%	8.2%	7.1%	5.8%	3.5%	8.2%	6.0%
Europe	11.3%	11.6%	11.9%	3.9%	7.8%	5.8%	-2.2%	2.8%

Exports

Ford Otosan's export volumes were 83,068 (75,799) up by 10% compared to same period of last year, reaching a historic first quarter high level, due to strong market conditions and rising demand. Ford is Europe's No. 1 commercial vehicle brand with 93,200 sold year-to-date through the end of March, marking the highest first quarter for Ford commercial vehicle sales since 1993 and best first quarter for Ford commercial vehicle market share since 1995. 81% of the Transits sold in Europe were manufactured by Ford Otosan.

Our export revenues increased by 34%, reaching 5,728 (4,262) million TL.

Domestic Sales

Domestic revenues were TL 1,554 (1,133), up 37% YoY thanks higher volumes and pricing strategy. Domestic wholesale volumes were 19,162 (18,194) units.

Total Sales

Total revenues were up 35% YoY to TL 7,282 (5,395) million on the back 102,230 (93,993) units (+9% YoY).

4. Investments

In the first quarter of the year, capital expenditures were TL 209 million (March 2017: TL 158 million) including capitalized R&D spending.

5. R&D Activities

In the first three months of the year, TL 144 million (March 2017: TL 116 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 1,486.

6. Personnel

As of March 31st, 2018, Ford Otosan has a total of 11,133 employees composed of 2,619 white collar and 8,514 blue collar workers. (December 31, 2017: total of 11,501 employees composed of 2,654 white collar and 8,847 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 will be valid until 31st August 2019.

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 January 30th, 2018 for the 01.09.2017-31.08.2019 period.

7. Profitability

Profitability was strong in 1Q18 despite considerable cost pressure resulting from weaker €/TL (+19% YoY), high inflation and commodity prices. Drivers were:

- + Pricing focus to offset the cost impact
- + Cost reduction actions and strong OpEx control
- + High CUR: Up 6 pps YoY to 92% with rising export demand and 13% more production
- + Net fx gains from export business

Revenues and cost of sales were up 35% YoY. Gross profit was TL 757 million, up 37% YoY. Operating profit grew 55% YoY to TL 513 million, with strong OpEx control (4.0% in 1Q18 vs. 4.3% in 1Q17) and net fx gains from operating activities (TL 52 million in 1Q18 vs. TL 6 million in 1Q17). EBITDA grew 43% YoY to TL 642 million. Profit before tax rose 58% YoY to TL 441 million, despite the pressure from net financial expenses (%40 more YoY driven by 48% rise in net fx loss). Net income was up 59% to TL 432 million.

Margins: Gross 10.4% (up 20 bps YoY); EBITDA 8.8% (up 50 bps YoY); EBITDA excluding other income 8.2% (up 10 bps YoY); Operating 7.0% (up 90 bps YoY); and Net 5.9% (up 90 bps YoY).

8. Financing

€121 million loan repayment was made in January-March period where €155 million was borrowed in new loans. Total debt level was €837 million (€786 million) as of March-end, from €803 million at the beginning of the year. Cash balance as at the end of the period is TL 2,038 million (TL 1,362 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	31.03.2018	31.12.2017	% Change
Current Assets	7.621	6.827	12%
Property, Plant and Equipment - Net	3.531	3.536	0%
Total Assets	12.910	12.012	7%
Current Liabilities	7.342	6.050	21%
Total Liabilities	9.683	8.316	16%
Shareholders' Equity	3.227	3.696	-13%
Summary Income Statement, Million TL	31.03.2018	31.03.2017	% Change
Revenues	7.282	5.395	35%
Export	5.728	4.262	34%
Domestic	1.554	1.133	37%
Gross Profit	757	552	37%
Operating Profit	513	330	55%
Financial Income/(Expense)	-71	-51	40%
Profit Before Tax	441	280	58%
Net Income	432	272	59%
Other Financial Data, Million TL	31.03.2018	31.03.2017	% Change
Depreciation and Amortization	128	118	9%
EBITDA	642	448	43%
Capex	-209	-158	32%
Summary Cash Flow Statement, Million TL	31.03.2018	31.03.2017	% Change
Beginning Balance of Cash & Equivalents	1.803	1.189	52%
Net Cash Generated from Operating Activities	242	255	-5%
Net Cash Used in Investing Activities	-207	-157	32%
Net Cash Used in Financing Activities	201	76	165%
End of Period Balance of Cash & Equivalents	2.038	1.362	50%

Financial Ratios	31.03.2018	31.12.2017
Current Ratio	1,04	1,13
Liquidity Ratio	0,72	0,87
Net Financial Debt / Tangible Net Worth	0,81	0,60
Current Assets / Total Assets	0,59	0,57
Current Liabilities / Total Liabilities	0,76	0,73
Total Liabilities / Total Liabilities and Equity	0,75	0,69
Return on Equity	53,6%	40,3%
	31.03.2018	31.03.2017
Gross Margin	10,4%	10,2%
EBITDA Margin	8,8%	8,3%
EBITDA Margin excluding other income/expense	7,0%	6,1%
Operating Margin	5,9%	5,0%

10. Other Material Developments

- Collective Labor Agreement for the period of 01.09.2017-31.08.2019 was signed between Turkish Employers Association of Metal Industries (MESS), which our company is a member, and Turkish Metal Union. According to this agreement; Hourly wages are set per 9 TL/ hour for the first six months and an equal wage increase of 1.60 TL/ hour was decided. For each full year of the seniority, 0.10 TL/ hour added to hourly wages just once under the condition that the wages not exceed 1.50 TL/ hour. For the second, third and fourth six months periods of the agreement, hourly wages will be raised as consumer price index (CPI) ratio. In the first year, all social benefits will be increased by 23%. For the second year, it will be raised as consumer price index (CPI) ratio.
- Taking into consideration the opinion of the Audit Committee, the Board of Directors resolved in their meeting on February 13, 2018 to nominate PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi with offices at Süleyman Seba Cad. BJK Plaza No:48 B Blok Kat 9, Akaretler/Beşiktaş, İstanbul to audit our Company's financial reports for 2018 accounting period and to fulfill all other obligations required for the auditors by Turkish Commercial Code numbered 6102 and Capital Markets Law numbered 6362 and related regulations, is approved by the General Assembly.
- Mr. Cemal Ahmet Kınay, who is Assistant General Manager (Ford Trucks), retired from the company effective from December 31, 2017. Mr. Serhan Turfan, who has been acting as Director-Ford Trucks Turkey, is assigned as Assistant General Manager (Ford Trucks) effective from January 01, 2018.
- Mr. Ali Rıza Aksoy, who has been acting as Industrial Relations & Manufacturing Human Resources Senior Manager, is assigned as Human Resources Director effective from March 30, 2018.

11. Guidance

Total Industry Volume	950K – 1,000K
Ford Otosan:	
Retail Sales Volume	110K-120K
Export Volume	305K-315K
Wholesale Volume	415K-435K
Production Volume	385K-395K
Capex (fixed assets)	€210-230 million

FORD OTOMOTİV SANAYİ A.Ş.