



Ford Otomotiv Sanayi A. Ş.

1 January – 31 March 2014

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 25th, 2014, the number of members of our Board of Directors was defined as 14, including 2 Independent Members. Mr.Ali İhsan İlkbahar, Mr.İsmail Cenk Çimen and Mr.Peter David Fleet were elected as new Board member. Our Board of Directors as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
Stephen T. Odell	Vice Chairman
Ali İhsan İlkbahar	Member
O. Turgay Durak	Member
İ. Cenk Çimen	Member
John Fleming	Member
Lyle A. Watters	Member
Barbara J. Samardzich	Member
Peter D. Fleet	Member
Haydar Yenigün	Member – General Manager
William R. Periam	Member – Deputy General Manager
Mehmet Barmanbek	Independent Member
Günter Verheugen	Independent Member

Our Board of Directors, which were elected at the General Shareholders Meeting held on March 25, 2014 had their first meeting and unanimously took the following 2014/08 numbered decisions:

- Board of Directors assignment of duties performed, Mr.Yıldırım Ali Koç has been elected as the Chairman of the Board of Directors and Mr. Stephen Terrence Odell has been elected as Vice Chairman of of the Board of Directors.
- It is decided that the principles for representation and binding authority specified in Signature Circular No: 19 that was accepted with the Board Resolution No: 2013/02 dated 14.02.2013 shall remain in force until the issuance of the new Signature Circular.

With our Board of Directors April 21st, 2014 dated and 2014/10 numbered board resolution, election of the memberships to the Committees in Board was held and below decisions were taken;

1. Mr. Mehmet Barmanbek and Prof. Günter Verheugen have been elected to the Audit Committee membership pursuant to Communiqué Series:X, No:22 of the Capital Markets Board.
2. Prof. Günter Verheugen has been elected as the chairman, and Mr. Ali İhsan İlkbahar and Mr. Lyle Alexander Watters as the members of the Corporate Governance Committee established

pursuant to the Communiqué on Corporate Governance Serial: II, No:17.1 of the Capital Markets Board.

3. Mr. Mehmet Barmanbek has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. Lyle Alexander Watters as the members of the Early Determination and Management of Risk Committee established pursuant to the Communiqué.
4. Mr. Mehmet Barmanbek has been elected as the chairman, and Mr. Osman Turgay Durak and Mr. Stephen Terrence Odell as the members of the Remuneration Committee established pursuant to the Communiqué.

Shareholder Structure:

Ford Otosan's shareholder structure as of March 31st, 2014 is as follows:

Shareholder	Value (TL)	Share (%)
Koç Group Companies	143,997,037	41.04
Ford Motor Company	143,997,037	41.04
Other (Free float)	62,915,926	17.92
Total	350,910,000	100.00

TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

1. Domestic Automotive Industry and Ford Otosan

In the first quarter of the year, sales in Turkish automotive industry decreased by 23.8% compared to the same period of 2013.

Rising interest rates, higher vehicle prices due to weak TL, SCT increase in PC valid from January 1st, BRSA regulations on vehicle loans, a high base year, low economic activity, weak consumer confidence, volatility in the financial markets ahead of the local elections in March were the main headwinds of the vehicle sales slowdown in the first quarter. The share of PCs in the total industry was 73.8% in the first quarter of the year, down from 75,1% in full year 2013. LCV segment share was 10.7%, down from 11.7%. All segment sales declined first quarter of the year compared to same period of last year. PC sales declined 22%, LCV sales decreased 36%, MCV sales 27% and truck sales decreased 10%.

As a result, in the first three months of 2014, sales in total industry decreased by 23.8% to 121,156** units (158,739)* compared to the same period of 2013. On a segment basis; 89,347 (114,434) passenger cars, 12,891 (20,253) light commercial vehicles, 13,034 (17,917) medium commercial vehicles and 4,887 (5,433) trucks were sold in first quarter of the year.

Share of import vehicle sales in the industry grew since 2013, in the first quarter of 2014 decreased 2 percentage points in passenger cars to 76%, increased 5 percentage points to 51% in light commercial vehicles. Total share of import vehicle remained same with first quarter of last year as 70%.

Share of import vehicle was as below:

	PC	LCV	Total
2013 (1Q)	78%	46%	70%
2013	78%	48%	71%
2014 (1Q)	76%	51%	70%

Source: Automotive Distributors' Association

Production of Ford Otosan's old Transit and Transit Connect models were stopped in 2013. 2014 is a transition year with new product launches after completion of the investment program that started at the end of 2010. Due to the product transitions and ramp-up period in commercial vehicles a temporary weakness is experienced in production, sales and export numbers.

2. Market Shares

As of 2014 March-end, Ford Otosan had 8.9% (12.3%) market share in total industry and ranked 4th. Ford Otosan's retail sales decreased by 45% to 10,756 compared to same period of last year. Due to the product transitions and ramp-up period in commercial vehicles a temporary weakness is experienced in sales numbers. The rising retail prices for passenger cars due to the weak Turkish Lira pressured sales amid intense market competition.

As a result, in the passenger car segment where competition is the most intense, our market share decrease to 4.8% (6.8%). Ford Otosan ranked 2nd in the light commercial vehicle segment with 16.1% (21.6%) market share, was the market leader in the medium commercial vehicle segment with 26.8%

(34.5%) share and maintained its second position in the heavy commercial vehicle segment with 19.1% (21.7%) share.

3. Production and Capacity

In the first quarter of the year total production volume decreased 47% to 41,013 (77,964) compared to last year due to new product launches and ongoing investments. 14,597 units new Transit and 24,891 units Custom were manufactured in the Kocaeli plant, 176 units Courier were manufactured in the Yeniköy plant and 1,349 units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 40% (95%).

The launch of all new product phases will be complete in the second half of the year. As a result total production capacity including truck, will increase from 330k units to 415k units. As of the end of 2014, Kocaeli plant will reach an annual installed production capacity of 160k units Transit and 130k units Custom; Yeniköy plant will have 110k units Courier and İnönü plant will have 15k units Cargo capacity.

4. Export, Domestic and Wholesales

According to the The European Automobile Manufacturers' Association (ACEA) (www.acea.be) European markets continued to recover in the two months of the year. According to February figures, the demand for new commercial vehicles increased for the 6th consecutive month and was up by 8.7% in the first two months of the year. In this period the commercial vehicle sales increased 9.4% in our largest export market UK, 11.0% in Germany, 47.1% in Spain. All big market sales turned to positive except France.

Ford Otosan export volumes decreased temporarily due to product transitions mentioned above and low unit production of new Transit. Ford Otosan's export volumes decreased 41% to 36,431 (61,933) in the first quarter of the year. However, Custom and Cargo exports were strong and increased 218% and 134% respectively. Our export revenues were TL1,555 million (TL1,797 million). The decrease in export revenues were limited to 13% compared to first quarter of 2013 due to increase in foreign currency.

The product transitions and ramp-up period due to new products were the weakness reasons of the commercial vehicle sales slow down and the rising retail prices for passenger cars due to the weak Turkish Lira pressured sales amid intense market competition.

In the first quarter of year Ford Otosan's domestic wholesales decreased by 54% year to 9,337 (20,349) units and domestic revenues were TL491 million (TL774 million). Due to the vehicle price increase, contraction in revenues was limited to 37%.

Total revenues were TL2,046 million (TL2,571 million), and decreased 20% year-over-year. Export share in total revenues increased from 70% to 76%.

5. Investments

With in our over 1 billion US dollar investment program for three new investment projects hold between 2010-2014, TL226 million (TL254 million) capital expenditures spent in the first three months of the 2014.

6. R&D Activities

In the first three months of year TL75 million (TL74 million) pre-capitalization and TL28 million (TL31 million) post-capitalization R&D expenditure was made. R&D projects are carried out in line with product programs. The number of R&D engineers exceed 1,300.

7. Personnel

As of March 31st, 2014, Ford Otosan has a total of 9,157 employees composed of 2,474 white collar and 6,683 blue collar workers. (December 31, 2013: total of 9,444 employees composed of 2,518 white collar and 6,926 blue collar workers). The Collective Bargaining Agreement was signed between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) on May 31st, 2013 for the 01.09.2012-31.08.2014 period. Negotiations for the agreement that will be valid between 2014-2016 started in August 2014.

8. Profitability

Ford Otosan is fully focused on maintaining profitability during the transition to new products. The following steps were taken to manage the impact of the temporary operational weakness caused by the product transitions and volatility in the financial markets that lead to TL depreciation:

- i) Ford Otosan increased the prices of import vehicles significantly, passing on the higher import costs related to the weak TL. Although the pricing efforts negatively impacted the sales performance and market shares significantly at the backdrop of aggressive price competition in the market, profitability-wise, it also led to a more favorable sales mix. The share of PCs, which are less profitable, in our domestic sales declined to 32% (40% in 1Q13 and 52% in FY13)

- ii) Significant cost reduction actions were implemented.

As a result, operating margin was 5.8% (5.0%). Depreciation & Amortization was up 24% year-on-year, leading to 9% decline in the operating profit to TL118 million. EBITDA was TL172 million, flat year-on-year. EBITDA margin was 8.4% (6.7%) as a result of significant cost reduction and pricing actions.

Revaluation of financial loans with the weak TL led to net financial expenses in 1Q14 compared to net financial income in 1Q13, resulting in 56% year-on-year decline in profit before tax, which was booked as TL 60 million (TL135 million). Net income was TL203 million (TL176 million), up 15% year-on-year due to the establishment of deferred tax asset based on the future tax benefits from the investment incentives. Net income margin was 9.9%, up 3.1 percentage points year-on-year.

9. Financing

Our company repaid €33 million in January-March period and €30 million new loan was used. Consequently, as of March-end, total debt level was €773 million (€541 million) from € 776 million at the beginning of the year. On the other hand, the cash balance as at the end of the period is TL234million (TL 457 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.

10. Main Financial Indicators

Summary Balance Sheet (Million TL)	31.03.2014	31.12.2013	% Change
Current Assets	2.422	2.443	-1
Current Liabilities	2.509	2.397	5
Property, Plant and Equipment - Net	2.347	2.231	5
Total Assets	6.289	5.991	5
Total Liabilities	3.868	3.755	3
Shareholders' Equity	2.420	2.237	8
Summary Income Statement (Million TL)	31.03.2014	31.03.2013	% Change
Revenues	2.046	2.571	-20
Export	1.555	1.797	-13
Domestic	491	774	-37
Gross Profit	206	255	-19
Operating Profit	118	129	-9
Financial Income / (Expense)	-57	6	
Profit Before Tax	60	135	-56
Net Income	203	176	15
Other Financial Data (Million TL)	31.03.2014	31.03.2013	% Change
Depreciation and Amortization	54	44	24
EBITDA	172	173	0
Capital Expenditures	226	254	-11
Cash Flow Statement (Million TL)	31.03.2014	31.03.2013	% Change
Beginning Balance of Cash & Equivalents	238	302	-21
Net Cash Generated from Operating Activities	242	702	-66
Net Cash Used in Investing Activities	(224)	(252)	-11
Net Cash Used in Financing Activities	(23)	(295)	-92
End of Period Balance of Cash & Equivalents	234	457	-49

Financial Ratios	31.03.2014	31.12.2013
Current Ratio	0,97	1,02
Liquidity Ratio	0,59	0,71
Net Financial Debt / Tangible Net Worth	1,07	1,13
Current Assets / Total Assets	0,39	0,41
Current Liabilities / Total Liabilities	0,65	0,64
Total Liabilities / Total Liabilities and Equity	0,62	0,63
Return on Equity	%33,5	%31,5
	31.03.2014	31.03.2013
Gross Margin	%10,1	%9,9
EBITDA Margin	%8,4	%6,7
Operating Margin	%5,8	%5,0
Net Income Margin	%9,9	%6,8

11. Other Significant Developments

Our operations continues on our new generation Transit investment program totalled 630 million US dollar that announed to the public on October 11st, 2010. Production of the new Transit started in January and first phase launched in March 2014. The launch of all new Transit phases will be completed in the second half of the year.

Our brand new light commercial vehicle Ford Courier’s production started in March, its investment includes 205 million Euro fixed asset procurement that announed to the public in April 1st, 2011. Launch of the product is planning on May.

Our products are manufactured both for domestic and export markets. Ford Otosan is lead manufacturing plant of new generation Transit globally and single source of Ford Courier. With the completion of investments, as of the end of 2014, Kocaeli plant will reach an annual installed production capacity of 290k; Yeniköy plant will have 110k capacity and İnönü plant will have 15k capacity.

12. Guidance

Due to rising interest rates, higher vehicle prices as a result of weak TL, BRSA regulations on vehicle loans, special consumption tax increase in passenger cars, a high base year and low economic activity we forecast a contraction in Turkish automotive industry and expect the total industry volume to reach 633,000 units. We expect our domestic retail sales to reach 83,000 units and exports to realize at 195,000 units, as a result of the product transitions. Our production volume is expected to reach 237,000 units. Within the context of ongoing investments we forecast total \$435 million capital expenditure spending in 2014 including \$340 million fixed asset procurement.

FORD OTOMOTİV SANAYİ A.Ş.