

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 31 March 2020
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 16th, 2020, 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 2020 accounts are as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
Stuart J. Rowley	Vice Chairman
William R. Periam	Member
Thomas Rückert ^(*)	Member
İ. Cenk Çimen	Member
O. Turgay Durak	Member
Lisa K. King	Member
Joerg Beyer	Member
Ali İhsan İlkbahar	Member
Fatma Füsün Akkal Bozok	Independent Member
Leonard Meany	Independent Member
Haydar Yenigün	Member – General Manager
Dave Johnston	Member – Deputy General Manager

The Board of Directors resolved that in accordance with Capital Markets Board's Communiqué II-17.1. on Corporate Governance;

Mrs. Fatma Füsün Akkal Bozok and Mr. Leonard Martin Meany have been elected to the Audit Committee membership. 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 fulfills the duties assigned to the Nominating Committee. 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. Mrs. Fatma Füsün Akkal Bozok has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. Stuart John Rowley as the members of the Remuneration Committee.

(*) Our Board of Directors has resolved in their meeting dated 21st April 2020 that Mr. Thomas Peter Ludwig Rückert, who was elected to the Board of Directors, nominated by Group C Shares during the Ordinary General Assembly on March 16, 2020, left from membership of the Board of Directors effective from April 21, 2020. Mr. Johan Egbert Schep nominated by Group 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.

Shareholder Structure:

Ford Otosan's shareholder structure as of March 31th, 2020 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

* Ford Deutschland Holding GmbH: 100% owned by Ford Motor Company.

TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

1. Domestic Automotive Industry and Ford Otosan

Turkish auto industry grew by 41% in 1Q20 to 127,137 units. Sales rose across all segments YoY: PC +45%, LCV +41%, MCV +12% and Heavy Trucks +68%.

Demand in the domestic market was very strong until mid March, driven by the low base year and ongoing campaigns. Starting from the second half of March, the market slowed down considerably due to Covid-19.

PC industry share was 78.4% (1Q19: 76.4%). LCV industry share was unchanged at 10.5%.

The share of PCs in the total industry						
1Q20	1Q19	2019	2018	2017	2016	2015
78%	76%	79%	77%	74%	75%	72%

Source: Automotive Distributors' Association

Turkish automotive industry sales reached 127,131 units in 1Q20, up 41% YoY.

	1Q20	1Q19	Change, %
Passenger Car	99,630	68,812	45
Light Commercial Vehicle	13,390	9,502	41
Medium Commercial Vehicle	11,383	10,155	12
Truck	2,437	1,453	68
Total*	127,137	90,068	41

* Covers all heavy commercial vehicles excluding buses and midibuses.

Source: Automotive Distributors' Association and TAİD

In the first three months, share of import vehicles in PC and in total industry increased YoY and reached 63% and 59% respectively. Share of import vehicles in LCV decreased to 44%.

Share of import vehicles	PC	LCV	Total
1Q20	63%	44%	59%
1Q19	59%	46%	56%
2019	59%	47%	57%

Source: Automotive Distributors' Association

In 1Q20, Ford Otosan had 10.7% (11.6%**) market share in total industry ranked 4th. Ford Otosan's retail sales increased by 30% to 13,625 (10,466) compared to the same period of last year. In the passenger car segment where competition is the most intense, our market share was 3.8% (3.6%) due to our focus on profitability. We maintained our leadership in the commercial vehicle segment with 36.1% market share. Our market share was 30.1% (30.7%) in light commercial vehicles, 45.4% (46.7%) in medium commercial vehicles and 26.0% (23.7%) in heavy commercial vehicles.

** Data inside the paranthesis represent 1Q19 numbers throughout the report.

2. Production and Capacity

In the first three months of the year, total production volume was 80,352 (98,511) down by 18% due to decline in the export volume. As a result total capacity utilization rate was 71% (87%).

Plant	Model	1Q20 Production	1Q19 Production	Change, %
Gölcük	Transit	27,325	35,865	(24)
Gölcük	Custom	39,353	48,381	(19)
Yeniköy	Courier	12,243	13,370	(8)
Eskişehir	Ford Trucks	1,431	895	60
Total		80,352	98,511	(18)

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) decreased 23.1% in 1Q20 YoY. Industry sales in our main export markets were as follows:

	2015	2016	2017	2018	2019	Jan '20	Feb '20	Mar '20	YTD
UK	15.6%	1.0%	-3.6%	-1.3%	2.4%	5.9%	-2.0%	-54.3%	-33.9%
Germany	4.2%	8.5%	4.9%	5.4%	6.9%	-3.0%	-3.8%	-25.3%	-11.8%
Italy	12.4%	50.0%	-3.4%	-6.0%	3.4%	-2.4%	-6.2%	-71.2%	-29.4%
Spain	36.1%	11.2%	15.5%	7.8%	0.3%	-20.2%	-5.9%	-67.2%	-33.5%
France	2.0%	8.2%	7.1%	4.6%	4.5%	-9.2%	3.0%	-64.8%	-27.3%
Poland	16.9%	12.3%	2.0%	12.8%	1.5%	-18.3%	-10.5%	-32.7%	-21.4%
Total	11.6%	11.9%	3.9%	3.1%	2.8%	-10.2%*	-4.0%*	-49.8%*	-23.1%*

*EU excluding UK.

Exports

As our main export destination, Europe, became the center of the epidemic we have seen closure of border crossings, restrictions in ports, and a sharp decline in demand. Taking into consideration Ford of Europe's decisions to temporarily suspend operations due to the disruption in trade and problems in the supply chain, Ford Otosan decided to suspend manufacturing activities temporarily from March 20. Production was resumed gradually on April 27 and May 4.

Although Ford's sales in European commercial vehicle market decreased by 21.1% YoY in 1Q20, Ford remained Europe's No. 1 commercial vehicle brand since 2015 and reached 15% market share with +0.4 pps increase. 84% of the Transit family vans sold in Europe were manufactured by Ford Otosan.

Ford Otosan's export units decreased 25% YoY in 1Q20 to 66,540 (89,193) units due to contraction in export market and Ford's sales. Export revenues came in at TL 7,504 million. The YoY decrease in export revenues was limited to 8% due to strong € against TL despite decline in export volume.

Domestic Sales

Domestic wholesale volumes were up 43% to 14,968 (10,441) units in 1Q20 due to growth in the domestic market. Domestic Revenues were TL 1,862 (1,143) million in 1Q20, up 63% as a result of growth in volumes and ongoing pricing discipline.

Total Sales

Total sales volumes were down 18% to 81,508 (99,634) units in 1Q20. Total Revenues were up 1% YoY to TL 9,367 (9,284) million.

4. Investments

Capital expenditures were TL 156 (261) million including capitalized R&D spending.

5. R&D Activities

TL 162 (140) 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 1,391.

6. Employees

As of March 31th, 2020, Ford Otosan had a total of 10,937 employees: 2,622 salaried and 8,315 hourly. (December 31, 2019: total 10,899 employees: 2,609 salaried and 8,290 hourly). Our hourly employees are part of the Collective Bargaining Agreement signed on January 29, 2020 between Turkish Metal Union and Turkish Employers' Association of Metal Industries (MESS) and valid until 31st August 2021.

7. Profitability

Profitability was strong in 1Q20 due to,

- i- Rising domestic sales units,
- ii- Robust after sales and spare part business,
- iii- Pricing discipline and
- iv- Cost reduction actions and OpEx control.

Gross Profit rose 14% YoY to TL 1,072 (944) million as a result of higher contribution of the domestic market, declining cost of raw materials and cost reduction actions. Operating Profit was up by 32% YoY mainly explained by TL 116 million increase in Net Other Income due to 1) declining non-cash financial expenses on trade payables of material purchases driven by lower interest rates (reported under Unearned Financial Expense), 2) higher FX gains related to trade receivables driven by TL depreciation. EBITDA grew 30% YoY to TL 1,012 (781) million while EBITDA per vehicle reached a record high of EUR 1,657. EBITDA excluding the currency impact was up 15% YoY to TL 896 (781) million. Net Financial Expenses increased by 45% YoY driven by 56% higher Net FX Loss. Profit Before Tax increased 28% YoY to TL 612 (477) million. Net Income was TL 629 (478) million, up 32% and higher than PBT due to Tax Income Resulting from Deferred Tax Asset.

Margins: Gross 11.4% (+120 bps YoY); EBITDA 10.8% (+240 bps YoY); EBITDA excluding other income 9.6% (+120 bps YoY); Operating 8.5% (+200 bps YoY); and Net 6.7% (+160 bps YoY).

8. Financing

€241 million loan repayment was made in 1Q20 where €379 million was borrowed in new loans. Total debt level was €1,053 million (€828 million) as of March-end, up from €915 million at the beginning of the year. Cash balance as at the end of the period is TL 3,672 million (TL 2,101 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	31.03.2020	31.12.2019	% Change
Current Assets	10.353	10.157	2%
Property, Plant and Equipment - Net	4.386	4.437	-1%
Total Assets	16.599	16.406	1%
Current Liabilities	9.151	8.645	6%
Total Liabilities	12.582	11.741	7%
Shareholders' Equity	4.017	4.665	-14%
Summary Income Statement, Million TL	31.03.2020	31.03.2019	% Change
Revenues	9.367	9.284	1%
Export	7.504	8.141	-8%
Domestic	1.862	1.143	63%
Gross Profit	1.072	944	14%
Operating Profit	794	603	32%
Financial Income/(Expense)	-183	-126	45%
Profit Before Tax	612	477	28%
Net Income	629	478	32%
Other Financial Data, Million TL	31.03.2020	31.03.2019	% Change
Depreciation and Amortization (1)	219	178	23%
EBITDA	1.012	781	30%
Capex	-156	-261	-40%
Summary Cash Flow Statement, Million TL	31.03.2020	31.03.2019	% Change
Beginning Balance of Cash & Equivalents	3.200	1.391	130%
Net Cash Generated from Operating Activities	702	437	61%
Net Cash Used in Investing Activities	-153	-260	-41%
Net Cash Used in Financing Activities	-78	533	-115%
End of Period Balance of Cash & Equivalents	3.672	2.101	75%

(1) 1Q20 numbers include TL 11 million (TL 11 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	31.03.2020	31.12.2019
Current Ratio	1,13	1,17
Liquidity Ratio	0,80	0,87
Net Financial Debt / Tangible Equity	1,27	0,78
Net Debt / EBITDA (2)	1,18	0,94
Current Assets / Total Assets	0,62	0,62
Current Liabilities / Total Liabilities	0,73	0,74
Total Liabilities / Total Liabilities and Equity	0,76	0,72
Return on Equity (3)	62,7%	42,0%
	31.03.2020	31.03.2019
Gross Margin	11,4%	10,2%
EBITDA Margin	10,8%	8,4%
Operating Margin	8,5%	6,5%
Net Margin	6,7%	5,1%

(2) EBITDA is calculated on a rolling 4-quarter basis.

10. Other Material Developments

- On January 29, 2020, Collective Labor Agreement for the period of 01.09.2019-31.08.2021 was signed between Turkish Employers Association of Metal Industries (MESS), which our company is a member of, and Turkish Metal Union. According to this agreement; For the first six months period of the agreement 0,30 TL improvement has been made for the employees whose hourly wages are below 12 TL/hour just once under the condition that the wages do not exceed 12 TL/hour. 17 percent increase on hourly wages was decided for all of the employees over this improvement. For the second six months period of the agreement, hourly wages will be increased 6 percent (if inflation rate will be higher than 6 percent, the difference between wage increase and inflation rate will be added to the wage increase). For the following 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 20%. For the second year, it will be raised as consumer price index (CPI) ratio.
- At the Ordinary General Assembly held on March 16, 2020, it was resolved to distribute a gross cash dividend of TL 1.094.839.200 from the net profit for the year 2019 and to distribute the dividend from 23 March 2020.
- Possible effects of COVID-19 (Coronavirus), which affects the whole world, are closely monitored in all respects, and necessary actions are taken to ensure that our Company is affected in the least possible way. Due to the coronavirus, there may be disruptions in the Company's procurement, production and sales processes in parallel with the developments / slowdowns in the sector in which the Company operates and in general economic activity. In this context, production activities were temporarily interrupted between 20 March 2020 - 4 May 2020 in our Company's Gölcük Plant, 23 March 2020 - 4 May 2020 in Yeniköy Plant and 23 March 2020 - 27 April 2020 in Eskişehir Plant. During that period, necessary works were carried out within the framework of Business Continuity Plan and Eskişehir plant started production on 27 April 2020 and Kocaeli plants started production on 4 May 2020.
- Until the announcement date of the 1Q20 interim report, production at the Kocaeli Plants and Eskişehir Plant was halted for 36 and 25 working days respectively, due to planned maintenance and repair works, collective vacation leave, inventory planning and especially COVID-19 (Coronavirus) epidemic which has affected all over the world. In all our facilities, short-time working allowance was used for our non-working personnel within the suspension period.
- In accordance with the letter sent by the Competition Board, an investigation was initiated against our Company in order to determine whether there has been a violation of Article 4 of the Law No. 4054 on the Protection of Competition and plea of our Company has been requested in this context. The investigation has been initiated on the ground of execution of State Council's judgement dated on 04.12.2019, which cancelled the decision of the Competition Board dated on 24.06.2009. The Competition Board decided not to open an investigation and refusal of the complaints which were accusing that the new passenger car and light commercial vehicle manufacturer and distributor undertakings had increased prices and restricted the supply of goods by acting together following the special consumption tax discount introduced for the automotive industry in 2009. Opening an investigation by the Competition Authority cannot be interpreted as the undertakings or association of undertakings subject to the investigation violate

the Law No. 4054, as being or will subject to penalty under the Law. Developments on this disclosure will be shared with the public when necessary within the framework of the Capital Market Legislation.

11. Guidance

Total Industry Volume	520K – 570K
Ford Otosan:	
Retail Sales Volume	55K-60K
Export Volume	225K-235K
Wholesale Volume	280K-300K
Production Volume	270K-280K
Capex (fixed assets)	€130-150 million

Guidance is based on the assumption that the impact of Covid-19 on production, domestic sales and exports will start to fade gradually in June and economic activity will normalize as of August.

FORD OTOMOTİV SANAYİ A.Ş.