

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 September 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 ⁽³⁾	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 ⁽²⁾	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.
- (2) 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.
- (3) Mr. Steven Robert Armstrong (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 15, 2019, left from membership of the Board of Directors due to change of position in Ford Motor Company organization effective from September 11, 2019. Mr. Stuart John Rowley, who is currently member of Board of Directors, is assigned as the Vice Chairman of Board of Directors on September 11, 2019 and Dave Johnston, 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. This assignment will be submitted to the approval of the General Assembly at its next meeting. Mr. Stuart John Rowley has been elected as a member of the Remuneration Committee instead of Mr. Steven Robert Armstrong.

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 September 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 286,400 units in 9M19, down 40% YoY.

	2019 9M	2018 9M	Change
Passenger Car	228,628	362,465	-37%
Light Commercial Vehicle	26,924	50,243	-46%
Medium Commercial Vehicle	25,757	50,748	-49%
Truck	4,474	9,851	-55%
Total*	286,400	474,565	-40%

* Covers all heavy commercial vehicles excluding buses and midibuses.

Source: Automotive Distributors' Association and TAİD

The share of PCs in the total industry was 79.8%. LCV industry share was 9.4%.

The share of PCs in the total industry						
9M19	9M18	2018	2017	2016	2015	2014
80%	76%	77%	74%	75%	72%	73%

Source: Automotive Distributors' Association

In the first nine months, share of import vehicles in industry sales declined YoY and reached 57% in PC, 49% in LCV and 55% in total industry.

Share of import vehicles	PC	LCV	Total
9M19	57%	49%	55%
9M18	67%	50%	63%
2018	66%	50%	63%

Source: Automotive Distributors' Association

As of 9M19, Ford Otosan had 9.6% (11.2%) market share in total industry and ranked 4th. Ford Otosan's retail sales decreased by 49% to 27,460 (53,345) compared to the same period of last year. In the passenger car segment where competition is the most intense, our market share was 3.4% (5.2%) due to our focus on profitability. We maintained our leadership in the commercial vehicle segment with 34.6% market share. Our market share was 29.6% (28.0%) in light commercial vehicles, 40.3% (34.4%) in medium commercial vehicles and 31.2% (29.0%) in heavy commercial vehicles.

2. Production and Capacity

In the first nine months of the year, total production volume was 273,570 (278,052) down by 2%. As a result total capacity utilization rate was 80% (84%). Ford Transit was facelifted in Q2 and the transition slowed down export volumes in May and June.

Plant	Model	9M19 Production	9M18 Production	Change
Gölcük	Transit	99,240	102,213	-3%
Gölcük	Custom	130,129	124,156	5%
Yeniköy	Courier	40,879	46,832	-13%
İnönü	Ford Trucks	3,322	4,851	-32%
Total		273,570	278,052	-2%

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

** Data inside the paranthesis represent 9M18 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 4.4% in 9M YoY. Industry sales in our main export markets were as follows:

	2014	2015	2016	2017	2018	1Q19	1H19	Jul	Aug	Sep	YTD
UK	18.7%	15.6%	1.0%	-3.6%	-1.3%	8.9%	8.7%	11.0%	41.0%	-23.5%	4.5%
Germany	7.3%	4.2%	8.5%	4.9%	5.4%	12.1%	11.7%	22.7%	19.0%	-11.2%	11.2%
Italy	16.4%	12.4%	50.0%	-3.4%	-6.0%	1.3%	5.9%	1.9%	6.2%	13.0%	6.9%
Spain	33.2%	36.1%	11.2%	15.5%	7.8%	4.0%	2.3%	4.6%	0.0%	-2.9%	1.9%
France	1.5%	2.0%	8.2%	7.1%	4.6%	4.2%	5.6%	15.2%	0.0%	3.8%	5.9%
Poland	7.6%	16.9%	12.3%	2.0%	12.8%	11.1%	8.1%	1.0%	17.3%	-21.6%	5.0%
Europe	11.3%	11.6%	11.9%	3.9%	3.1%	5.0%	3.8%	13.0%	17.5%	-9.4%	4.4%

Exports

Ford remained Europe's No. 1 commercial vehicle brand with 14% market share in 9M19. 84% of the Transit family vans sold in Europe were manufactured by Ford Otosan.

Ford Otosan's export units grew 4% YoY in 9M19 to 248,321 units. Share of exports in total revenues was 88% (9M18: 81%).

9M19 Export Revenues rose 29% YoY to TL 24,312 million, driven by industry growth, ongoing strong demand for our products and currency. Despite 3% YoY currency decline in 3Q19, export revenues grew 24% due to higher volumes and increase in share of high margin products in exports in 3Q19.

Domestic Sales

Ford Otosan's domestic revenues came in at TL 3,394 (4,465) million. The YoY decline in domestic revenues was limited to 24%, despite 47% domestic volume decline, with focus on high margin products and pricing discipline. Domestic wholesale volumes were 28,039 (52,472) units.

Total Sales

Total revenues were up 19% YoY to TL 27,707 (23,244) million on the back of 276,360 (290,930) units (-5% YoY) driven by strong export performance.

4. Investments

Capital expenditures were TL 789 (821) million including capitalized R&D spending.

5. R&D Activities

TL 400 (442) 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 1,373.

6. Employees

As of September 30th, 2019, Ford Otosan had a total of 10,952 employees: 2,526 salaried and 8,426 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. The negotiations for the Collective Bargaining Agreement are continuing for 1 September 2019 - 31 August 2021 period.

7. Profitability

In analyzing the profitability dynamics of this period, it is crucial to recall the volatile currency environment of 3Q18. Please refer to Page 5 Graph 1 for Q3 EUR/TL rates. The positive contribution in 3Q18 turned negative in 3Q19 and vice versa depending on the financial item. Domestic profitability remained under pressure due to declining volumes, ongoing high inflation rates and weak TL limiting the pricing capability. Meanwhile i- rising export demand, ii- sales mix and pricing discipline, iii- cost reduction actions and strong OpEx control resulting in consistently good OpEx/Sales performance supported profitability.

Revenues (TL 27,707 million), Cost of Sales (TL 24,842 million) and Gross Profit (TL 2,865 million) were up 19%, 20% and 15%, YoY respectively. TL 278 million Net FX Gain from Operating Activities in 9M18 turned negative in 9M19, resulting in TL 20 million Net FX Loss. As a result, TL 264 million Net Other Income in 9M18 became TL 237 million Net Other Expense in 9M19. Please refer to Page 5 Table 1 for the details. This fx movement yielded 16% decline in Operating Profit in 9M19 to TL 1,575 million. Operating Profit excluding currency impact grew 13% YoY to TL 1,813 million. EBITDA declined by 7% YoY due to the same fx related reasons to TL 2,137 million. Despite the lower absolute EBITDA, EBITDA per vehicle grew for the 5th consecutive quarter to EUR 1,355 as of 9M19. Please refer to Page 5 Table 2 for details. EBITDA excluding the currency impact was up 17% YoY to TL 2,374 million.

Net Financial Expenses declined 35% YoY driven by 36% lower Net FX Loss, mainly explained by prior period fx gains from Cash Flow Hedge Reserve. Please refer to Page 5 Table 3 for details. As a result,

Profit Before Tax declined 10% YoY to TL 1,292 million. Net Income for 9M19 was TL 1,343 million, up 6% and higher than PBT due to Tax Income Resulting from Deferred Tax Asset in 3Q19.

Margins: Gross 10.3% (-42 bps YoY); EBITDA 7.7% (-212 bps YoY); EBITDA excluding other income 8.6% (-13 bps YoY); Operating 5.7% (-235 bps YoY); and Net 4.8% (-63 bps YoY).

8. Financing

€504 million loan repayment was made in 9M19 where €635 million was borrowed in new loans. Total debt level was €875 million (€767 million) as of September-end, up from €745 million at the beginning of the year. Cash balance as at the end of the period is TL 1,763 million (TL 1,378 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	30.09.2019	31.12.2018	% Change
Current Assets	8.908	7.395	20%
Property, Plant and Equipment - Net	4.229	3.923	8%
Total Assets	15.068	13.184	14%
Current Liabilities	8.028	7.220	11%
Total Liabilities	10.450	9.291	12%
Shareholders' Equity	4.618	3.893	19%
Summary Income Statement, Million TL	30.09.2019	30.09.2018	% Change
Revenues	27.707	23.244	19%
Export	24.312	18.780	29%
Domestic	3.394	4.465	-24%
Gross Profit	2.865	2.501	15%
Operating Profit	1.575	1.868	-16%
Financial Income/(Expense)	-282	-435	-35%
Profit Before Tax	1.292	1.430	-10%
Net Income	1.343	1.272	6%
Other Financial Data, Million TL	30.09.2019	30.09.2018	% Change
Depreciation and Amortization***	562	418	34%
EBITDA	2.137	2.286	-7%
Capex	-789	-821	-4%
Summary Cash Flow Statement, Million TL	30.09.2019	30.09.2018	% Change
Beginning Balance of Cash & Equivalents	1.391	1.803	-23%
Net Cash Generated from Operating Activities	1.165	1.311	-11%
Net Cash Used in Investing Activities	-787	-786	0%
Net Cash Used in Financing Activities	-5	-951	-99%
End of Period Balance of Cash & Equivalents	1.763	1.378	28%

***9M19 numbers include TL 33 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	30.09.2019	31.12.2018
Current Ratio	1,11	1,02
Liquidity Ratio	0,66	0,64
Net Financial Debt / Tangible Equity	0,98	1,01
Net Debt / EBITDA****	1,38	1,08
Current Assets / Total Assets	0,59	0,56
Current Liabilities / Total Liabilities	0,77	0,78
Total Liabilities / Total Liabilities and Equity	0,69	0,70
Return on Equity *****	38,8%	43,2%
	30.09.2019	30.09.2018
Gross Margin	10,3%	10,8%
EBITDA Margin	7,7%	9,8%
Operating Margin	5,7%	8,0%
Net Margin	4,8%	5,5%

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

***** Annualized net profit/ equity.

10. Other Material Developments

- Ford Otomotiv Sanayi A.Ş. Board of Directors, in the meeting dated October 14, 2019, has resolved to invite the General Assembly for its Extraordinary Meeting, on November 14, 2019 Thursday at 11:00 to review and resolve the dividend distribution proposal. TL 431.619.300 to be paid to shareholders as dividend in cash. To make the dividend distribution in accordance with the dematerialization regulations of Merkezi Kayıt Kuruluşu A.Ş. (Central Registry Agency Corporation) starting from November 19, 2019.

11. Guidance

Total Industry Volume 450K – 500K

Ford Otosan:

Retail Sales Volume 40K-50K

Export Volume 335K-345K*

Wholesale Volume 375K-395K

Production Volume 365K-375K

Capex (fixed assets) €160-180 million

* We are revising down FY19 export guidance due to a supplier issue causing temporary delays in production schedule and impacting orders in 4Q19. Despite the revision, FY19 export volumes will be a historical high for Ford Otosan. We expect full year revenue impact to be limited to 2%.

FORD OTOMOTİV SANAYİ A.Ş.

ANNEX:

Graph 1: EUR/TL volatility in 3Q19 vs 3Q18

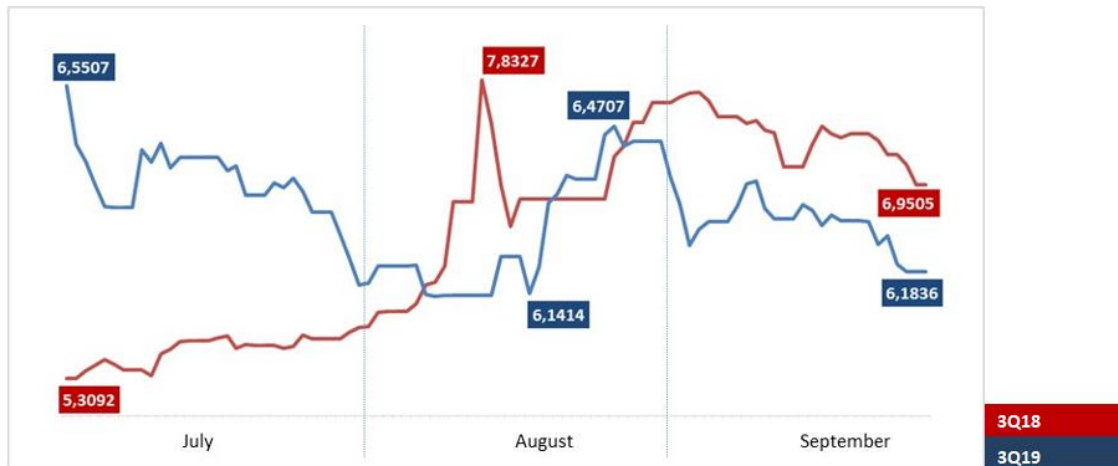


Table 1: FX Impact on Operating Profit due to significant volatility and depreciation in TL in 3Q18 versus appreciation in 3Q19.

Million TL	9M19	9M18	3Q19	3Q18
Net other income	-237	264	-245	210
Net fx gains/losses related to trade receivables and payables	-20	278	-173	209
Net financial expenses from operating activities	-258	-74	-84	-26

Table 2: Growing EBITDA per Vehicle

EUR	9M	3Q
2019	1.355	1.452
2018	1.268	1.207

Table 3: FX Impact on Profit Before Tax

Million TL	9M19	9M18	3Q19	3Q18
Net interest income/expense	22	19	2	8
Net other financial income/expense	-25	-21	-7	-5
Net fx gains/losses	-279	-433	59	-238
Net financial gains/losses	-282	-435	54	-239