

**FORD OTOSAN**



**Ford Otomotiv Sanayi A. Ş.**  
**1 January – 31 March 2017**  
**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 23<sup>rd</sup>, 2017, 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 2017 accounts are as below:

Rahmi M. Koç	Honorary Chairman
Y. Ali Koç	Chairman
James Duncan Farley Jr	Vice Chairman
Linda A. Cash	Member
O. Turgay Durak	Member
Steven Armstrong	Member
İ. Cenk Çimen	Member
William R. Periam	Member
Roelant C. de Waard	Member
Ali İhsan İlkbahar	Member
Mehmet Barmanbek	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 23<sup>rd</sup>, 2016 on the Committees:

- With a designation of the duties of Board Members, Mr. Yıldırım Ali Koç was elected as the Chairman, and Mr. James Duncan Farley Jr was elected as the Vice Chairman.
- Mr. Mehmet Barmanbek and Mr. Leonard Martin Meany have been elected to the Audit Committee membership pursuant to Communiqué Series:X, No:22 of the Capital Markets Board.
- 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 established pursuant to the Communiqué on Corporate Governance Serial: II, No:17.1 of the Capital Markets Board (the “Communiqué” in short).
- Mr. Mehmet Barmanbek 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.
- Mr. Mehmet Barmanbek has been elected as the chairman, and Mr. İsmail Cenk Çimen and Mr. James Duncan Farley Jr as the members of the Remuneration Committee established pursuant to the Communiqué.

## Shareholder Structure:

Ford Otosan's shareholder structure as of March 31<sup>th</sup>, 2017 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
<b>Koç Group Companies</b>	<b>144,126,893</b>	<b>14,412,689,315</b>	<b>41.07</b>
<b>Ford Motor Company</b>	<b>143,997,037</b>	<b>14,399,703,676</b>	<b>41.04</b>
Free Float	62,786,070	6,278,607,009	17.89
<b>Total Nominal Capital (TL)</b>	<b>350,910,000</b>	<b>35,091,000,000</b>	<b>100</b>

## TURKISH AUTOMOTIVE INDUSTRY AND FORD OTOSAN

### 1. Domestic Automotive Industry and Ford Otosan

Turkish automotive industry sales reached 159,233 units in 1Q, down 8% YoY. Passenger car sales decreased 9%, medium commercial vehicle sales decreased 6%, and truck sales decreased 49%. Light commercial vehicle sales increased 4%

The share of PCs in the total industry was 74%. LCV industry share was 11%.

The share of PCs in the total industry						
1Q17	1Q16	2016	2015	2014	2013	2012
%73	%74	%75	%72	%73	%75	%68

### Turkish Automotive Industry Sales in 1Q:

	2016 1Q	2015 1Q	Change
Passenger Car	115,963	127,921	-9%
Light Commercial Vehicle	20,437	19,629	4%
Medium Commercial Vehicle	19,690	20,936	-6%
Truck	2,731	3,358	-19%
Total*	159,233	172,322	-8%

\* Covers all heavy commercial vehicles excluding buses and midibuses.

In the first three months, share of import vehicle sales in PC was 69%, LCV was 49%, and total industry was 64%.

Share of import vehicle	PC	LCV	Total
<b>1Q17</b>	69%	49%	64%
<b>1Q16</b>	73%	48%	67%
<b>2016</b>	75%	48%	68%

Source: Automotive Distributors' Association

As of 2017 March-end, Ford Otosan had 11.8% (12.4%) market share in total industry and ranked 3<sup>rd</sup>. Ford Otosan's retail sales decreased by 12% to 18,785 (21,328) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 5.3% (6.6%). Ford Otosan ranked 2<sup>nd</sup> in the light commercial vehicle segment with 24.5% (28.5%) market share due to fleet sales causing a high base year effect. Ford Otosan was the market leader in the medium commercial vehicle segment with 34.1% (30.6%) share. In the heavy commercial vehicle segment, Ford Otosan ranked 2<sup>nd</sup> with 33.7% (25.6%) market share.

## 2. Production and Capacity

In the first three months of the year, total production volume was 89,501 (89,010), up by 1%. 31,670 (34,410) units new Transit and 41,019 (36,552) units Custom were manufactured in the Kocaeli plant, 15,921 (16,950) units Courier were manufactured in the Yeniköy plant and 891 (1,098) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 86% (86%).

## 3. Export, Domestic and Wholesale

### Export Markets

According to the European Automobile Manufacturers' Association (ACEA) ([www.acea.be](http://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:

	2015	2016	Jan '17	Feb '17	Mar '17	YTD
UK	15.6%	1.0%	1.2%	-4.3%	-0.9%	-0.9%
Germany	4.2%	8.5%	5.8%	-0.0%	18.4%	8.9%
Italy	12.4%	50.0%	5.0%	9.2%	12.9%	9.4%
Spain	36.1%	11.2%	31.5%	14.9%	25.4%	23.6%
France	2.0%	8.2%	10.3%	4.3%	15.2%	10.2%
Total	11.6%	11.9%	9.3%	3.2%	10.5%	8.1%

## **Exports**

Ford Otosan's export volumes were 75,799 (71,547) up by 6% compared to same period of last year, reaching a historic quarterly high level, due to strong market conditions and rising demand. 81% of the Transits sold in Europe 71% of the Ford brand commercial vehicles were manufactured by Ford Otosan.

Our export revenues increased by 38%, reaching 4,262 (3,094) million TL.

## **Domestic Sales**

Domestic revenues were TL 1,133 million, up 4% YoY despite the 18% volume contraction thanks to pricing strategy and positive sales mix. Domestic wholesale volumes were 18,194 units, with high base year in LCVs (fleet sales), profitability focus in PCs and market contraction.

## **Total Sales**

Total revenues were up 29% YoY to TL 5,395 million on the back of 93,993 units (+0.4% YoY). The share of exports in total revenues was 79%, up from 74% in 1Q16.

## **4. Investments**

In the first quarter of the year, capital expenditures were 160 million TL (102 million TL) including capitalized R&D spending.

## **5. R&D Activities**

In the first three months of the year, TL 116 million (TL 108 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 1,551.

## **6. Personnel**

As of March 31<sup>st</sup>, 2017, Ford Otosan has a total of 10,332 employees composed of 2,676 white collar and 7,656 blue collar workers. (December 31, 2016: total of 10,261 employees composed of 2,700 white collar and 7,561 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 31<sup>st</sup> August 2017.

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 December 17<sup>th</sup>, 2014 for the 01.09.2014-31.08.2017 period.

## **7. Profitability**

Profitability was strong in 1Q despite 1- Rising import costs resulting from weaker TL/€ (3.94 in 1Q17 versus 3.25 in 1Q16), 2- Lower domestic volumes and 3- Higher commodity prices. Drivers were:

- Pricing focus to offset the impact of TL devaluation & volatility
- Positive domestic sales mix: Share of import vehicles was down to 30% in 1Q17 from 35% in 1Q16; share of high margin products (MCV + Truck) was up from 34% in 1Q16 to 41% in 1Q17.
- High CUR (86% in 1Q17)
- Cost reduction actions

Gross profit was up by 19% YoY to TL 552 million. Operating profit grew by 39% YoY to TL 330 million. TL 15 million net other expense reported in 1Q16 (driven by TL 14 million net fx loss) turned positive this quarter with TL 11 million net other income (driven by TL 6 million net fx gains), supporting the operating profit. EBITDA grew by 29% YoY to TL 448 million. Despite the %95 increase net financial expenses due to the 179% rise in net fx loss, profit before tax rose by 33% YoY to TL 280 million. Net income was booked as TL 272 million, up 34% YoY.

Margins: Gross 10.2% (down 90 bps YoY); EBITDA 8.3% (flat YoY); EBITDA excluding other income 8.1% (down 60 bps YoY); Operating 6.1% (up 40 bps YoY); and Net 5.0% (up 10 bps YoY).

## 8. Financing

€106 million loan repayment was made in January-March period where €120 million was borrowed in new loans. Total debt level was €786 million (€984 million) as of March-end, from €771 million at the beginning of the year. Cash balance as at the end of the period is TL1,364 million (TL1,038 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)	31.03.2017	31.12.2016	% Change
Current Assets	5,285	4,676	13
Property, Plant and Equipment - Net	3,262	3,303	-1
Total Assets	9,947	9,286	7
Current Liabilities	5,196	4,308	21
Total Liabilities	6,973	6,123	14
Shareholders' Equity	2,974	3,164	-6
Summary Income Statement (Million TL)	31.03.2017	31.03.2016	% Change
Revenues	5,395	4,185	29
Export	4,262	3,094	38
Domestic	1,133	1,092	4
Gross Profit	552	465	19
Operating Profit	330	237	39
Financial Income / (Expense)	-51	-26	95
Profit Before Tax	280	210	33
Net Income	272	203	34
Other Financial Data (Million TL)	31.03.2017	31.03.2016	% Change
Depreciation and Amortization	118	110	7
EBITDA	448	347	29
Capital Expenditures	-160	-102	57
Cash Flow Statement (Million TL)	31.03.2017	31.03.2016	% Change
Beginning Balance of Cash & Equivalents	1,189	980	21
Net Cash Generated from Operating Activities	257	-140	-283
Net Cash Used in Investing Activities	-149	-95	56
Net Cash Used in Financing Activities	66	293	-77
End of Period Balance of Cash & Equivalents	1,364	1,038	31

<b>Financial Ratios</b>	<b>31.03.2017</b>	<b>31.12.2016</b>
Current Ratio	1.02	1.09
Liquidity Ratio	0.73	0.79
Net Financial Debt / Tangible Net Worth	0.71	0.64
Current Assets / Total Assets	0.53	0.50
Current Liabilities / Total Liabilities	0.75	0.70
Total Liabilities / Total Liabilities and Equity	0.70	0.66
Return on Equity*	36,6%	30,2%
	<b>31.03.2017</b>	<b>31.03.2016</b>
Gross Margin	10,2%	11,1%
EBITDA Margin	8,3%	8,3%
Operating Margin	6,1%	5,7%
Net Margin	5,0%	4,9%

\* Annualized net income divided by shareholders' equity.

#### 10. Other Material Developments

- **EBRD Loan Agreement:** It was stated on our 23.03.2017 dated disclosure that we were in negotiations with EBRD (European Bank for Reconstruction and Development) to obtain loan for financing upcoming investment projects. As a result of positive outcome of the negotiations, the loan agreement of € 150 million is signed and funded directly by EBRD. The loan has a 7-year term with 3 years grace period and the interest rate is Euribor+%1.95 per annum excluding other charges.
- **Dividend Distribution Proposal:** As per our Profit Distribution Proposal which prepared in accordance with the CMB's regulations, on March 23, 2016 Ford Otomotiv Sanayi A.Ş. Board of Directors has concluded the following decision: First Dividend to Shareholders as cash TL 400.037.400 total gross dividend in cash assuming each share with a nominal value of 1-TL pays Kr 114,0000 gross (Kr. 96,9000 net in accordance with the Dividend Distribution Proposal) is paid on April 3<sup>rd</sup> 2017.

#### 11. Guidance

Total Industry Volume	850K – 900K
Ford Otosan:	
Retail Sales Volume	105K-115K
Export Volume	280K-290K
Wholesale Volume	385K-405K
Production Volume	345K-355K
Capex (fixed assets)	€180-200 million

**FORD OTOMOTİV SANAYİ A.Ş.**