

FORD OTOSAN



Ford Otomotiv Sanayi A. Ş.
1 January – 30 June 2016
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 29th, 2016, 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 2016 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
Barbara J. Samardzich	Member
İ. Cenk Çimen	Member
Lyle A. Watters	Member
Roelant C. de Waard	Member
Ali İhsan İlkbahar	Member
Mehmet Barmanbek	Independent Member
L.Martin Meany	Independent Member
Haydar Yenigün	Member – General Manager
William R. Periam*	Member – Deputy General Manager

Our Board of Directors took below decisions on March 29th, 2016 on the Committees:

- 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. Lyle Alexander Watters 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. Lyle Alexander Watters 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.

*William R. Periam will leave Ford Otosan due to his new appointment as Chief Financial Officer in Ford of Europe as of August 1st. Lisa Tresign King will be assigned as the new Deputy General Manager, effective as of August 1st.

Shareholder Structure:

Ford Otosan's shareholder structure as of March 31st, 2016 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
Free Float	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 449,320 (2015:452,588) units in 1H, down 1% YoY. Passenger car sales increased 3%, medium commercial vehicle sales increased 1%, light commercial vehicle sales decreased 9% and truck sales decreased 46%. Total industry sales reached the highest levels in the second quarter. 1H16 marked the highest half and the highest second quarter in passenger cars. Highest May and June sales numbers were achieved in medium commercial vehicles since 2007. Despite the contraction in the first six months, LCV sales in May and June were higher than of 2015.

The share of PCs in the total industry was 75%. LCV industry share was 12%.

The share of PCs in the total industry						
1H16	1H15	2015	2014	2013	2012	2011
75%	72%	72%	73%	75%	68%	65%

Turkish Automotive Industry Sales in 1H:

	2016 1H	2015 1H	Change
Passenger Car	338,482	327,846	3%
Light Commercial Vehicle	52,690	57,613	-9%
Medium Commercial Vehicle	47,645	47,091	1%
Truck	9,618	17,835	-46%
Total*	449,320	452,588	-1%

* Covers all heavy commercial vehicles excluding buses and midibuses.

In the first half , share of import vehicle sales in PC was 74%, LCV was 47%, and total industry was 63%.

Share of import vehicle	PC	LCV	Total
1H16	74%	47%	63%
1H15	74%	43%	63%
2015	74%	44%	67%

Source: Automotive Distributors' Association

As of 2016 June-end, Ford Otosan had 11.9% (12.7%) market share in total industry and ranked 3rd. Ford Otosan's retail sales decreased by 7% to 53,457 (57,365) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share was 6.3% (7.0%). Ford Otosan ranked 2nd in the light commercial vehicle and heavy commercial vehicle segment with 26.7% (25.8%) and 25.8% (24.9%) market share, respectively. Ford Otosan was the market leader in the medium commercial vehicle segment with 33.1% (33.2%) share.

2. Production and Capacity

In the first half of the year total production volume was 173,996 (159,441).

66,911 (60,223) units new Transit and 69,762 (63,653) units Custom were manufactured in the Kocaeli plant, 34,806 (30,381) units Courier were manufactured in the Yeniköy plant and 2,517 (5,184) units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 84% (77%).

3. Export, Domestic and Wholesale

Export Markets

According to the European Automobile Manufacturers' Association (ACEA) (www.acea.be) in March the demand for new commercial vehicles up to 3.5t was up by 14.2% in Europe, our biggest export market. In the first three month commercial vehicle sales increased 13.2%. Our main export market commercial vehicle sales were as below:

	2015	1H 2016	Apr'16	May'16	Jun'16	Jan-Jun
İngiltere	15.6%	1.2%	11.8%	1.9%	2.7%	3.0%
Almanya	4.2%	9.3%	9.1%	15.3%	12.9%	10.9%
İtalya	12.4%	30.0%	30.8%	35.0%	27.6%	31.3%
İspanya	36.1%	8.9%	18.0%	19.3%	17.3%	13.8%
Fransa	2.0%	9.6%	8.9%	27.8%	11.3%	12.4%
Toplam	11.6%	11.3%	13.6%	17.7%	14.2%	13.2%

Our Exports

Ford Otosan's export volumes were 135,583 (115,827) up by 17% compared to same period of last year due to strong market conditions and rising demand. Ford Transit sales increased 20% YoY and Ford maintained its leader position in the commercial vehicle segment in Europe for the January-June period with a 13.0% market share. 80% of the Transits sold in Europe 71% of the Ford brand commercial vehicles were manufactured by Ford Otosan.

Due to this strong performance, export revenues increased by 29%, reaching 6,057 (4,703) million TL.

Our Domestic Sales

Total Turkish automotive sales decreased 1% during the first half of 2016. Ford Otosan's domestic wholesale volumes were down 9% YoY to 55,002 units, as the market shifted more towards the PC segment where Ford Otosan has a focus on profitability more than market share. Domestic revenues were TL 2,743 million, down 3% YoY with lower volumes.

Our Total Sales

Total sales units increased 8% to 190,585 (176,201). Total revenues increased 17% to TL8,800 million (TL7,526 million). Export share in total revenues was 69% (62%) with a significant increase compared to the first half of 2015.

4. Investments

In the first three months of the year capital expenditures were 255 million TL (189 million TL) including capitalized R&D spending.

5. R&D Activities

In the first six months of the year, TL218 million (TL172million) 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 1,688.

6. Personnel

As of June 30st, 2016, Ford Otosan has a total of 10,717 employees composed of 2,769 white collar and 7,948 blue collar workers. (December 31, 2015: total of 10,676 employees composed of 2,732 white collar and 7,944 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 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 17th, 2014 for the 01.09.2014-31.08.2017 period.

7. Profitability

Profitability was strong in 1H despite rising import costs resulting from weaker TL/€ (3.26 in 1H16 versus 2.86 in 1H15) and lower domestic volumes. Main drivers were higher export volume, focus on pricing to offset the impact of TL devaluation, increasing CUR (84% in 1H16 vs 77% in 1H15), cost reduction actions, and positive impact of commodity prices.

Gross profit was up by 18% YoY to TL 994 million. EBITDA grew by 13% YoY to TL 744 million. Operating profit grew by 12% YoY to TL 521 million due to the 9 million TL net other expense in 1H16 (1H15: 27 million TL net other income) and the 16% YoY rise in depreciation and amortization. Profit before tax rose by 21% YoY to TL 476 million. Net income was booked as TL 464 million, up 14% YoY, due to the TL12 million tax expenses as opposed to the TL13 million tax income in 1H15, based on the deferred tax asset/investment incentives.

Margins: Gross 11.3%; EBITDA 8.5%; EBITDA margin excluding other income 8.6% and Operating 5.9%

8. Financing

Our company repaid €269 million in January-June period and €359 million new loan was used. Consequently, as of June-end, total debt level was €900 million (€913 million) from €806 million at the beginning of the year. On the other hand, the cash balance as at the end of the period is TL793 million (TL282 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)	30.06.2016	31.12.2015	% Change
Current Assets	4,324	4,031	7%
Property, Plant and Equipment - Net	3,290	3,251	1%
Total Assets	8,772	8,428	4%
Current Liabilities	3,931	3,824	3%
Total Liabilities	5,586	5,368	4%
Shareholders' Equity	3,186	3,060	4%
Summary Income Statement (Million TL)	30.06.2016	31.03.2015	% Change
Revenues	8,800	7,526	17%
Export	6,057	4,703	29%
Domestic	2,743	2,822	-3%
Gross Profit	994	839	18%
Operating Profit	521	465	12%
Financial Income / (Expense)	-44	-72	-39%
Profit Before Tax	476	394	21%
Net Income	464	407	14%
Other Financial Data (Million TL)	30.06.2016	30.06.2015	% Change
Depreciation and Amortization	223	192	16%
EBITDA	744	658	13%
Capital Expenditures	-255	-189	35%
Cash Flow Statement (Million TL)	30.06.2016	30.06.2015	% Change
Beginning Balance of Cash & Equivalents	980	577	70%
Net Cash Generated from Operating Activities	133	-122	
Net Cash Used in Investing Activities	-240	-174	38%
Net Cash Used in Financing Activities	-80	1	
End of Period Balance of Cash & Equivalents	793	282	181%

Financial Ratios	30.06.2016	31.12.2015
Current Ratio	1.10	1.05
Liquidity Ratio	0.72	0.73
Net Financial Debt / Tangible Net Worth	0.79	0.63
Current Assets / Total Assets	0.49	0.48
Current Liabilities / Total Liabilities	0.70	0.71
Total Liabilities / Total Liabilities and Equity	0.64	0.64
Return on Equity*	29.1%	27.5%
	30.06.2016	30.06.2015
Gross Margin	11.3%	11,1%
EBITDA Margin	8.5%	8,7%
EBITDA Margin excluding other income/expense	8.6%	8,4%
Operating Margin	5.9%	6,2%
Net Margin	5.3%	5,4%

* Annualized net income divided by shareholders' equity.

10. Other Significant Developments

- Our Board of Directors have resolved the following in their meeting dated 18th July 2016.
 - Mr. William Richard Periam, who has been acting as Deputy General Manager, will take a new role within Ford Europe organization and leave the Company as of August 01, 2016.
 - Ms. Lisa Katharine King is assigned as Deputy General Manager to replace Mr. William Richard Periam effective from August 01, 2016.

11. Guidance

We forecast the Turkish automotive industry to reach 980K – 1 million units which achieved a record breaking level of 1 million sales in 2015. We expect our domestic retail sales to reach 120 – 125K units and exports to realize at 260 – 265K units, totalling 380 – 390K overall. Our production volume is planned to be 335 – 340K units. Within the context of new projects we forecast total €190-200 million fixed asset procurement spending.

FORD OTOMOTİV SANAYİ A.Ş.