



Ford Otomotiv Sanayi A. Ş.

1 January – 30 June 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. 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

The Committees established withing our Board of Directors' and their Members are as follows:

Audit Committee: Mr. Mehmet Barmanbek (Member) and Mr. Günter Verheugen (Member)

Corporate Governance Committee: Mr. Günter Verheugen (Chairman), Mr. Ali İhsan İlkbahar (Member), Mr. Lyle Alexander Watters (Member) and Mr. Oğuz Toprakoğlu (Member – Chief Financial Officer).

Mr.Oğuz Toprakoğlu was appointed as member of the Corporate Governance Committee in our Board of Directors' meeting numbered 2014/16 as per Corporate Governance Principles of the Capital Markets Board number II-17.1.

Early Determination and Management of Risk Committee: Mr. Mehmet Barmanbek (Chairman), Mr. İsmail Cenk Çimen (Member) and Mr. Lyle Alexander Watters (Member).

Remuneration Committee : Mr. Mehmet Barmanbek (Chairman), Mr. Osman Turgay Durak (Member) and Mr. Stephen Terrence Odell (Member).

Shareholder Structure:

Ford Otosan's shareholder structure as of June 30th, 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 half of the year, sales in Turkish automotive industry decreased by 23.7% 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, volatility in the financial markets and weak consumer confidence ahead of the local elections in March were the main headwinds of the vehicle sales slowdown in the first half. Consumer confidence started recovering in March compared to January-February and vehicle sales rose in all segments post- elections. In the second half of the year, total industry sales increased by 50% to 181,524 compared to first half of 2014. However, due to the weak sales performance in first quarter, all segments except Trucks declined in first half of the year compared to the same period of 2013 (PC -23%, LCV -36%, MCV -26% and Truck +4%).

The share of PCs in the total industry was 74.6% in the first half of the year, up from 73.8% in first quarter of 2014 and down from 75,1% in full year 2013. LCV segment share was 10.4%, down from 12.5% in first half of 2013.

As a result, in the first six months of 2014, sales in total industry decreased by 23.7% to 302,680** units (396,694)* compared to the same period of 2013. On a segment basis; 225,773 (292,106) passenger cars, 31,561 (49,633) light commercial vehicles, 29,527 (40,004) medium commercial vehicles and 13,726 (13,212) trucks were sold.

Share of import vehicle sales in the industry continued to grow, reaching 75% in passenger cars, 50% in light commercial vehicles and 70% in total.

Import ratio in sector	PC	LCV	Total
2013 (First half)	78%	48%	69%
2013	78%	48%	71%
2014 (First half)	75%	50%	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. In addition, the rising retail prices for passenger cars in the first quarter of 2014 due to the weak Turkish Lira pressured sales amid intense market competition.

With the introduction of the new generation Transit in March and brand new light commercial vehicle Ford Courier in May, our domestic sales accelerated in the second quarter, qoq. PC sales also increased with the seasonality impact of fleet sales. However, first half 2014 sales figures were still lower year-over-year due to the first quarter performance.

2. Market Shares

As of June-end, Ford Otosan had 10.0% (12.7%) market share in total industry and ranked 4th. Ford Otosan's retail sales decreased by 40% to 30,376 (50,541) compared to same period of last year. In the passenger car segment where competition is the most intense, our market share decrease to 5.9% (8.3%). Ford Otosan ranked 2nd in the light commercial vehicle segment with 19.6% (21.0%) market share, was the market leader in the medium commercial vehicle segment with 27.7% (32.6%) share

and maintained its second position in the heavy commercial vehicle segment with 19.5% (20.6%) share. Ford Courier, launched in May, was the best-selling product in LCV segment in June 2014 with 1,648 units sales performance.

3. Production and Capacity

In the first half of the year total production volume decreased 28% to 109,588 (153,123) compared to last year due to new product launches and ongoing investments. 54,164 units new Transit and 37,767 units Custom were manufactured in the Kocaeli plant, 14,287 units Courier were manufactured in the Yeniköy plant and 3,370 units Cargo truck were manufactured in the İnönü Plant. As a result total capacity utilization rate was 53% (93%).

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 first half of the year. According to June year-to-date figures, the demand for new commercial vehicles increased for the 10th consecutive month and was up by 9.3%. In this period the commercial vehicle sales increased 11.1% in our largest export market UK, 8.3% in Germany, 13.6% in Italy, 38% in Spain, 0.4% in France.

	June	Jan.-June
UK	25.5%	11.1%
Germany	6.5%	8.3%
Italy	8.6%	13.6%
Spain	18.9%	38.0%
France	3.8%	0.4%
Total Europe	10.3%	9.3%

Ford Otosan's export volumes increased 57% in the second quarter of the year, qoq, however were down by 26% YoY in the first half due to product transitions, reaching 93,789 (125,938) units. Custom's strong export sales performance continued. Our export revenues were TL3,782 million (TL3,676 million). Although the unit sales decreased, export revenues increased 3% compared to first half of 2013 with the new model launches and weak TL.

In the first half of year Ford Otosan's wholesales decreased by 41% YoY to 29,625 (50,202) units and domestic revenues were TL1,432 million (TL1,807 million). Due to the new product launches and vehicle price increase, contraction in revenues was limited to 21%. Total revenues were TL5,214 million (TL5,482 million), down 5% year-over-year. Export share in total revenues increased to 73% from 67%.

5. Investments

In the first half of the year capital expenditures reached 470 million TL (630 million TL) including capitalized R&D spendings,.

6. R&D Activities

In the first half of year TL169 million (TL156 million) pre-capitalization and TL77 million (TL64 million) post-capitalization R&D expenditure was made for various product development projects. R&D projects are carried out in line with product programs. The number of R&D engineers exceed 1,300.

7. Personnel

As of June 30, 2014, Ford Otosan has a total of 9,201 employees composed of 2,472 white collar and 6,729 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 will start in August 2014.

8. Profitability

In first half of 2014, operating margin was 4.0% (6.2%). The average EUR/TL exchange rate increased from 2.37 in first half of 2013 to 2.96 in first half of 2014, negatively impacting the cost base. Although Ford Otosan increased the prices of its vehicles significantly and implemented cost reduction actions, it was unable to recover the full impact of the TL depreciation which led to a margin decrease. In addition, lower unit sales, other operating expense, driven by fx losses, as opposed to other operating income in first the half and the 48% year-over-year rise in depreciation & amortization led to a 38% decline in operating profit to TL 210 million. EBITDA was TL 343 million, down 20% year-over-year. EBITDA margin was 6.6%, down from 7.9% in first half of 2013. Revaluation of financial loans with the weak TL doubled net financial expenses in first half of 2014 versus first half of 2013. As a result, profit before tax declined by 54% year-over-year to TL 142 million. Net income was TL 353 million as a result of the establishment of deferred tax asset based on the future tax benefits from the investment incentives. Net income margin was 6.8%, down 1.2 pps year-over-year.

9. Financing

Our company repaid €279 million in January-June period and €213 million new loan was used. Consequently, as of June-end, total debt level was € 710 million (€ 541 million) from € 776 million at the beginning of the year. The cash balance as at the end of the period is TL 144 million (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)	30.06.2014	31.12.2013	% Change
Current Assets	2,593	2,443	6
Property, Plant and Equipment - Net	2,606	2,231	17
Total Assets	6,678	5,991	11
Current Liabilities	2,833	2,397	18
Total Liabilities	4,042	3,755	8
Shareholders' Equity	2,636	2,237	18
Summary Income Statement (Million TL)	30.06.2014	30.06.2013	% Change
Revenues	5,214	5,482	-5
Export	3,782	3,676	3
Domestic	1,432	1,807	-21
Gross Profit	475	546	-13
Operating Profit	210	340	-38
Financial Income / (Expense)	-66	-33	
Profit Before Tax	142	308	-54
Net Income	353	436	-19
Other Financial Data (Million TL)	30.06.2014	30.06.2013	% Change
Depreciation and Amortization	133	89	48
EBITDA	343	430	-20
Capital Expenditures	470	630	-25
Cash Flow Statement (Million TL)	30.06.2014	30.06.2013	% Change
Beginning Balance of Cash & Equivalents	238	302	-21
Net Cash Generated from Operating Activities	598	740	-19
Net Cash Used in Investing Activities	(461)	(624)	-26
Net Cash Used in Financing Activities	(230)	(140)	64
End of Period Balance of Cash & Equivalents	144	277	-48

Financial Ratios	30.06.2014	31.12.2013
Current Ratio	0.92	1.02
Liquidity Ratio	0.57	0.71
Net Financial Debt / Tangible Net Worth	0.90	1.13
Current Assets / Total Assets	0.39	0.41
Current Liabilities / Total Liabilities	0.70	0.64
Total Liabilities / Total Liabilities and Equity	0.61	0.63
Return on Equity	26.8%*	28.7%
	30.06.2014	30.06.2013
Gross Margin	9.1%	10.0%
EBITDA Margin	6.6%	7.9%
Operating Margin	4.0%	6.2%
Net Income Margin	6.8%	8.0%

*Annualized net income divided by shareholders' equity.

11. Other Significant Developments

Our new light commercial vehicle Ford Courier was launched in the domestic market in May. Official opening ceremony of the Yeniköy plant, where Courier is manufactured, took place on May 22nd, 2014. Ford Courier was launched with a total € 371 million investment including plant, die and product development spending. The product is targeted to be exported to 46 countries, mostly in Europe.

As resolved in our Board of Directors' meeting dated June 6th, effective as of June 1st, 2014, Purchasing Assistant General Manager Mr. Cengiz Kabatepe was appointed as Material Planning & Logistics Assistant General Manager and Material Planning & Logistics Assistant General Manager Mr. Güven Özyurt was appointed as Purchasing Assistant General Manager.

As a result of negotiations with banks in order to finance current investments €100 million loan agreement was signed on July 4th, 2014 with HSBC Bank plc, Societe Generale Corporate & Investment Banking and The Bank of Tokyo-Mitsubishi UFJ, Ltd. The loan has a 4-year term with 2 years grace period and the interest rate is Euribor+%2.30 per annum excluding the bank charges.

As a result of negotiations with EBRD (European Bank for Reconstruction and Development) in order to finance upcoming investments a loan agreement was signed on July 18th, 2014. The total loan amount is € 140 million. € 70 million is funded directly by EBRD while the remaining € 70 million is funded as a syndicated loan with the participation of commercial banks; HSBC Bank plc, Societe Generale Corporate & Investment Banking, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Credit Agricole Corporate and Investment Bank. The loan has a 5-year term with 2 years grace period and the interest rate is Euribor+%2.25 per annum excluding the interest rate bank charges.

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 675,000 units. We expect our domestic retail sales to reach 84,000 units and exports to realize at 198,000 units, as a result of the product transitions. Our production volume is expected to reach 242,000 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.