



Ford Otosan **2017** Annual Report

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FROM 1928 TO TODAY



“ I live and prosper with my country. As long as democracy exists and thrives, so do we. We shall do our utmost to strengthen our economy. As our economy prospers, so will democracy and our standing in the world. ”

VEHBI KOÇ

“ Coming together is a beginning, keeping together is progress, working together is success. ”

HENRY FORD



FORD OTOSAN AT A GLANCE

FORD OTOSAN FROM PAST TO PRESENT

2017 Marked the 20th Year of Our Equal Partnership.

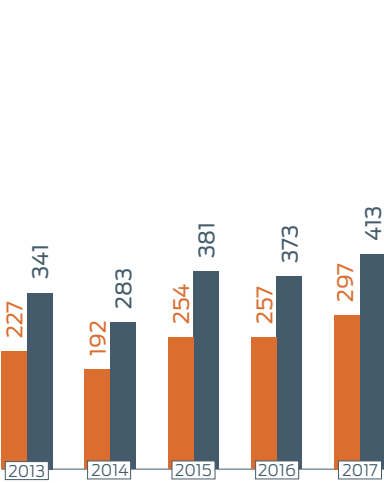
	1997*		2017
PRODUCTION CAPACITY (Units)	47,000	9 Times	440,000
PRODUCTION (Units)	43,102	9 Times	373,007
EXPORTS (Units)	667	446 Times	297,396
EXPORTS (USD)	16 million	306 Times	4.9 billion
REVENUES (USD)	850 million	8 Times	6.9 billion
HEADCOUNT	3,406	3 Times	11.501
MARKET CAP (USD)	1.1 billion	5 Times	5.6 billion

* The shares of Koç Holding and Ford Motor Company in Otosan became equal.

SUMMARY RESULTS

	2013	2014	2015	2016	2017
MAIN FINANCIAL INDICATORS (MILLION TL)					
Revenues	11,405	11,925	16,746	18,289	25,341
Export Revenues	4,106	4,238	10,723	12,287	17,830
Domestic Revenues	7,299	7,687	6,023	6,002	7,511
Gross Profit	1,128	1,131	1,860	2,086	2,637
Operating Profit	670	541	1,036	1,111	1,708
EBITDA	856	846	1,441	1,567	2,182
Profit Before Tax	452	390	866	970	1,481
Net Profit	641	595	842	955	1,490
Earnings Per Share (for Kr 1 nominal value)	1,83	1,70	2,40	2,72	4,25
CASH POSITION (MILLION TL)					
Cash & Cash Equivalents	238	577	980	1,189	1,806
Total Financial Debt	(2,291)	(2,350)	(2,561)	(2,852)	(3,604)
Net Financial Debt	(2,053)	(1,773)	(1,580)	(1,663)	(1,798)
FINANCIAL RATIOS					
Current Ratio	1,02	1,00	1,05	1,09	1,13
Liquidity Ratio	0,71	0,74	0,73	0,79	0,87
Net Financial Debt / Tangible Net Worth	1,13	0,79	0,63	0,64	0,60
Current Assets / Total Assets	0,41	0,41	0,48	0,50	0,57
Current Liabilities / Total Liabilities	0,64	0,66	0,71	0,70	0,73
Total Liabilities / Total Liabilities and Equity	0,63	0,62	0,64	0,66	0,69
Return on Equity	28.7%	21.6%	27.5%	30.2%	40.3%
MARGINS					
Gross Margin	9.9%	9.5%	11.1%	11.4%	10.4%
EBITDA Margin	7.5%	7.1%	8.6%	8.6%	8.6%
Operating Margin	5.9%	4.5%	6.2%	6.1%	6.7%
Net Income Margin	5.6%	5.0%	5.0%	5.2%	5.9%
OTHER					
Dividend Payment (Million TL)	300	175	400	663	790

MAIN INDICATORS

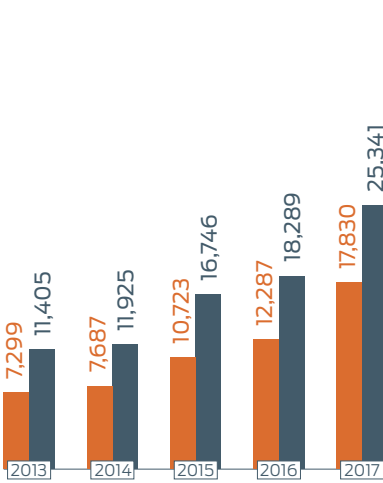


WHOLESALE VOLUME
(1000 Units)

Record

Turkish auto industry contracted 3% YoY in 2017 to 977,483 units. While Light Commercial Vehicle (+4% YoY), Medium Commercial Vehicle (+2%), and Truck (+1%) sales increased, Passenger Car (-5% YoY) sales declined. Domestic wholesale volume was 115,462 units. Export volumes grew 16% YoY to 297,396 units. Total wholesale volume was up 11% to 412,858 units.

Export
Total

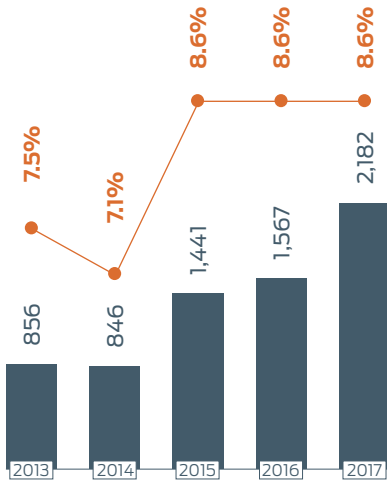


REVENUES
(Million TL)

Record

Domestic revenues were TL 7,511 million, up 25% YoY, thanks to pricing strategy and positive sales mix. Export revenues rose 45% YoY to TL 17,830 million with market growth, ongoing strong demand for our products and currency impact. Total revenues were up 39% YoY to TL 25,341 million. Share of exports in total revenues was 70%, up from 67% in 2016.

Export
Total



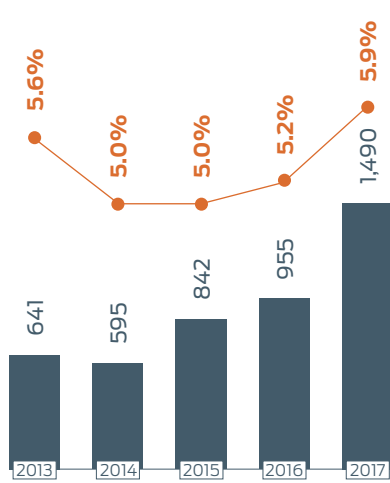
EBITDA
(Million TL)

Record

EBITDA grew 39% YoY to TL 2,182 million. EBITDA margin remained flat. Drivers were:

- Pricing focus to offset the cost impact (weak & volatile TL, rising inflation and commodity prices)
- Positive domestic sales mix and focus on high margin products
- High Capacity Utilization: Up 8 pps YoY to 88% with rising export demand and 12% more production
- Cost reduction actions and strong OpEx control

Margin

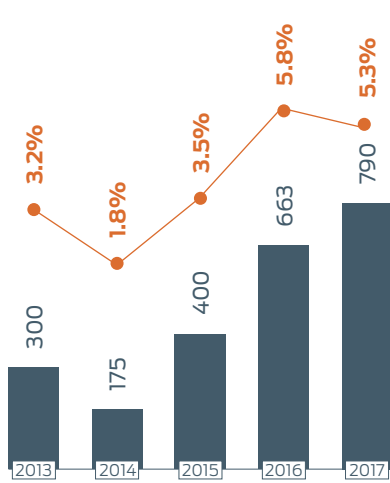


NET PROFIT
(Million TL)

Record

Net financial expenses rose 66% to TL 224 million due to 137% increase in higher net fx loss. Despite this pressure, profit before tax rose 53% YoY to TL 1,481 million. Net income was up 56% to TL 1,490 million, higher than PBT, due to tax income resulting from deferred tax asset. EPS was 4.25 Kr, up from 2.72 Kr a year ago.

Margin

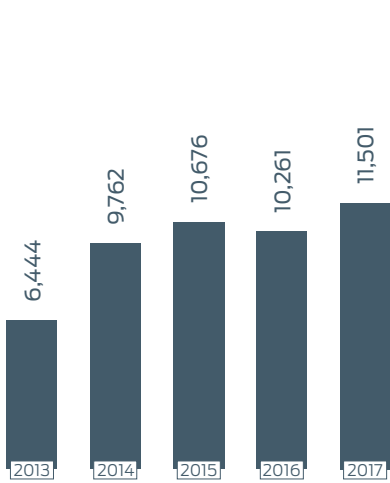


DIVIDEND
(Million TL, gross)

Record

Ford Otosan paid a total gross dividend of TL 790 million in 2017. Distributed dividend rose by 19% compared to 2016. The total dividend paid by Ford Otosan reached TL 6.1 billion between 2004 and 2017.

Yield



NUMBER OF
EMPLOYEES

Record

Ford Otosan employed 2,654 white-collar and 8,847 blue-collar employees, totaling 11,501 personnel as of 2017-end. In addition to providing the highest employment in the Turkish automotive industry, Ford Otosan is also the leader in female employment. In 2017, the number of female employees was 26% in office workers, 12% in field workers ,and 15% in total.

Note: 2014 numbers reflect the transition to new product range and relevant ramp-up period.

HIGHLIGHTS

LEAD
COMMERCIAL VEHICLE
MANUFACTURING
HUB OF FORD
IN EUROPE





MOST
COMPETENT
R&D CENTER IN TURKISH
AUTOMOTIVE INDUSTRY
1,234 R&D ENGINEERS

HIGHEST
EMPLOYMENT
IN TURKISH
AUTOMOTIVE
11,501 EMPLOYEES



Turkey's Export
Champion
USD
4.9
Billion

Turkey's
Commercial
Vehicle Leader
30%
Market Share

4th Place in
Total Automotive
Market Share
11.9%

22%

OF TURKEY'S TOTAL
AUTOMOTIVE PRODUCTION

67%

OF TURKEY'S COMMERCIAL
VEHICLE PRODUCTION

72%

OF TURKEY'S COMMERCIAL
VEHICLE EXPORTS

MAIN VALUES

VISION

Being Turkey's most valuable and most preferred industrial company.

MISSION

Providing innovative automotive products and services beneficial to the community.

VALUES

Our products and services are the upshots of our efforts. The more our customers appreciate our products and services, the higher our value will rise.

Our employees are the source of our strength. It is our goal to boost the skills and contentment of our employees by providing them with opportunities to self-improve. It is our principle to accomplish "teamwork" that will ensure their participation in all areas.

Our earnings are an indication of the extent to which our products and services meet customer expectations. We aim to profit so as to provide the resources necessary towards improving our products and services.

STRATEGY

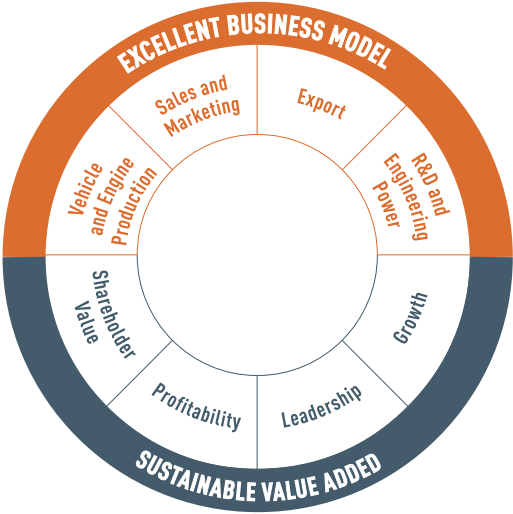
GROWTH
Organic and inorganic growth in new markets and existing business areas by developing new products.

INNOVATION
Providing innovative products and services in all business processes by keeping creativity at the top.

BRAND
Being the most preferred brand in all segments by meeting customer needs and expectations.

EMPLOYEES
Being the most preferred workplace by aiming excellence in human resources processes and increasing benefits provided for employees.

CUSTOMERS
Being the leader automotive brand with regards to customer satisfaction in sales and after sales products and services.



MILESTONES

1928

Vehbi Koç is Assigned as Ankara Ford Dealer



1956

The Foundations of Koç-Ford Partnership are Laid Down



1961

First Private R&D Center in Automotive

1966



First Domestic Passenger Car: Anadol

1967

Otosan Produces its First Transit



1982

İnönü Plant Opens



1986

Otosan Produces Turkey's first Diesel Engine ERK



1997

Ford Assumes 41% Equity in 'Ford Otosan'



2001

Gölcük Plant opens



2009

First Vehicle Export to North America



2012

Launch of Ford Custom

2013

JMC Engine & Truck Technology Licensing Agreements

2014

Yeniköy Plant Opens and Otosan Produces its First Courier

2016

Ecotorq Engine Production Starts



2017

Capacity Increase Investment in Ford Custom Line Started





General Assembly



AGENDA OF FORD OTOMOTİV SANAYİ A.Ş. ORDINARY GENERAL ASSEMBLY MEETING DATED MARCH 19, 2018

1. Opening and election of Chairmanship Panel,
2. Reading, discussion and approval of the Annual Report of year 2017 prepared by the Board of Directors,
3. Reading of the summary report of the Independent Audit Firm of 2017 Fiscal Period,
4. Reading, discussion and approval of the Financial Statements of 2017 Fiscal Period,
5. Release of the members of the Board of Directors separately for year 2017 activities,
6. Approval, or approval with amendments or refusal of the Board of Directors' proposal for profit distribution for the year 2017 and the distribution date which prepared in accordance with the Company's Profit Distribution Policy,
7. Determination of the number and the term of duty of the members of the Board of Directors and election of the members base on the determined number, election of the Independent Board Members,
8. As per the Corporate Governance Principles, informing the shareholders regarding the "Remuneration Policy" for members of the Board of Directors and the senior executives and payments made under this policy and approval of the "Remuneration Policy" and related payments,
9. Determination of the annual gross fees to be paid to the members of the Board of Directors,
10. As per the regulations of the Turkish Commercial Code and Capital Markets Board, approval of the Board of Directors' election for the Independent Audit Firm,
11. Giving information to the shareholders regarding the donations made by the Company in 2017 and determination of a upper limit for donations to be made in 2018,
12. Under Articles 395 and 396 of the Turkish Commercial Code, authorizing: shareholders with management control, members of the Board of Directors, senior executives and their spouses and relatives related by blood or affinity up to the second degree; and also informing the shareholders regarding the transactions made in this extent in 2017 pursuant to the Capital Markets Board's Communiqué on Corporate Governance,
13. Wishes and opinions.

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ON THE BOARD OF DIRECTORS' ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

To the General Assembly of Ford Otomotiv Sanayi A.Ş.

1. Opinion

We have audited the annual report of ABC A.Ş. (the "Company") for the 1 January - 31 December 2017 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Company's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing (the "TSA") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Financial Statements

We expressed an unqualified opinion in the auditor's report dated 12 February 2018 on the full set financial statements for the 1 January - 31 December 2017 period.

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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T: +90 212 326 6060 F: +90 212 326 6050, www.pwc.com.tr Registration Number 0-1460-0224-0500015

4. Board of Director's Responsibility for the Annual Report

Company management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

- to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;
- to prepare the annual report to reflect the Company's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Company may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.
- to include the matters below in the annual report:
 - Events of particular importance that occurred in the Company after the operating year,
 - The Company's research and development activities,
 - Financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Customs and Trade and other relevant institutions.

5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited financial statements of the Company and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited financial statements and with the information obtained in the course of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Beste Gücümen, SMMM
Partner

Istanbul, 23 February 2018

BOARD OF DIRECTORS’ REPORT

Dear Shareholders, Business Partners, and Employees,

We would like to welcome you to our 59th Ordinary General Assembly Meeting. We hereby present the Board of Directors Report, which covers the activities of Ford Otomotiv Sanayi A.Ş. in 2017. You will find detailed information about our company and an assessment of our 2017 operations. The report also contains our independently audited financial statements as of December 31, 2017, including the relevant footnotes and all other information required by the Capital Markets Board.

Expansionary monetary policies and ample liquidity supported global capital markets in 2017. Developed countries delivered rising growth rates. Despite the hectic political agenda in Europe, consumer confidence reached its highest level since 2001. The Federal Reserve continued to lower interest rates and scale down its balance sheet. Economic growth in Turkey exceeded expectations with increased public investments and private consumption supported by incentives and the Credit Guarantee Fund. The economic recovery in Europe, our main export market, and in neighboring Russia had a positive impact on Turkey’s exports.

The volatility index VIX had its least volatile year in decades in the midst of high liquidity and low interest environment. Higher global risk appetite had a positive impact on the markets. Many stock exchanges including BIST reached record high levels. At the same time, weak and volatile Turkish Lira, high inflation, and rising commodity prices created a challenging operating environment.

Firm leader in Turkish commercial vehicle market
In 2017, Turkish automotive industry sales decreased by 3% and amounted to 977,483 units. Passenger car sales decreased by 5%, to 722,759 units, due to high base year and rising vehicle prices as a result of special consumption tax increase and the currency impact. Light commercial vehicle sales increased by 4% to 126,111 units while medium commercial vehicle sales increased by 2% to 107,324 units. Truck sales increased by 1% to 18,745 units. Share of the passenger cars in the industry decreased by 1 point to 74%. The share of imports increased by

5 points in passenger cars, 1 point in commercial vehicles, and 4 points in the overall industry.

Ford Otosan maintained its profitability focus in passenger cars, while aiming to achieve a profitable growth in commercial vehicles. It ranked fourth in total industry sales with 116,247 units and 11.9% market share. Our leadership position in commercial vehicles is cemented with a 30.3% share. Ford Courier manufactured in the Yeniköy Plant for the global markets has once again become the most preferred light commercial vehicle in Turkey.

Decision to increase production capacity while delivering record high production
Ford Otosan is Turkey’s and Europe’s largest commercial vehicle manufacturer. Production volume reached 373,007 units, driven by strong export demand in 2017. Ford Otosan had 22% share in Turkey’s total vehicle production volume, and 67% share in commercial vehicle production. Our production volume grew by 12% and capacity utilization rate increased by 8 increased by 8 percentage points. points to reach 88%.

In line with the higher export demand for Custom model that we launched at the end of 2012, we announced a capacity increase plan on August 2, 2017. The capacity of Gölcük Plant will be increased to 330,000 from 290,000 units in two phases with an investment of \$52 million. Upon completion of the investments in September 2018, the Company’s total production capacity will rise from 415,000 units to 455,000 units. The first phase of the investment was completed in the fourth quarter of 2017. This increased capacity in Gölcük Plant to 315,000 units, and total capacity to 440,000 units.

Once again Turkey’s export champion
The light commercial vehicle segment in Europe, our main export market, grew 3.9%, while Ford brand sustained its leadership in commercial vehicles with a 13.5% market share. Export volume increased by 16% to 297,396 units. This figure is a historic high for us.

Ford Otosan has led automotive industry exports since 2011, and in 2017, as in 2016 and 2015, was Turkey’s export champion, with export revenues of \$4.9 billion. Ford Otosan had 72% share in Turkey’s total commercial vehicle exports in 2017. It also manufactured 80% of Transit product line sold in Europe. The main driver behind our export strength is Ford’s growth-based strategy for Europe.

The most valuable automotive company on Borsa Istanbul
Ford Otosan reached record high level of market capitalization 2017 with US\$5.6 billion. Share price increased by 108% in TL terms, outperforming BIST-100 by 60%. Foreign share in free float increased to 80% from 67% a year ago. Ford Otosan aims to boost shareholder value consistently by way delivering corporate governance and investor relations at global standards.

Ford Trucks brand reached 28 countries
International expansion continued in the truck segment with Ford Trucks brand. It reached 28 countries and the export volume increased by 49%.

We designed our trucks with Ecotorq engines with 100% domestic engineering. We signed a license agreement with JMC in 2013 for trucks to be manufactured in China, the biggest truck market in the world, with our technology and became the first Turkish automotive company to issue a technology license abroad. JMC trucks are manufactured by JMC with Ford Otosan license and engineering resources. They were introduced to the market in 2017, and awarded “Chinese Truck of the Year 2018”.

Innovation leader of the Turkish automotive industry
In line with our goal “to become the most valuable and most preferred industrial company in Turkey” we continued our efforts to develop innovative ideas and deliver digital transformation results to bolster these innovations in 2017.

Our digital transformation program covers a wide range from customer journey to product, supply chain to production, and employees to product development. Ford Otosan launched this program in 2017 and manages it with 17 major projects, and a governance method that fosters a sense of ownership from each unit. We switched from strategy phase to preliminary implementation phase in the digital transformation.

Ford Otosan offers in-house entrepreneurs the opportunity to realize their innovative ideas. As part of our innovation program, over 70 in-house entrepreneurs and 40 different mobility concepts were tested with Lean Initiative methodology. Four projects with higher customer demand are progressing towards commercialization.

R&D Projects ongoing in line with Product Programs
Ford Otosan is a leading product development center within the Global Ford organization. Our R&D expense on the various projects we undertook in 2017 amounted to 512,040,000 TL before capitalization (2016: 464,603,000 TL), and 317,192,000 TL after capitalization (2016: 383,844,000 TL).

Corporate Social Responsibility and Donations
Both our company and employees support a number of corporate social responsibility projects in education, health, and culture, areas fundamental for our country. Larger initiatives are usually directed under the leadership of the Vehbi Koç Foundation. Total donations made to tax exempt foundations and associations in 2017, including those given to the Vehbi Koç Foundation, amounted to 27,374,000 TL (2016: 22,132,000 TL).

Changes to our Board of Directors and Company Management
At the Ordinary General Assembly Meeting held on March 23, 2017, the number of members on our Board of Directors was set at 14 in total, including two independent members. Our Board of Directors was appointed to serve until the next Ordinary General Assembly Meeting, which would convene to review the 2017 accounts.

At the Ordinary General Assembly Meeting on March 23, 2017, James Duncan Farley Jr., elected to the Board of Directors and served as Vice Chairman of the Board to represent Class C shareholders, resigned from this post effective September 8, 2017, due to changes in his responsibilities at the Ford Motor Company. Steven Robert Armstrong, a member of Board of Directors, was assigned as Vice Chairman of the Board. Joseph Bakaj was nominated to represent Class C shareholders on the Board of Directors, to serve until the next Ordinary General Assembly Meeting. His appointment was approved at the Extraordinary General Assembly Meeting held on October 27, 2017. Steven Robert Armstrong was elected in place of James Duncan Farley Jr. to the Remuneration Committee.

As per the Board of Directors resolution dated December 8, 2017, Ahmet Kinay who served as Assistant General Manager at Ford Trucks, retired as of December 31, 2017. Serhan Turfan who served as Ford Trucks Director was appointed as Assistant General Manager to become effective as of January 1, 2018. Ford Otosan maintained its market lead in employment in the automotive industry with 11,501 employees. At the end of 2017, we had 11,501 employees with a 12% increase from 2016. Of these, 8,847 were blue-collar employees, and 2,654 were white-collar employees. In comparison, as of December 31, 2016, we had a total of 10,261 employees, with 7,561 blue-collar, and 2,700 white-collar. As a result of our focus on increasing women employment, the number of women employees in the company increased by 26% and reached 1,743. Our employees are covered by the Group Collective Bargaining Agreement, signed between the Turkish Metal Union and the Turkish Employers' Association of Metal Industries (MESS), effective until August 31, 2017. Group Collective Bargaining Agreement negotiations began at the end of 2017, and were finalized on January 30, 2018.

IN 2017 THE NUMBER OF
OUR WOMEN EMPLOYEES
INCREASED BY 26%

Closed the Year with Solid Financial Results

You will find, starting from page 107 of the Annual Report, independently audited financial statements regarding the results of 2017 operations, as well as the relevant footnotes to the documents.

Despite a 0.3% fall in domestic sales, domestic revenues reached 7,511 million TL, a 25% increase thanks to our pricing strategy and positive sales mix. Our export volumes increased by 16% to 297,396 units, due to strong demand for our vehicles and market growth. Our export revenues rose by 45% to 17,830 million TL, thanks to higher sales volumes and exchange rate impact. Wholesale volume increased by 11% reaching 412,858 units, while revenues soared 39% amounting to 25,341 million TL. Exports accounted for 70% of total revenues in 2016, up from 67% in 2016.

Our profitability demonstrated a positive trend despite a 23% depreciation of TL against the euro, increasing import costs, rising raw material prices and inflation. With higher capacity utilization rate driven by strong exports, cost reduction measures and effective expense management as well as pricing strategy to offset the TL depreciation, higher commodity prices and inflation, we achieved a historic high levels of profitability. Revenues increased by 39%, while total cost of sales increased by 40%. In line with this, gross profit increased by 26% and reached 2,637 million TL. Operating profit reached 1,708 million TL, increasing by 54% with effective expense management. EBITDA increased to 2,182 million TL, up by 39%. Profit before tax jumped by 53% to 1,481 million TL. Net income increased by 56% to 1,490 million TL, due to the deferred tax asset calculated in the context of investment incentive certificates.

On December 31, 2017, the balance sheet showed a cash balance of 1,806 million TL, as opposed to 3,604 million TL financial debt. Our company closely monitors financial risks and takes a highly cautious approach against such uncertainties. Maximum sensitivity and due diligence go into efforts to keep risk-related financial ratios within the basic policy limits set by the Board of Directors and the Early Determination and Management of Risk Committee. We explain our key risk management policies in the Risk Management section of our Annual Report. Summaries of the data on the nature and levels of applicable risks can be found in the footnotes to the corresponding financial tables. 939 million TL was spent on investments that relate to new projects and maintenance activities undertaken every year.

Dividend Policy and Proposal

Our company pays out dividends in accordance with the provisions of the Turkish Commercial Code, capital markets regulations, tax legislation, and other related rules and regulations, as well as the sections of our Articles of Association regarding dividend payouts. Our dividend payout policy is balanced and consistent, heeding the interests of both shareholders and the company in line with corporate governance principles. You will find our Dividend Policy on page 25 of our report and on our corporate website (www.fordotosan.com.tr).

Ford Otosan is among the most committed dividend payers on Borsa Istanbul. The company continued to share its increased profitability and surging cash flow with shareholders in 2017. A total of 790 million TL was paid in dividends in two installments during the year, setting a new historic record. Dividend payment increased by 19% over 2016.

As outlined in our Dividend Policy, in accordance with our investment and financing policies, and after deducting for legal requirements from 2017 net profits, and taking into account the cash flow situation, we propose to pay out a gross dividend of 228.0000 Kuruş (193.8000 Kuruş net) for each 1 TL share, totaling 800,074,800 TL, or 228.0000% gross (193.8000% net) cash dividend. Payments will be made to our shareholders starting from April 2, 2018. Detailed dividend proposal can be found on page 26 of the report.

Selection of the Independent Audit Firm

Pursuant to the guidelines set in accordance with Turkish Commercial Code No. 6102 and Capital Markets Law No. 6362, and after consultation with the Audit Committee, our Board of Directors met on February 13, 2018, and selected PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. for the task of auditing our company's financial statements and reports for the 2018 accounting period in addition to performing other activities within the scope of regulations set forth as per the law. We submit this choice for the approval of the General Assembly.

2018 Guidance

Turkish automotive industry sales stabilized at 1 million unit level between 2015 and 2017. It is projected to remain at similar levels in 2018. We aim to achieve export figures slightly above 2017 levels as a result of the moderate growth expectation of the European light commercial vehicles, which is our main export market, and strong market share performance of the Ford brand. In line with our profitable growth target, we will maintain our cost reduction measures, and manage our activities in a more efficient and effective manner. We will also remain steadfast in giving top priority to risk management and preserving our strong financial structure.

While we progress towards our target “To become Turkey's most valuable and most preferred brand”, as the pioneering power of the Turkish automotive industry, export leader of the country, and Turkey's second largest industrial company, we will always continue to create higher value for our country and our esteemed investors.

Dear investors, business partners and employees,

We would like to extend our sincere thanks to our founders who have made vital contributions to the success of Ford Otosan, to our business partners, to all our previous and new employees, to the Turkish Metal Union, to our suppliers, to our dealers, to all our customers, and to you our valuable shareholders.

With sincere regards,

Ford Otomotiv Sanayi A.Ş.
Board of Directors

2018 GUIDANCE

	2017 A	2018 F
TURKISH INDUSTRY VOLUME	977 k	950 k - 1,000 m
FORD OTOSAN RETAIL SALES VOLUME	116 k	110 - 120 k
EXPORTS	297 k	295 - 305 k
WHOLESALE VOLUME	413 k	405 - 425 k
PRODUCTION VOLUME	373 k	370 - 380 k
CAPEX (Fixed Assets)	175 mn €	210 - 230 mn €

DIVIDEND POLICY

Our Company conducts a dividend policy within the framework of the provisions of the Turkish Commercial Code, Capital Markets Legislation, Tax Regulations and other relevant legislation as well as the provisions of the Articles of Association governing the distribution of profits. In the distribution of profit, a consistent and balanced policy is followed between shareholders and Company requirements in line with Corporate Governance Principles. In principle, subject to being covered by the resources existing in legal records, and subject to the decision of the Ordinary or Extraordinary General Assembly Meeting, when required, excluding periods of large investment or severe economic downturn, by taking into consideration other legislation, financial and market conditions, long-term strategy, investment and financing policies, profitability and cash position, a minimum 50% of the distributable profit for the period calculated within the framework of the Capital Markets Legislation is distributed in the form of cash and/or bonus shares. The dividend distribution date is determined by the General Assembly and targeted to be within one month after the General or Extraordinary Assembly Meeting date. The General Assembly, or if authorized the Board of Directors, may decide to pay dividends in installments within the framework of Capital Markets Legislation. According to the Company's Articles of Association, the Board of Directors can distribute an advance.

2017 DIVIDEND DISTRIBUTION PROPOSAL

As per the attached Profit Distribution Proposal which prepared in accordance with the CMB's regulations, Article No.19 of the Articles of Incorporation of the Company and the investment and financing policies as stated in the Dividend Distribution Policy approved by the General Assembly held on March 25, 2014 and considering the cash flow position, it's resolved to present; (i) not to allocate 5 % first rank legal reserve required by Article 519 of the Turkish Commercial Code for 2017 since the amount of first rank legal reserve has already reached 20 % of share capital in tax books as of 31.12.2017; (ii) to cover TL 78.252.930 second rank legal reserve from net income of TL 1.489.982.998 which is in the financial statements prepared within the framework of CMB's regulations and pay 228,0000 % gross (193,8000 % net) in proportion and TL 800.074.800 total gross dividend in cash assuming each share with a nominal value of 1-TL pays Kr 228,0000 gross (Kr. 193,8000 net in accordance with the Dividend Distribution Proposal) and allocate the remaining TL 611.655.268 as extraordinary reserves; (iii) to cover TL 78.252.930 second rank legal reserve from 2017 net income of TL 1.312.155.198 which is formed in accordance with Tax Procedure Law records, pay TL 800.074.800 total gross cash dividend and allocate the remaining TL 433.827.468 as extraordinary reserves; (iv) and to determine dividend distribution date as April 02, 2018; to the General Assembly's approval.

Ford Otomotiv Sanayi A.Ş. 2017 Dividend Distribution Proposal Table (TL)

1. Paid-in / Issued Capital	350.910.000
2. Total Legal Reserves (According to Tax Book)	254.403.733

If there is dividend privilege in the Articles of Association, information regarding this privilege: No -

	According to CMB	According to Tax Book
3. Current Period Profit	1.481.161.488	1.331.666.319
4. Taxes Payable (-)	8.821.510	(19.511.121)
5. Net Current Period Profit	1.489.982.998	1.312.155.198
6. Losses in Previous Years (-)	0	0
7. Primary Legal Reserve (-)	0	0
8. NET DISTRIBUTABLE CURRENT PERIOD PROFIT	1.489.982.998	1.312.155.198
9. Donations Made during the Year (+)	27.373.844	
10. Donation-Added Net Distributable Current Period Profit on which First Dividend Is Calculated	1.517.356.842	
11. First Dividend to Shareholders	758.678.421	
-Cash	758.678.421	
-Stock	0	
-Total	758.678.421	
12. Dividend Distributed to Owners of Privileged Shares	0	
13. Other Dividend Distributed	0	
-To the Employees	0	
-To the Members of the Board of Directors,	0	
-To None Shareholders	0	
14. Dividend to Owners of Redeemed Shares	0	
15. Second Dividend to Shareholders	41.396.379	
16. Secondary Legal Reserves	78.252.930	
17. Statutory Reserves	0	
18. Special Reserves	0	
19. EXTRAORDINARY RESERVES	611.655.268	
20. Other Distributable Resources	0	
-Retained Earnings	0	0
-Extraordinary Reserves	0	0

-Other distributable reserves in accordance with the Law and the Articles of Association	0	0
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Ford Otomotiv Sanayi A.Ş. 2017 Dividend Rates Table

	SHARE GROUP	DIVIDEND AMOUNT		TOTAL DIVIDEND AMOUNT (TL) / NET DISTRIBUTABLE CURRENT PERIOD PROFIT (%)	DIVIDEND TO BE PAID FOR SHARE WITH PAR VALUE OF 1 TL	
		CASH (TL)	STOCK (TL)		AMOUNT (TL)	RATE (%)
NET	Group A	136.006.659	0	9.13	1,9540	195.40
	Group B	313.065.072	0	21.01	2,2800	228.00
	Group C	279.066.257	0	18.73	1,9380	193.80
	TOTAL	728.137.988	0	48.87		

1) There is no privileged share group within the profit.
2) Withholding tax at a rate of 0% is applied for a dividend amounting to TL 7,430,981 belonging to the Koç Holding Retirement and Assistance Fund Foundation and Vehbi Koç Foundation among Group A shares; and a withholding tax at a rate of 15% is applied to the shares corresponding to dividend worth TL 151,265,503 assuming that all these shares are held by real persons.
3) As the entirety of Group B shares belongs to our fully responsible legal entity shareholders, Koç Holding A.Ş and Temel Ticaret A.Ş, a withholding tax at a rate of 0% is applied while the net dividend is calculated for this group.
4) As the entire Group C shares belong to our limited taxpayer-shareholder, Ford Motor Company, a withholding tax at a rate of 15% is applied while the net dividend is calculated for this group.

REMUNERATION POLICY FOR THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

This policy document describes the remuneration system and applications of the Board of Directors and the Senior Executives who have administrative responsibilities, pursuant to the Capital Markets Board (CMB) regulations.

The fixed salaries to be valid for all the Members of the Board of Directors are determined every year at the Ordinary General Assembly Meeting of the Company.

Executive Board Members are compensated as per the Remuneration Policy for Senior Executives, detailed below. Performance - based compensation or stock option plans cannot be used to determine the remuneration of independent Board Members. Members of the Board of Directors are paid according to the principle of per diem deduction taking into consideration their term of service.

Costs borne by the members of the Board of Directors due to their contributions to the company (transportation, telephone, insurance, etc. expenditures) can be met by the Company.

Remuneration of Senior Executives consists of two components: Base salary and performance based bonus. Base salaries of Senior Executives are determined in accordance with international standards and legal responsibilities, taking into consideration macroeconomic data within the market, the remuneration policies in the market, size and long-term goals of the company, and positions and efficiency levels of the individuals.

Performance - Based Bonus of Senior Executives are calculated according to company performance and individual performance. Relevant criteria is summarized below:

Bonus Base

Bonus bases are updated at the beginning of each year and vary according to the workload of the executives.

Company Performance

Company performance is obtained through the calculation at period ends of the financial and operational goals (market share, exports, foreign activities, efficiency, etc.) given to the company at the beginning of each year. When determining company goals, sustainability and improvements with respect to the previous years are taken into consideration as important principles.

Individual Performance

For the determination of individual performance, employee, customer, process, technology and long-term strategy-related goals are taken into consideration, together with the company goals. For the calculation of individual performance, the long-term sustainability improvement principle is observed also, outside the financial spheres, as is the case for company performance. The total remuneration amount determined according to these principles, and paid to the Senior Executives and the members of the Board of Directors during the year, is submitted for the information of the partners in the subsequent General Assembly Meeting, in accordance with the regulations.

2018 BOARD OF DIRECTORS MEMBER CANDIDATES

Rahmi M. Koç *

Ali Y. Koç *

Steven Armstrong *

William R. Periam *

Roelant de Waard *

İ. Cenk Çimen *

O. Turgay Durak *

Birgit Annelies Behrendt

Joseph Bakaj *

Ali İhsan İlkbahar *

Fatma Füsün Akkal Bozok
(Independent Member Candidate)

L. Martin Meany *
(Independent Member Candidate)

Haydar Yenigün *

Lisa K. King *

BIRGIT ANNELIES BEHRENDT

· Board of Directors - Member Candidate

Ms. Birgit Behrendt holds a business degree from the Administration and Business Academy (Verwaltungs- und Wirtschaftsakademie) in Cologne, Germany. She joined Ford in Cologne in 1978 as a commercial apprentice. From April 1, 2008 through July 2010, Ms. Behrendt was vice president, Purchasing, Ford of Europe, and executive director, Global Programs. In 2010, she had moved to Ford's headquarter in Dearborn, Michigan to assume the role of executive director, Global Programs and the Americas Purchasing. In this role, Ms. Behrendt oversaw all Purchasing activities for Ford's North and South America operations while working closely with Product Development on all global vehicle and powertrain programs. She was elected a corporate officer and named vice president, Global Programs and Purchasing Operations in Aug. 2013. Ms. Behrendt is vice president, Joint Ventures, Alliances and Commercial Affairs, effective Jan. 1, 2018. She was appointed as a Member of the Board of Directors of Ford Otosan in March 2018.

FATMA FÜSUN AKKAL BOZOK

· Board of Directors - Independent Member Candidate

Mrs. Bozok earned a Bachelor's Degree in Business Administration from Istanbul University. She also holds an MBA from Boğaziçi University and a PhD in Business Administration from İstanbul University. She started her career as an Auditor at Arthur Andersen in 1980. In 1983, she joined Koç Holding as an auditor at the Internal Audit Department. After serving as an Audit Coordinator between 1992 and 2003, she was appointed Finance Director in 2003. Mrs. Bozok also worked as a Project Manager between 1995 and 1996 under Koç Group's MIS Project. Mrs. Bozok continued her career at Koç University between 2006 and 2008 as a member at the Faculty of Computer Systems Supervision and International Finance. Since 2008, she has been a member of the Sabancı University International Finance and Auditing Faculty. Mrs. Bozok was appointed a Board Member at Yapı Kredi Bankası in 2004. She also has been serving as a Board Member at Akış GYO and Bizim Tiptan since 2017. She was appointed a member of Board of Directors at Ford Otosan on January 1, 2018. Bozok also holds CMB Credit Rating, Corporate Governance, and Advanced Derivative Licenses.

* Resumes are available on page 36 and 40.



Management and Assessments

CHAIRMAN’S MESSAGE



Our Esteemed Shareholders,
Business Partners and Employees,

As Ford Otosan we have left behind an important year full of success stories and new records.

The World in 2017

We left behind a positive year in which expansionary monetary policies and high liquidity supported the global economy. Strong growth figures have been achieved in developed countries, almost completely wiping out the remaining signs of the 2008 financial crisis. Despite political uncertainties, consumer confidence in Europe has reached its highest level since 2001. Although inflation in many developed countries has not reached the targeted levels yet, the central banks began to stabilize the current expansionary monetary policies. The US Federal Reserve continued its plan to increase interest rates and downsize its balance sheet throughout the year. The European Central Bank announced that it will scale down liquidity by reducing the bond purchases from 2018 onward.

In Turkey, the total growth was above expectations, with public investments and increased consumption encouraged by incentives. The Credit Guarantee Fund contributed to economic growth by supporting the activities of small and medium sized enterprises. The economic recovery in Europe, our main export market, and Russia had a positive impact on Turkey’s exports.

In an environment of high liquidity and low interest rates, global risk appetite was also very high. While corporate profits soared, many stock markets reached record highs.

The 20th Anniversary of the Koç-Ford Equal Partnership was Marked By Our Success

With our flexible business model and proactive management, 2017 became one of the most successful years in our history. This year was also the 20th year of the joint venture agreement we signed in 1997. Portraying our achievements in this period with numbers:

- Our total production, which was 43,000 units in 1997, reached 373,000 units in 2017.
- We reached 297,000 export units, a journey which started with only 667 vehicles. The export revenues, which were US\$16 million, increased exponentially to US\$4.9 billion. We are proud to be the export champion of our country for the last three years.
- In 2009, we became the first company to export vehicles to the US with Transit Connect.
- In 2013, we became the first Turkish automotive company to export a technology license.
- Out total revenues increased eight-fold to reach US\$6.9 billion.
- The number of employees tripled. Today, we are the largest employer in Turkish automotive with 11,501 employees.
- Our market capitalization increased from \$1.1 billion to \$5.6 billion.

We are proud of the value we create for our country and our Group.

We Are Investing in a Capacity Increase Due to High Export Demand for our Products

Ford Otosan is the largest commercial vehicle production center in Turkey as well as in Europe. As a result of the high export demand for our Custom model launched in 2013, we took a decision to increase our production capacity from 415,000 units to 455,000 units with an investment of US\$52 million.

Ford Trucks Continued International Growth

In 2011, we obtained the right to distribute and assign dealerships of Ford Trucks vehicles in 60 countries with the Global Truck Agreement. After the Middle East, Africa, Russia

and Turkic Republics, we accelerated our growth by launching dealerships in various countries in Europe. In the upcoming period we will strengthen our dealer and service network in the region. In this framework, we launched a spare parts storage facility in Poland in 2017.

The European market has an important place in Ford Trucks’ global growth plans. Our goal is to export one third of our truck production and to make 50% of our exports to European markets. As of 2017, we completed our organization in 28 countries and we aim to export to over 50 countries by 2020.

JMC Trucks, for Which We Hold the Intellectual Property Rights, Were Awarded China Truck of the Year 2018

We started truck manufacturing in 1982. Today we continue to produce trucks, while exporting our vehicles as well as our engineering and technology. Four years ago, we signed license agreements with Jiangling Motor Corporation in China, the biggest truck market in the world, for the production of Ecotorq engines that we developed with 100% domestic engineering. This agreement is a milestone in technology and engineering exports.

We are very proud of our JMC trucks with Ecotorq engines launched in China, the world’s largest truck market at the end of 2017, where they were awarded “China Truck of the Year 2018.”

Record Stock Performance and Dividend Payment

Ford Otosan shares rose 108% in TL terms in 2017 when BIST-100 Index increased 48%. While foreign share in free float increased from 67% to 80%, Ford Otosan was the 14th most valuable company in Borsa Istanbul with a market capitalization of \$5.6 billion.

Ford Otosan, one of the most committed dividend-paying companies of Borsa Istanbul, distributed 790 million TL in dividends in 2017, representing 19% increase year-over-year. In the upcoming years, dividends will continue to be our priority, in line with our company strategy focused on creating shareholder value.

We Secure our Place in the Automotive Industry on a Rapidly Changing Agenda

Along with the sharing economy in the automotive industry, there is a strong trend of change pioneered by self-driving and electric vehicles. All major brands have announced significant investment plans in this respect. Prototype vehicles have begun to emerge. Our partner Ford is also working on smart mobility, electric and self-driving vehicles, taking quick and solid steps. Ford announced their plan to develop 40 hybrid and electric

vehicles by 2022 with an investment of \$11 billion. We are happy that Ford Custom, manufactured in Turkey, will also be launching a hybrid version in 2018.

We believe that the most important factor to achieve our vision of becoming Turkey’s most valuable and most preferred industrial company is digital transformation. With this in mind, we started a very comprehensive digital transformation program in 2015. The program, covering a wide range of areas from customer journey to product, supply chain, production, employees and product development, continues successfully with 17 major projects.

Ford Otosan offers in-house entrepreneurs the opportunity to realize their innovative ideas. Four projects with high customer demand out of the 40 different mobility concepts tested by the innovation program are on their way to be commercialized.

With all these efforts, we aim to achieve a faster, more flexible, more productive, more competitive, more profitable and higher value-creating company structure in the long term.

2018 Outlook

We planned 2018 with cautious optimism. Growth in international markets is expected to continue faster than in 2017. It will be a year when central banks, especially the US Fed, will continue to normalize high liquidity and low interest rates. We will continue to closely monitor the increase in interest rates abroad as it is a factor that will increase the borrowing costs of Turkish companies and determine the amount of funds allocated to capital markets.

As in the past, we will continue to work, produce, invest, and create value added for our country under any and all circumstances, with a mindset of “I exist as long as my country exists and prospers.”

I would like to take the opportunity to express my deepest gratitude to our esteemed colleagues from Ford Otosan, our valuable suppliers, our loyal customers, and you, our valued shareholders.

Sincerely yours,

Ali Y. Koç
Chairman

CEO’S MESSAGE



Dear Shareholders and Stakeholders,

Ford Otosan, among the flagship companies in Turkish Industry, had a record year in 2017 across all key performance indicators ranging from exports to production, employment, dividends and stock performance.

Sales in the Domestic Automotive Industry Reached 1 Million Units

Sales in the domestic automotive industry, which reached 1 million units in 2015 and 2016 finished the year at 977,000 unit sales. We are pleased to see that the steady level of the industry was maintained in 2017 despite increasing vehicle prices due to exchange rate and special consumption tax impact.

At Ford Otosan, we maintained our profitable growth strategy in commercial vehicles and profitability focus in passenger cars throughout the year. We strengthened our leading position by raising our commercial vehicle sales to 76,397 units and our market share to 30.3%. Ford Courier, produced only at our Yeniköy Plant for the global markets was once again the best-selling light commercial vehicle of the year in Turkey.

We Are Proud to be Turkey’s And Europe’s “Most Preferred Brand In Commercial Vehicles”

While the European commercial vehicle industry benefited from broader economic growth and rose 3.6%, Ford brand maintained its leadership position with 13.5% market share. With these two dynamics, which are the main driving powers of our exports, we increased our exports by 16% and reached 297,000 units. We achieved export revenues of \$4.9 billion and maintained our position as Turkey’s export champion. We exported vehicles and spare parts to 89 countries in five continents.

We implemented the first phase of our capacity increase investment in the last quarter of 2017. To this end, we have reached 170,000 units Custom production capacity and a total production capacity of 440,000 units in our three facilities. The installation of 36 new robots in the Custom line at the Body Shop and reprogramming of the 34 existing robots in the Paint Shop were carried out by Ford Otosan employees. These important projects completed by our employees without external support are invaluable as an indicator of the level of our technical expertise. Our total production increased by 12% and reached the highest level in our history with 373,000 units. While we increased our capacity, we also achieved 88% capacity utilization in three shifts.

Our total sales increased by 11% to 413,000 units, the highest level in our history. In 2017, 91% of our sales consisted of locally manufactured vehicles. Our revenues increased by 39% to 25 billion TL. Our net profit increased by 56% to 1,490 million TL.

The Number of Women Employees Rose by 26%

As Turkey’s leader in automotive employment, Ford Otosan recognizes that our human resources is the guarantee of our success. This year, we increased our employment by 12% year-on-year, reaching the highest employment in our history with 11,501 employees. In our selection and placement process, we aim to choose 50% women. In 2017, the number of women employees increased by 26%. The share of women reached 26% in the office, 12% in the field and 15% in total.

“Honey Bees are Becoming Engineers”

Gender equality has always been among our priorities. We have completed the first phase of “Honey Bees are Becoming Engineers,” one of our most successful social responsibility projects, which was initiated to encourage female students to become engineers. The project has won a total of nine awards since its inception. We are happy to reach out to 16,370 students, of which 9,873 are girls, as part of the project which we started with the aim of reaching 8,100 female students in 81 cities.

We Focus On R&D and Innovation to Become Turkey’s Most Valuable Industrial Company

As the company with the largest R&D organization in Turkish automotive, we contribute to the economy of the country with our products as well as engineering exports. We continue to take on more engineering responsibilities, gaining the recognition of Ford’s management with our engineering capability. We are working to be part of the transformation of today’s automotive industry to ensure that our competitive power achieved by efficient, flexible and high-quality production as well as R&D continues to grow. We need innovative perspectives within this framework. We will reach our vision to become “Turkey’s most valuable and most preferred industrial company” by developing new business areas through innovative ideas and digitalization efforts.

We have identified our priority areas in Innovation as Digital Transformation, Smart Production, Customer Experience, Interactive Vehicles and Self-Driving Trucks. In this year’s Innovation Program, we carried out work on “Innovative Mobility Solutions for a More Livable Megacity” and “Innovative Smart Logistics Business Models.”

This year, we advanced the digital transformation we started in 2016. We set out with a new vision to become the most valuable company for our customers, employees and business partners. We evaluated all of our processes and initiated a digital transformation in each unit as part of a five-year plan. Taking into account the manufacturing needs, we smartly integrate information technology processes into all our facilities without halting production. We are conducting a long-term effort to ensure that data is protected, all units communicate with one another, collected data is read correctly to make the best decisions. You can review our Digitization and Innovation efforts in detail later in this report.

We Are the Most Valuable Automotive Company on BIST

With a market capitalization of US\$5.6 billion, Ford Otosan has finished the year as the most valuable automotive company on BIST. As a result of its success in environmental, social and governance areas, Ford became one of the 26 Turkish companies included in the “FTSE4Good Emerging Index” which is one of the most important indexes used by investors who want to invest responsibly.

We Have Strong Targets for 2018

We aim to break new records in exports in 2018. In the first half of the year, we will launch the updated Custom and Courier models. We will complete the second and final phase of our US\$52 million investment to increase capacity in August, when our plant is on summer break. Towards the end of the year, we will launch our new truck in the heavy commercial vehicle segment. With our leadership in Turkey’s exports and employment in the automotive industry, we will continue to increase our contributions to the economy.

Our path to achieve our vision is clear, our goals are set and we are more enthusiastic than ever. We have the ability to plan, and most importantly, we have the power to implement our plans. We will continue our work in all areas with our vision to become “Turkey’s most valuable and most preferred industrial company.” We believe that 2018 will be a year when we will create more value for all of our stakeholders.

Best Regards,

Haydar Yenigün
General Manager

BOARD OF DIRECTORS



RAHMI M. KOÇ

- Honorary Chairman
- Honorary Chairman of Koç Holding A.Ş.

Mr. Rahmi M. Koç is a graduate of the Industrial Management and Business Administration Faculty of Johns Hopkins University (USA). Rahmi M. Koç spent his entire working life in The Koç Group –started his active career at Otokoç Ankara in 1958 and handed over his Chairman of the Management Committee position to late Mustafa V. Koç in 2003. Since then, he has been serving as the Honorary Chairman at Koç Holding. Koç, who has been a Member of the Ford Otosan Board of Directors since 1961 and Chairman of the Board since 1972, is currently Honorary Chairman of the Ford Otosan Board of Directors since 10 December 2012. He was President of the International Chamber of Commerce between 1995 and 1996, and presently acts as Vice Chairman of the Board of Trustees of the Vehbi Koç Foundation, Chairman of the Board of Trustees at Koç University, Founder and Chairman of Rahmi M. Koç Museum and Cultural Foundation, Chairman of Vehbi Koç Foundation American Hospital, Founding Member and Honorary Chairman of TURMEPA (Turkish Marine and Environment Protection Association), Honorary President of the High Advisory Council of TÜSİAD (Turkish Industry and Business Association), Member of the Advisory Board of TİSK (Turkish Confederation of Employers Associations), Honorary Member of the Foreign Policy Association, Honorary Member of the New York Metropolitan Art Museum's Board of Trustees and Founding President of the Global Relations Forum. Mr. Rahmi M. Koç received Honorary PhDs from; Johns Hopkins University, Eskişehir Anadolu University, İzmir Ege University, Ankara Bilkent University, Constanta Ovidius University and Aydın Adnan Menderes University. Rahmi M. Koç was honored with the "State Medal of Distinguished Service" by the President of Turkey, "Grosses Verdienst Kreuz" (Great Cross of Merit of Germany) by the German government, "Order of Merit of the Italian Republic" by Italy. The Presidency of the Republic of Austria honored him with the Order of Merit and Mr. Rahmi M. Koç was appointed to the rank of (Honorary) Commander of the Most Excellent Order of the British Empire (CBE) and Mr. Rahmi M. Koç was honoured with the most prestigious order of French government "Officier dans L'Ordre National de la Legion D'Honneur".



ALİ Y. KOÇ

- Chairman
- Vice Chairman - Koç Holding A.Ş. Board of Directors

Mr. Ali Y. Koç capped his undergraduate studies at the Management Faculty of Rice University (USA) with an MBA from Harvard Business School. He started his career at American Express Bank as a Management Trainee and continued as an Investment Analyst at Morgan Stanley Investment Bank. Mr. Ali Y. Koç joined Koç Holding in 1997 and held senior-level positions until 2010 including new business development and information technologies. He was the President of Corporate Communications and IT Group. He has been serving as a Board Member at Koç Holding since 2008 and was elected as Vice Chairman in February 2016. Ali Y. Koç has been serving on the Board of Directors at Ford Otosan since 1997 and was elected as Chairman on 10 December 2012. Currently, Ali Y. Koç is the Chairman of Ark İnşaat, Bilkom, Digital Panorama, Koç Information and Defence Technologies, Koç Financial Services, Koç Sistem, Koçtaş, Otokar, Otokoç, Setur and Yapı Kredi Bank. Ali Y. Koç also contributes to the country's social and economic development at URAK – National Competition Research Association as President, Endeavor Association and DEİK, Foreign Economic Relations Board as Board Member. He is also the Vice Chairman of TÜSİAD – Turkish Industry and Business Association and member of the Global Advisory Council of Bank of America, Harvard University and CFR.



STEVEN ARMSTRONG

- Vice Chairman
- Ford of Europe Group Vice President and President, Europe, Middle East & Africa
- Member - Ford Sollers Board of Directors

Born in 1964, Mr. Armstrong has a bachelor's degree in business administration from the University of East London. During his more than 25 years in the auto industry, he has held a variety of senior management and purchasing positions for Ford, Jaguar Land Rover, Volvo Cars, and served as chief operating officer of Getrag-Ford Transmissions. He has been recognized with many awards, including being named a Eurostar by Automotive News in 2005 for improving supplier relations for Volvo. Steven Armstrong was appointed group vice president and president of Europe, Middle East and Africa, Ford Motor Company, June 1, 2017. Prior to this position, he served as vice president and chief operating officer, Ford of Europe, from September 1, 2016. Mr. Armstrong appointed a Ford Otosan Board member and vice chairman of the Board of Directors, and a Member of the Remuneration Committee, effective September 8, 2017.



WILLIAM R. PERIAM

- Member
- CFO - Ford of Europe
- Member - Corporate Governance Committee
- Member - Early Determination and Management of Risk Committee

Mr. Periam earned a bachelor's degree in Management Sciences from Manchester University (UK). He joined Ford as an Investment Analyst in the United Kingdom in 1989. He has held multiple senior management positions at Ford in the Finance, Credit, Business Development and Business Strategy departments in the USA, Germany, Brazil and China. He was appointed Deputy General Manager and a Member of the Board of Directors of Ford Otosan from September 2013 until August 2016. Mr. Periam was appointed as the Chief Financial Officer of Ford of Europe as of August 1, 2016 and remains a member of the Board Directors at Ford Otosan. He also serves as Member of the Corporate Governance and Early Determination and Management of Risk Committees since August 1, 2016.



ROELANT DE WAARD

- Member
- Vice President, Marketing, Sales and Service - Ford of Europe

Mr. de Waard holds a Master's degree in Economics & Business from Erasmus University Rotterdam. He joined Ford Netherlands in 1990. He was appointed as the Sales Manager in 1993 and Marketing Manager in 1995. Roelant de Waard moved to Dearborn in 1996 where he became Marketing Strategy Manager and, in 1998, Marketing Plans Manager at the Large Vehicle Centre. He returned to Europe in 1999 as the Director of Operations for Ford Netherlands and served as Managing Director Ford Netherlands starting from April 2000. In January 2001, he was appointed as Director, Ford of Europe Retail Management, a position he held until March 2002. He was the Vice President FCSD – Europe (Ford Customer Service Division), from April 2002. From February 2006 until the end of 2008, de Waard was Chairman and Managing Director of Ford of Britain. From January 2009, he was Vice President of Sales, Ford of Europe, responsible for 49 markets, including the UK, France, Italy, Spain and Russia. Roelant de Waard is Vice President of Marketing, Sales and Service, Ford of Europe, effective January 1, 2011. Mr. de Waard was appointed as Ford Otosan Board Member on December 9, 2015.



İ. CENK ÇİMEN

- Member
- Automotive Group President - Koç Holding A.Ş.
- Member - Remuneration Committee
- Member - Early Determination and Management of Risk Committee

Mr. Çimen has an Industrial Engineering degree from Istanbul Technical University. He completed Executive Development Programs at Stanford University (USA) and University of California Los Angeles (USA). He joined Koç Group in 1991 as a Management Trainee at Nasoto. He assumed Sales Coordinator, Regional Manager and Import Manager responsibilities at Otosan Pazarlama from 1993 to 1996. He served as Fleet Sales Manager at Ford Otosan from 1996 to 1998 and became the General Manager of Otokoç Ankara in 1998. In 2001, he was appointed as the General Manager of the companies merged under Otokoç. In 2005 his responsibility was extended to include the General Manager role for Birmot A.Ş., also assuming responsibility for Avis car rental business. He has been serving as the Automotive Group President at Koç Holding since June 2009. He was elected as a member of Ford Otosan Board of Directors on March 25, 2014. He has been serving as the member of the Early Determination and Management of Risk Committee since April 21, 2014 and a member of Remuneration Committee since March 27, 2015.



O. TURGAY DURAK

- Member

Mr. Durak is a graduate of the Mechanical Engineering Department of Northwestern University (USA) where he also completed his Master's degree in mechanical engineering. His career commenced at Ford Otosan in 1976 as Applications Engineer. In the same year, he assumed the position of Product Development and Design Engineer, and by 1979 he became the İnönü Engine Plant Project Leader. In 1982 and 1984, he was assigned as Project Coordination Manager and Project Coordination Department Head, respectively. In 1986 and 1987, he was designated as Assistant General Manager of Marketing and Assistant General Manager of Purchasing, respectively. He became the Deputy General Manager of Ford Otosan in 2000. He started to serve as the General Manager in 2002 when he also joined the Board of Directors. From 2007 to 2009, he was the Automotive Group President at Koç Holding. He served as Deputy CEO of Koç Holding from May 2009 until April 2010 and as CEO and Member of the Board of Directors of Koç Holding from April 2010 to March 31, 2015. Mr. Durak retired at age 63. He was Chairman of the Board of the Automotive Manufacturers Association for 6 years between 2004 and 2010. He served as a member of the Istanbul Chamber of Industry (ISO) from January 2008 to May 2010 and was a board member between February 2009 and May 2010. Mr. Durak also was a National Board Member of International Chamber Of Commerce from February 2014 to March 2015.



LINDA ANN CASH

- Member
- Vice President of Manufacturing - Ford of Europe

Ms. Cash holds a Bachelor's degree in Industrial Engineering from Georgia Institute of Technology (USA) and a Master's in business administration from the University of Phoenix (USA). Ms. Cash joined Ford in 1984 and has spent her entire career with the company in manufacturing. With extensive experience in lean manufacturing at Ford, Cash played key roles in North America serving as plant manager of the Michigan Truck assembly facility, chief engineer for final assembly for Vehicle Operations in Manufacturing Engineering, and director of Manufacturing Engineering. Prior to the European assignments, she has held a series of leadership position within Ford's manufacturing operations including executive director of Global Vehicle Operations in Manufacturing Engineering and executive director of Global Manufacturing Business Office. She was the director of Vehicle Operations for Ford of Europe, a position she has held since March 2015. Linda Cash is the Vice President of Manufacturing, Ford of Europe since January 1, 2016. At the same time, she also is a Ford Motor Company senior officer representing the company. She was appointed as Ford Otosan Board member as of January 8, 2016.



JOSEPH BAKAJ

- Member
- Vice President, Product Development - Ford of Europe

Mr. Bakaj holds a Mechanical Engineering degree from the City University London. His past experience includes powertrain engineering and extensive noise, vibration and harshness (NVH) and chassis work. Before rejoining Ford of Europe in 2005, Bakaj was senior managing executive officer in charge of design, product planning, research and development for Mazda Motor Corporation and responsible for the worldwide development of all Mazda products. Bakaj was appointed as Vice President Product Development Ford of Europe in July 2005 and elected Corporate Officer in August 2005. In January 2007, his responsibilities were expanded to include Global Programs. Between January 2011 and November 2013, Bakaj served as Vice President, Powertrain Engineering, responsible for overseeing all engine and transmission engineering worldwide. He was appointed as Vice President Product Development for Ford of Europe in November 2013 and a Member of the Board of Directors of Ford Otosan in September 2017.



ALİ İHSAN İLKBAHAR

- Member
- Member - Corporate Governance Committee

Mr. İlkbahar graduated from Istanbul Technical University Mechanical Engineering (MSc.) and started working as a Manufacturing Engineer at Otosan in 1964. He spent his entire professional life at Ford Otosan where he served as the General Manager during the last 14 years and retired at the beginning of 2000. He was also the Koç Holding Ford Group President between 1996-2000. He was involved in the construction project of the Otosan Engine Plant in Eskişehir İnönü in 1980. He led the Gölcük Plant project and Connect vehicle project between 1997 and 2000. He was the Chairman of Board of Directors at Automotive Manufacturers Association for 15 years, from 1989 until February 2004. He served as a member of Ford Otosan Board of Directors from 1991 to 2012 and he was elected again on 25 March 2014. He has also been serving as the member of the Corporate Governance Committee since April 21, 2014.



MEHMET BARMANBEK

- Independent Member
- Chairman - Early Determination and Management of Risk Committee
- Chairman - Remuneration Committee
- Member - Audit Committee

Mr. Barmanbek graduated from the Finance and Economics Department of the Political Science Faculty of Ankara University in 1963. From December 1963 to January 1977, he was employed at the Ministry of Finance as Assistant Tax Inspector, Tax Inspector and Senior Tax Inspector. In February 1977, he started working at Otosan A.Ş. (Currently Ford Otomotiv Sanayi A.Ş.) as the Finance and Accounting Manager. He became the Assistant General Manager (Administrative -Financial Affairs) in 1986 and Deputy General Manager in 2000. On June 30, 2002, he retired from Ford Otosan, ending his professional career. From February 2006 to February 2010, he provided honorary services as a member of the Board of Directors and treasurer in Koç Executives Association (KOÇYÖNDER) for 4 years and he served as the legal auditor of KOÇYÖNDER from 2010 to 2013. Mr. Barmanbek was appointed to Arçelik and Ford Otosan Boards of Directors as an independent member in 2012. Mr. Barmanbek has been serving on the Board of Directors of Ford Otosan as an Audit Committee member since March 2012. At the same time, he is currently Chairman of the Early Determination and Management of Risk, and Remunerations Committees of Ford Otosan established on July 10, 2012.



L. MARTIN MEANY

- Independent Board Member
- Audit Committee Member
- Corporate Governance Committee Member

Mr. Meany started his career as a Graduate Trainee in Finance, Ford of Europe, in November 1973 and worked in a number of Plant and Central Staffs Financial Analysis positions. He was promoted to Management level in April 1978, as a Product and Pricing Specialist followed by assignments in Export Operations, Business Development and Ford of Europe Capacity Planning and Special Studies. He was appointed Controller, Ford of Europe Commercial Vehicle Product Development in April 1988 working on an all-new Transit Platform, a Fiesta-based Light Commercial vehicle and an SUV JV with Nissan. Mr. Meany worked as Manager, Eastern European Business Strategy from May 1991 to June 1995, working on market-entry strategies and the establishment of operations in the former Soviet Bloc. This included leading negotiations with the Polish Government for a KD Manufacturing Facility. In July 1995, he was appointed Manager, Business Strategy for New Markets, a global Ford activity led by the Dearborn-based Company Vice-Chairman. He led a cross-functional team developing manufacturing and product plans for Eastern Europe including Government negotiations for establishment of a manufacturing facility in Russia. He was appointed CFO/Board Member Ford Russia in August 1999. In April 2003, he was appointed Operations Controller, Genk, Belgium Manufacturing Operations during major restructuring actions completed in 2004 including transfer of Transit manufacturing operations to Turkey. He was appointed Director, Business Development, Ford of Europe in July 2006 joining the Ford team negotiating the purchase of former Daewoo manufacturing facilities from the Romanian Government and minority shareholders. Mr. Meany was appointed CFO Ford Romania in April 2008. In addition to working with the Ford team on major plant restructuring actions, responsibilities included working with the Romanian Government to spin-off significant Group Assets excluded from the Share Purchase Agreement. He also served as a Board Member and Deputy Chairman of Ford Romania from 2008 to 2010. Mr. Meany retired in December 2010. He was elected as an independent Board Member of the Ford Otosan Board of Directors on March 29 2016. He has been serving as Chairman of the Corporate Governance Committee since March 31, 2016 and as a member of the Audit Committee since April 6, 2016. He was appointed as the Chairman of the Corporate Governance Committee on 31 March 2017.



HAYDAR YENİGÜN

- Member
- General Manager

Mr. Yenigün graduated from Yıldız Technical University in Mechanical Engineering and joined Ford Otosan in 1987. He found opportunity to serve in many different departments in production and worked as Project engineer between 1992 and 1996 after completing his military duty. He continued serving in different positions during the establishment of the Kocaeli Plant after the shares of Ford Motor Company and Otosan A.S. were equalized in 1997. He became Project Leader in 1998. He participated in the production process of commercial vehicles design and production processes to be built in the new plant. He worked as Body Construction Area Manager in the Kocaeli Plant between 1999 and 2007, and served as Kocaeli Plant Manager and Assistant General Manager from 2007 to 2012. He was appointed as Ford Otosan General Manager and became a Member of the Board of Directors on 15 February 2012. He is currently a member of the Automotive Manufacturers Association (OSD) Board of Directors, member of Kocaeli Chamber of Industry Board of Directors, member of Turkish Industry and Business Association, Vice Chairman of the Turkish-American Business Council Executive Committee and a member of the International Investors Association (YASED).

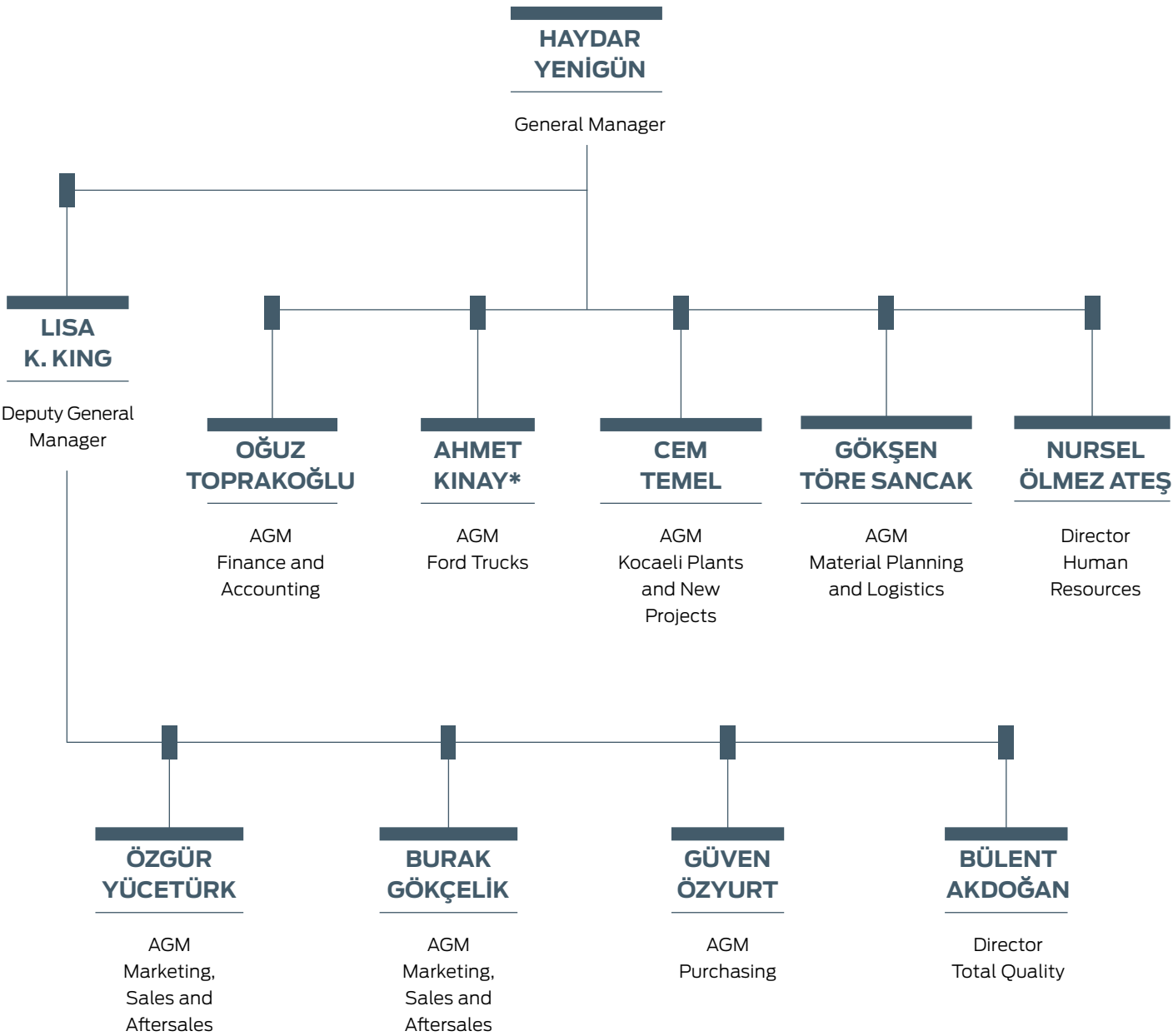


LISA K. KING

- Member
- Deputy General Manager

Mrs. King earned a bachelor's degree in Management Sciences and Statistics from Loughborough University (UK). Prior to Ford, she worked at Hewlett Packard as an internal consultant in process improvement, and then at Ernst & Young Consulting as a business consultant. She joined Ford in 1996 into the Process Leadership team and held a number of positions including starting up a joint venture call center business supporting all Ford call centers globally, and a variety of buying and purchasing strategy roles. She was appointed Global Purchasing Director, Stamping and Raw Materials in 2008. In 2011, she assumed the role of Purchasing Director, Manufacturing and Transportation. She became the Vice President, Purchasing FordSollers in Russia and held this role from 2013 until her move to Chassis in 2015. Following her tenure as Global Purchasing Director, Chassis, she was appointed Ford Otosan Deputy General Manager and member of Board of Directors on September 1, 2016.

ORGANIZATION CHART



* Mr. Ahmet Kinay retired on December 31, 2017.
Mr. Serhan Turfan, who worked as the Director of Ford Trucks, has been appointed as the Assistant General Manager - Ford Trucks effective from January 1, 2018.

EXECUTIVE MANAGEMENT



HAYDAR YENİGÜN

- General Manager
- Member - Board of Directors

Mr. Yenigün graduated from Yıldız Technical University in Mechanical Engineering and joined Ford Otosan in 1987. He found opportunity to serve in many different departments in production and worked as Project engineer between 1992 and 1996. He continued serving in different positions during the establishment of the Kocaeli Plant after the shares of Ford Motor Company and Otosan A.S. were equalized in 1997. He became Project Leader in 1998. He participated in the production process of commercial vehicles design and production processes to be built in the new plant. He worked as Body Construction Area Manager in the Kocaeli Plant between 1999 and 2007, and served as Kocaeli Plant Manager and Assistant General Manager from 2007 to 2012. He was appointed as Ford Otosan General Manager and became a Member of the Board of Directors on 15 February 2012. He is currently a member of the Automotive Manufacturers Association (OSD) Board of Directors, member of Kocaeli Chamber of Industry Board of Directors, member of Turkish Industry and Business Association, Vice Chairman of the Turkish-American Business Council Executive Committee and a member of the International Investors Association (YASED).



LISA K. KING

- Deputy General Manager
- Member - Board of Directors

Mrs. King earned a bachelor's degree in Management Sciences and Statistics from Loughborough University (UK). Prior to Ford, she worked at Hewlett Packard as an internal consultant in process improvement, and then at Ernst & Young Consulting as a business consultant. She joined Ford in 1996 into the Process Leadership team and held a number of positions including starting up a joint venture call center business supporting all Ford call centers globally, and a variety of buying and purchasing strategy roles. She was appointed Global Purchasing Director, Stamping and Raw Materials in 2008. In 2011, she assumed the role of Purchasing Director, Manufacturing and Transportation. She became the Vice President, Purchasing Ford Sollers in Russia and held this role from 2013 until her move to Chassis in 2015. Following her tenure as Global Purchasing Director, Chassis, she was appointed Ford Otosan Deputy General Manager and member of Board of Directors on September 1, 2016.



OĞUZ TOPRAKOĞLU

- Assistant General Manager - Finance and Accounting (CFO)
- Member - Corporate Governance Committee

Mr. Toprakoğlu graduated from the Economics Department of Boğaziçi University in 1991, and joined Ford Otosan in the same year as a Financial Specialist. He became Inventory Planning and Control Specialist in 1993, Commercial Accounting Team Leader in 1995 and Financial Control Manager in 1998. He worked as the Finance Manager of Ford of Europe from 2002 to 2004. In 2004, he was appointed as Deputy CFO of Ford Otosan and has been serving as Assistant General Manager (CFO) of Finance and Accounting since 2006. As of July 3, 2014 he was assigned as Corporate Governance Committee Member.



AHMET KINAY

- Assistant General Manager - Ford Trucks

Mr. Kinay graduated from the Mechanical Engineering Department of Middle East Technical University, and joined Ford Otosan as a Project Engineer in 1982. He became Internal Purchasing Supervisor in 1986 and was then appointed as Internal Purchasing Manager in 1987. He was the Sales Director from 1997 to 2000 and appointed Assistant General Manager of Purchasing in 2000. He has been serving as Assistant General Manager of the Ford Trucks since 2010.*



ÖZGÜR YÜCETÜRK

- Assistant General Manager - Marketing, Sales and After Sales

Mr. Yücetürk graduated from Mechanical Engineering Department at Boğaziçi University in 1995 and completed his Executive MBA degree at Koç University in 2002. He joined Ford Otosan Marketing Department in 1995 as a Product Specialist. After holding various positions in Marketing & Sales departments as Marketing Strategy Manager, Passenger Car Brand Manager and Sales Support Manager, he served as the Technical Assistant to the General Manager. He was appointed as Marketing Manager in 2002. He worked as the European Sales Operations Coordinator at Ford of Europe in 2006. He returned to Ford Otosan in 2007 as Marketing Director and became the Sales and After Sales Field Operations Director in 2009. He has been serving as the Assistant General Manager of Marketing, Sales and After Sales since October 1, 2014.



BURAK GÖKÇELİK

- Assistant General Manager - Product Development

Mr. Gökçelik graduated from the Mechanical Engineering Department of Ruhr University (Germany) and completed an MBA at Koç University. He joined Ford Otosan as a Product Development Engineer in 1988. He became Compound Construction Team Leader in 1994, Body Construction Development Manager in 1997, İnönü Plant Assistant Manager in 2004 and İnönü Plant Manager in 2006. He became Assistant General Manager of Engineering at Ford Otosan Product Development in 2009. He worked as Assistant Director of Engineering at Ford Motor Company in the UK from 2011 to 2013. He served as Assistant General Manager of Engineering at Ford Otosan Product Development from 2013 to 2016. Mr. Gökçelik was assigned as Product Development - Assistant General Manager as of February 1, 2016.

* Mr. Ahmet Kinay retired on December 31, 2017. Mr. Serhan Turfan, who worked as the Director of Ford Trucks, has been appointed as the Assistant General Manager - Ford Trucks effective from January 1, 2018.



CEM TEMEL

· Assistant General Manager – Kocaeli Plants and New Projects

Mr. Temel graduated from İstanbul Technical University in 1991 and completed a Masters degree at İstanbul University in 1992. He joined Ford Otosan in 1993 as an engineer in Quality department. He worked on launching the Press Area between 1998-2008 and served as Press and Tool & Die Group Manager between 2008-2012. He became Gölcük Assistant Plant Manager in 2012 and Gölcük Plant Manager in 2013. Mr. Temel was assigned as Assistant General Manager – Kocaeli Plants and New Projects as of February 1, 2016.



GÜVEN ÖZYURT

· Assistant General Manager – Purchasing

Mr. Özyurt graduated from the Mechanical Engineering Department of İstanbul Technical University in 1989, and completed an MBA at İstanbul University in 1990. In the same year, he joined Ford Otosan as a Method Engineer. After taking on various positions in the fields of Product Development, Service and Quality Engineering, Export and Sales Planning, he became a Project Engineer in the Kocaeli Plant Project Team in 1997. He worked as the Project Leader of the same team from 1998 to 1999. In 2000, he was appointed Material Planning Manager. He was appointed as Assistant General Manager, Material Planning and Logistics in 2010 and as Assistant General Manager, Purchasing on June 1, 2014. He has been serving as corporate coach at Koç Group since 2013.



GÖKŞEN TÖRE SANCAK

· Assistant General Manager – Material Planning and Logistics

Mrs. Sancak earned a bachelor's and Master's degree in Business Administration Engineering from İstanbul Technical University. She joined Ford Otosan in 1996 as Purchasing Specialist. She became Import Supply Team Leader in 2001 and worked as Import Supply Assistant Manager between 2004-2009. She was appointed as Global Supply Operations Assistant Manager from 2009 to 2011. She was appointed as Part Export, Business & Supply Chain Flow Design Senior Manager from 2011 to 2014; and became Central Planning Manager until 2016. She was assigned as Assistant General Manager – Material Planning & Logistics as of February 1, 2016.



NURSEL ÖLMEZ ATEŞ

· Director – Human Resources

Mrs. Ateş graduated from the Industrial Engineering Department of İstanbul University, and launched her career as Assistant Specialist of Method Organization and Planning at Migros Türk T.A.Ş. She worked as an executive at the R&D, Planning and Project Management departments. She managed the project leadership of the HR SAP module in Migros- the first practice in Turkey- in 1999, which was also rated among the best SAP practices worldwide. In 2003, she was appointed as HR Director to one of the foreign operations of Migros, Ramenka-Ramstore, and carried on with her career as Assistant General Manager of HR and Administrative Affairs. During her five-year tenure, she led forth the implementation and execution of HR systems. In 2008, she was appointed HR and Corporate Communications Director, first at Koçtaş and then at Ford Otosan. After completing the ADLER certificate program of coaching in 2013, she received the title of corporate coach and provides executive coaching support in the Group.

Mrs. Ates was also selected one of “The Most Effective 50 CHRO in Turkey” in 2016, which was arranged by Fortune Turkey&Data Expert. She is currently working in Ford Otosan as HR Director.



BÜLENT AKDOĞAN

· Director – Total Quality

Mr. Akdoğan graduated from the Mechanical Engineering Department of Middle East Technical University in 1985. He started his career as a Valve Specialist at Hidrel Hidrolik. In 1988, he joined Ford Otosan as an Assembly Method Engineer. He became Project Engineer in 1991 and Product and Process Development Team Leader in 1994. In 1999, he took part in the Kocaeli Plant Project Team as Assembly Area Deputy Manager. In 2007, he became the acting Quality Assurance Manager, assuming the position formally between 2008 and 2012. He was appointed as Total Quality Director in 2012.

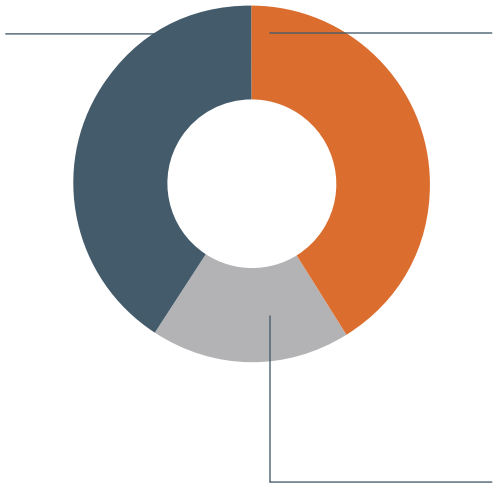


**Ford Otosan
in 2017**

INVESTOR RELATIONS

STRONG AND COMMITTED
SHAREHOLDER STRUCTURE

Ford Motor Company 41%
Ford Motor Company is a global company based in Dearborn, Michigan. The company designs, manufactures, markets and services a full line of Ford cars, trucks, SUVs, electrified vehicles and Lincoln luxury vehicles, provides financial services through Ford Motor Credit Company and is pursuing leadership positions in electrification, autonomous vehicles and mobility solutions. Ford employs approximately 202,000 people worldwide.



Koç Holding A.Ş. 41%
Established in 1926, Koç Holding is Turkey's leading investment holding company and the Koç Group is Turkey's largest industrial and services group in terms of revenues, exports, share in Borsa İstanbul's market capitalization and employment generation. While maintaining its leadership position in Turkey, The Koç Group focuses on sustainable and profitable growth with an aim to be a key player in its region and in the world.

Free Float 18%

Traded on the Borsa İstanbul since: **January 13, 1986**
Ticker symbol: **FROTO.IS**
Paid-in Capital: **TL 350,910,000**
Authorized Capital: **TL 500,000,000**

Ford Otosan, a Group A share, is traded on BIST Stars. As a result of its success in environmental, social, and governance practices, Ford Otosan has been included in the BIST Sustainability Index and FTSE4Good Emerging Markets Index, one of the most important indices used for responsible investments.

2017 Main Indicators
Closing Price: **60.25 TL**
Market Cap: **US\$ 5.6 billion**
Highest Price (intraday): **TL 63.00**
Lowest Price (intraday): **TL 27.55**
Average Daily Trading Volume: **US\$ 4.0 million**
Foreign Share in Free Float: **80.4%**



FTSE4Good

STRONG SHARE PRICE PERFORMANCE

In 2017, BIST-100 appreciated by 48% in TL terms, while Ford Otosan gained 108%, making it the most valuable automotive company in Borsa İstanbul in terms of market cap. Foreign share in free float rose from 67% to 80%.

INVESTOR RELATIONS PRACTICES IN GLOBAL
STANDARDS

Investor Relations Team attended 20 conferences and roadshows and held over 350 meetings with investors and analysts. Quarterly meetings were held with the investment community with the attendance of our CFO to discuss financial results.

FORD OTOSAN'S
VALUE PROPOSITION

Scale & Growth

- Turkey's export champion and industry leader in commercial vehicles
- Ford of Europe's largest vehicle manufacturer in Europe
- Technology licensing agreements delivering royalty fees with strong growth potential

Resilience & Efficiency

- €-denominated export revenues, including non-€ countries
- Above sector capacity utilization
- Efficient, flexible and low-cost manufacturing and engineering competency

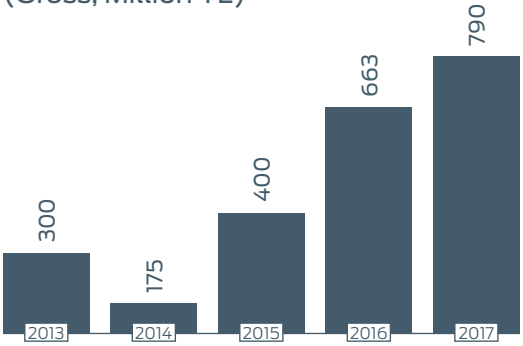
Strong Balance Sheet & Prudent Risk Management

- Surging FCF generation following completion of capex cycle
- Rising volumes and profitability driven by new products
- Natural hedge of fx-payables due to fx-denominated export revenues

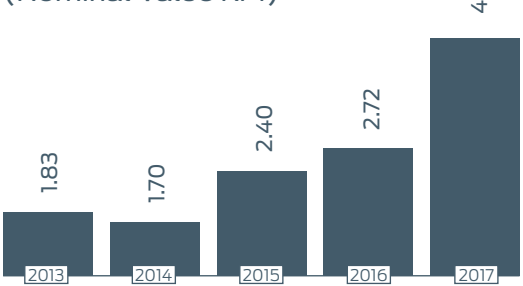
Shareholder Value Creation

- Dividend growth with surging FCF
- Strong relative share performance in the long term
- Commitment to good corporate governance

SURGING DIVIDEND PAYMENTS
(Gross, Million TL)



EARNINGS PER SHARE
(Nominal Value Kr 1)



OĞUZ TOPRAKOĞLU

Assistant General Manager – Finance and Accounting
Member – Corporate Governance Committee

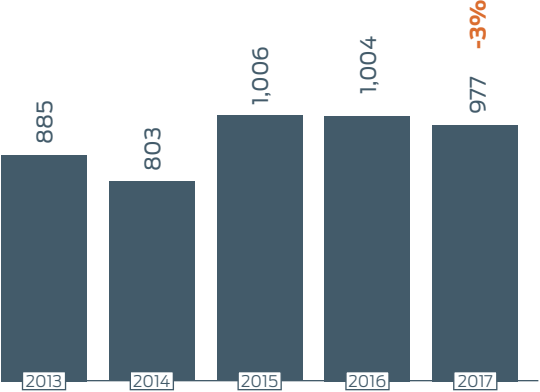


“Our record production, sales, and export numbers in 2017 reflected positively on our operational results. While domestic wholesale volumes were similar to that of 2016, domestic revenues rose 25% YoY, thanks to pricing strategy and positive sales mix. Export revenues rose 45% YoY to TL 17,830 million with market growth, ongoing strong demand for our products and currency impact. While total wholesale volume increased 11%, revenues were up 39% to TL 25 billion. Throughout the year, strong OpEx control and cost reduction actions combined with our pricing strategy enabled us to minimize the impact of TL depreciation and rising commodity and material prices. As a result of strong export demand, our capacity utilization rate rose to 88%. We achieved record profitability numbers. Operating Profit, EBITDA, PBT, and Net Profit figures were the highest on record. We distributed TL 790 million in dividends, thanks to our robust cash flow and balance sheet. We finished 2017, a year in which our share performed strongly, with a record US\$5.6 billion market cap and 80% foreign share.

As Ford Otosan, we aim to continuously increase shareholder value through Corporate Governance and Investor Relations services at global standards. We will continue our operations with such regard in 2018 as well.”

TURKISH AUTOMOTIVE
MARKET AND FORD OTOSAN

TOTAL AUTOMOTIVE MARKET
(‘000 Units)



Source: ODD and TAİD

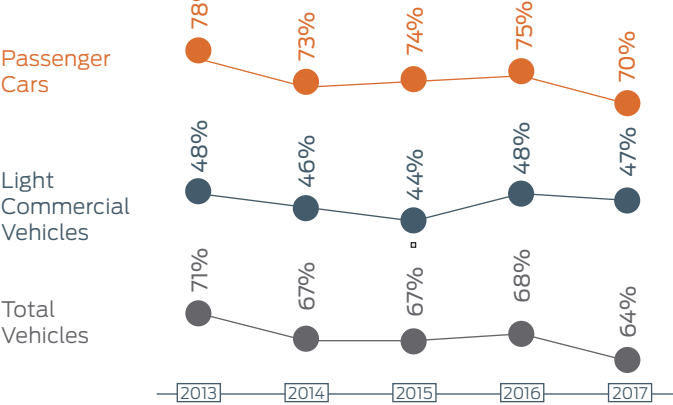
Total industry sales were 977,483 units in 2017, down by 3% over 2016. Ford Otosan took 4th place in the total industry with 116,247 units retail sales and 11.9% market share.

ÖZGÜR YÜCETÜRK
Assistant General Management
Marketing, Sales and After Sales



“In 2017, we sold 116,247 vehicles and apart from the global crisis period of 2008 and 2009, we were the only automotive brand to sell over 100,000 vehicles for twelve consecutive years. Having achieved a total market share of 30.3% in commercial vehicles, we became the most preferred automotive brand of 2017. Our Ford Courier model, which was introduced to the market in 2014, was the best-selling commercial vehicle in 2017, as it was in the last two years. Spare parts revenues rose to TL 1.1 billion and we achieved the highest sales of all time. We reaped the benefits of our continuous investments in our brand and new products with 23 marketing awards in 2017. According to the results of an independent survey conducted by Marketing Turkey magazine, Ford was selected as Turkey’s most preferred brand for two consecutive years. Parallel to our vision, we initiated a digitalization process that will renovate all of our customer experience with the main objective to become “Turkey’s most preferred brand”. One of the first products of this project, a mobile application named Ideal, helped our dealers increase their fleet orders by 26%. We achieved a 60% improvement in sales campaign return rates using data analytics. Nearly TL 100 million after-sales revenues were recorded. An application called App Link, first application in the world to recognize Turkish audio instructions that enable mobile banking, with the collaboration of Ford Otosan engineers and Yapı Kredi Bank was launched and offered to our customers with Ford Synch 3 as a good example of Koç Group’s synergy.”

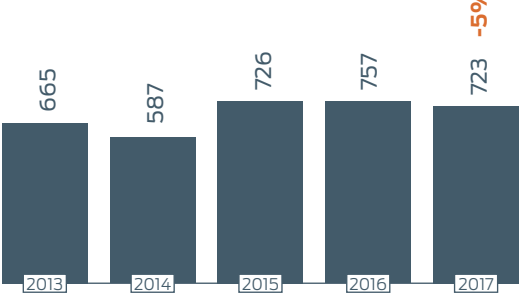
INDUSTRY SHARE OF IMPORTS
(%)



Source: ODD

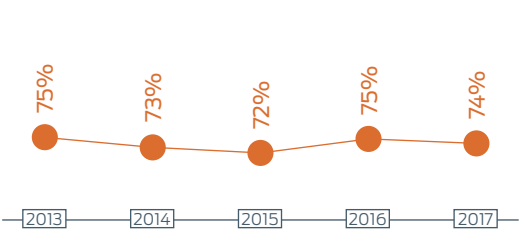
Share of imports increased by 5 percentage points in passenger cars and 1 percentage points in commercial vehicles, while decreasing by 4 percentage points in total industry.

PASSENGER CARS
(‘000 Units)



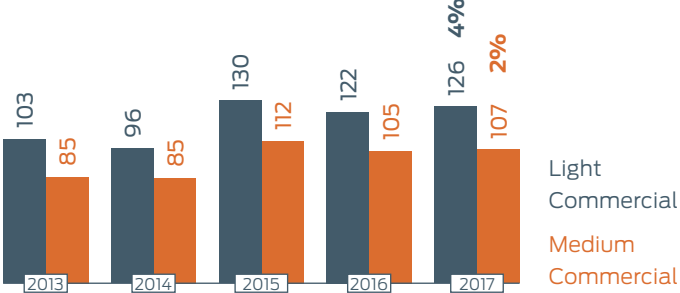
Passenger car sales decreased by 5% to 722,759 units mainly due to the increased Special Consumption Tax rates applied to passenger cars in November 2016, exchange rate pressure, and high base year effect. Ford Otosan finished 2017 in 8th place with 5.5% passenger car market share and 39,850 unit sales.

SHARE OF PASSENGER CARS IN THE TOTAL
INDUSTRY
(%)



Share of Passenger Cars was down to 74%.

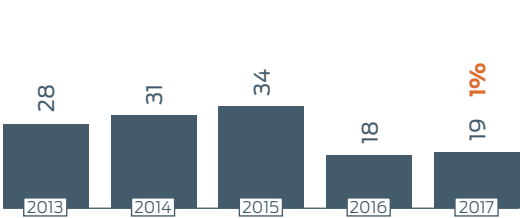
LIGHT AND MEDIUM COMMERCIAL VEHICLES
(‘000 Units)



Light commercial vehicle sales were up 4% to 126,111 units. Ford Otosan took 2nd place in the segment with 31,881 unit sales and a share of 25.3%. Ford Courier was the best-selling commercial vehicle in 2017 with 30,342 unit sales.

Medium commercial vehicle sales were up 2% to 107,324 units. Ford Otosan maintained its undisputed leadership in this segment with 39,333 unit sales and a share of 36.6%. Transit, the leading nameplate in its segment, maintained a market share higher than the sum of the following three brands.

TRUCK
(‘000 Units)



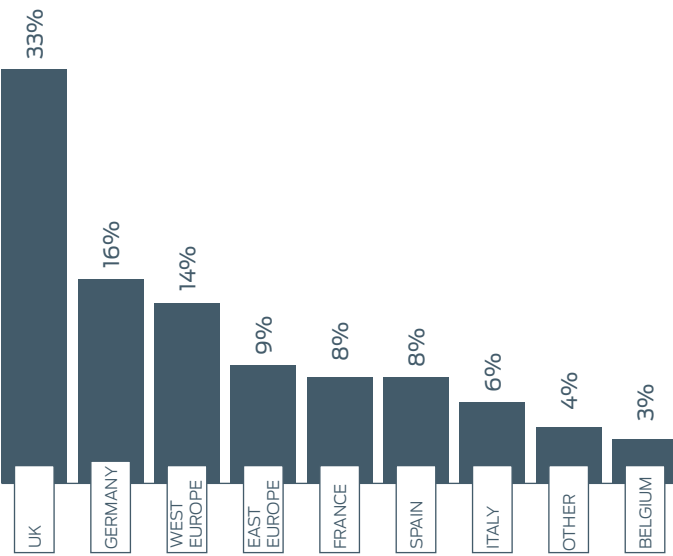
Heavy truck sales increased 1% to 18,745 units. Ford Otosan was 2nd in the Truck segment with 27.7% market share and 5,183 unit sales.

FORD OTOSAN MAINTAINED
ITS LEADERSHIP IN COMMERCIAL
VEHICLES WITH A 30.3%
MARKET SHARE

EXPORTS

OUR EXPORTS REACHED A RECORD LEVEL OF 297,396 UNITS IN 2017 WITH A 16% INCREASE. FORD OTOSAN BECAME TURKEY’S EXPORT CHAMPION ONCE AGAIN WITH US\$ 4.9 BILLION EXPORT REVENUES.

MAIN EXPORT MARKETS
(Units)



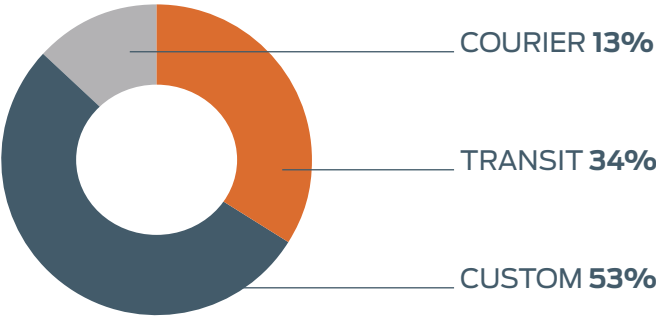
All export revenues are €-denominated (including non-€ countries)

COMMERCIAL VEHICLE SALES ROSE 3.9% IN EUROPE, SUPPORTED BY BROADER ECONOMIC GROWTH

COUNTRY	UNIT SALES	% CHANGE		
		2017	2016	2015
UK	362,149	-3.6	1.0	15.6
Germany	270,694	4.9	8.5	4.2
Italy	193,533	-3.4	50.0	12.4
Spain	199,101	15.5	11.2	36.1
France	437,415	7.1	8.2	2.0
Europe	1,995,797	3.9	11.9	11.6

Source: ACEA. Vans up to 3.5 tons. 27 European markets excluding Malta.

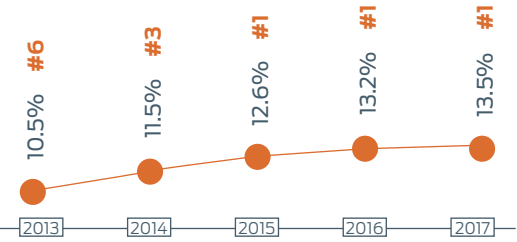
EXPORT MODELS



EXPORT REVENUES IN 2017: US\$ 4.9 BILLION

VEHICLE AND SPARE PARTS EXPORTS TO 89 COUNTRIES IN 5 CONTINENTS

FORD CONTINUED TO INCREASE ITS COMMERCIAL VEHICLE MARKET SHARE IN EUROPE



In 2017, Ford successfully sustained its leadership strategy in European commercial vehicles. Ford branded commercial vehicle sales increased by 7% to 352,200 units due to increased demand for the Transit Family and Ranger. Ford’s commercial vehicle market share reached its highest level since 1997, at 13.5%.

Ford’s growth focused strategy in Europe is a key driving factor in our exports.

#1

FORD IS THE BEST-SELLING COMMERCIAL VEHICLE BRAND IN EUROPE

7%

ANNUAL INCREASE IN FORD’S COMMERCIAL VEHICLE SALES

13.5%

FORD REACHED THE HIGHEST MARKET SHARE IN EUROPEAN COMMERCIAL VEHICLES SINCE 1997

80%

FORD OTOSAN’S SHARE IN TRANSIT VEHICLES SOLD BY FORD IN EUROPE

GÖKŞEN TÖRE SANCAK
Assistant General Manager
Material Planning and Logistics



“In 2017, Ford Otosan achieved 22% of Turkey’s overall automotive production, 67% of the commercial vehicle production and 72% of the total commercial vehicle exports. We reinforced our record 2016 export performance in 2017 with both record unit sales and revenues. We increased our export sales 16% to 237,396 units –exporting to 86 different countries on 5 continents. Our Custom exports increased by 21%, Transit by 8%, Courier by 15%, and Cargo by 49% year over year. Ford successfully sustained its leadership position in European commercial vehicles for three consecutive years with increasing market share. As Ford Otosan, we play a crucial role in this success with our timely, flexible, and high quality production. In addition to vehicle exports, we also exported spare parts to 5 different countries on 4 continents in 2017. Thus, the total number of our export countries reached 89. As part of the technology license agreement signed with China’s Jiangling Motor Corporation, export shipments of Ecotorq engines and parts that are used in JMC branded vehicles have commenced in 2017. Ford Otosan’s Yeniköy Port, equipped with 400,000 annual loading and unloading capacity, is currently the only production integrated automotive port in Turkey. In this regard, Ford Otosan remains as the only automotive plant to have its own port, which gives our company a significant competitive advantage against our peers. In 2017, 410,000 units were distributed from our Yeniköy Port that has a Green Port Certificate and is one of the first ports to receive the ISPS certificate as well. ”

PRODUCTION AND CAPACITY

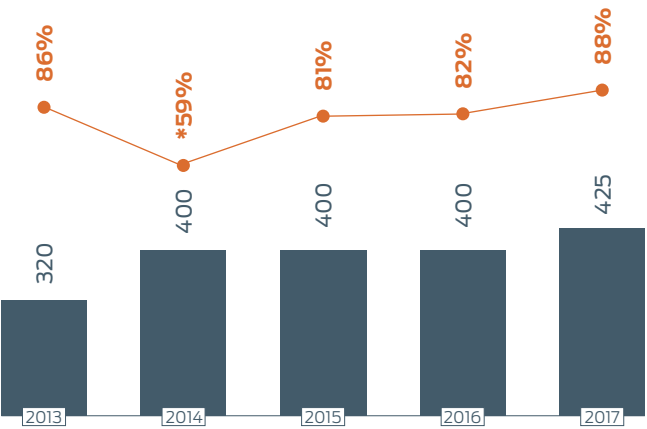
88% CAPACITY UTILIZATION RATE

Ford Otosan’s production increased 12% to 373,007 vehicles in 2017 to meet high export demand. The company operated at 88% capacity utilization rate on a three-shift basis.

FORD’S LARGEST COMMERCIAL VEHICLE PRODUCTION BASE IN EUROPE

When opened in 2001, the Kocaeli Plant had an annual production capacity of 40,000 Transit vehicles. Since then, it has significantly increased its manufacturing capacity, thanks to its productivity, flexibility, and high quality production. As of 2014, its total capacity increased to 400,000 units spanning 3 products. With the completion of the first phase of the annual production capacity increase investment, our capacity increased to 425,000 units.

KOCAELI PLANT CAPACITY AND UTILIZATION ('000)



* 2014 numbers reflect the transition to new product range and relevant ramp-up period.

THE BEST PLANT BY “FORD PRODUCTION SYSTEM” STANDARDS

Ford Otosan enjoys productivity and competitive advantage thanks to a fully established lean manufacturing environment in line with the Ford Production Systems (FPS). Ford Otosan plants were recognized as the best Ford plants in audits conducted by the Ford Europe FPS office. Ford started implementing its Global Ford Production Systems by consolidating manufacturing processes and development under one umbrella in 2011. In 2012, Ford Otosan began to train its employees in Global Ford Production Systems, and this new program was launched at Gölcük and İnönü plants in 2013.

Ford Otosan was the first Ford plant in Europe to implement this system. In 2014, the system was also launched at the Yeniköy Plant. Ford Otosan quickly and effectively incorporated Global Ford Production Systems, and was named Europe’s best performing plant in this regard.



Detecting air leakage points and analyzing hard-to-reach areas have become significantly easier using the Innovative Air Leakage Test with Thermal Camera.



With the software we developed and the Wearable Quality Assurance Equipment we launched within Ford Otosan, inspector movement times have been shortened by 15%. Using the software also developed by Ford Otosan, we saved €120,000. At the same time, €10,000 worth of annual license renewal fees has also been saved. This application, which provides an ergonomic work environment, is the first among Ford all facilities. Our project was awarded second place in International Data Corporation.

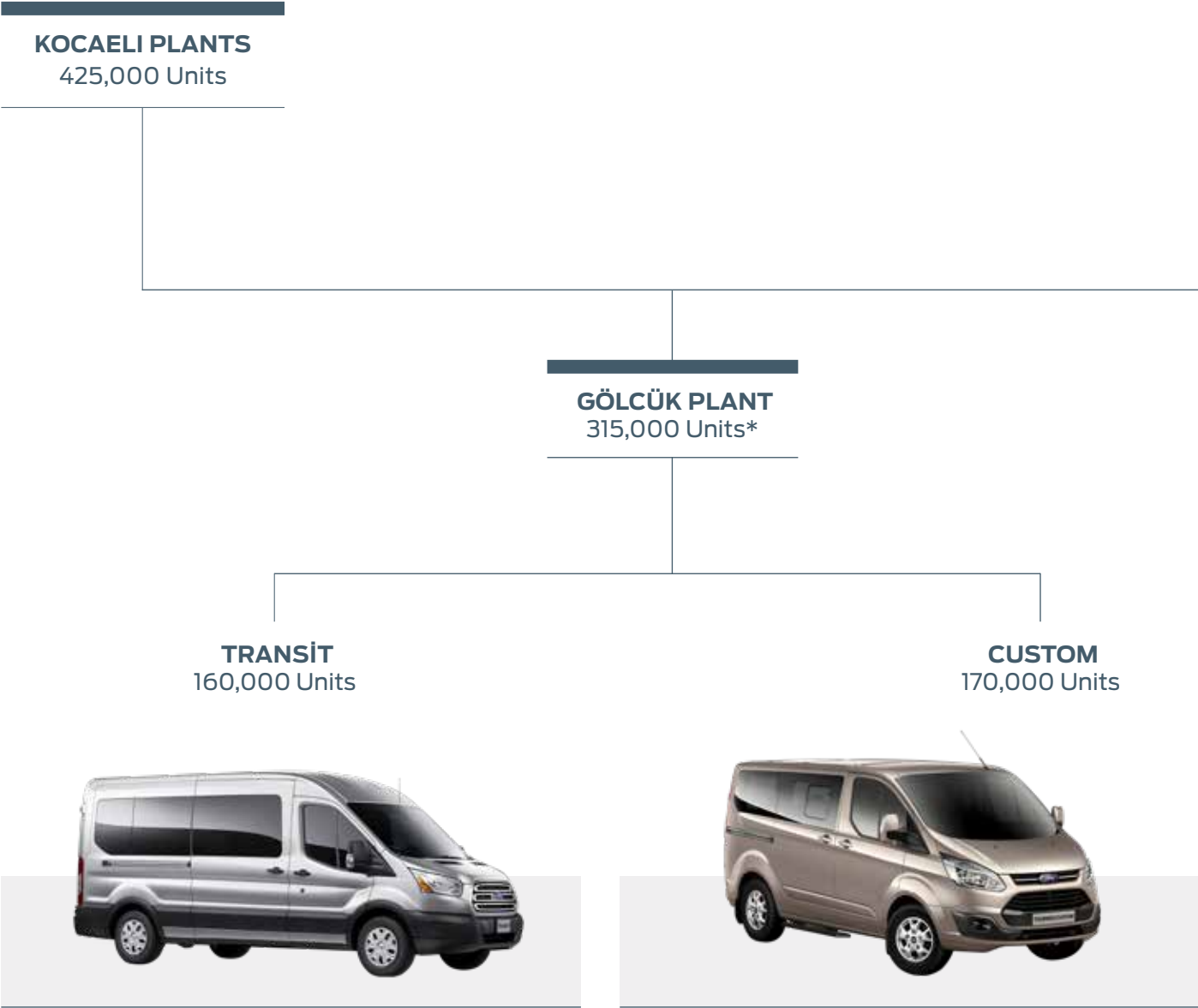
CEM TEMEL

Assistant General Manager
Kocaeli Plants and New Projects



“In 2017, a year of record production, we reached 170,000 units of production capacity by introducing flexible production investments on the Transit line in order to quickly and effectively respond to robust Custom demand at low-cost. Moreover, in order to benefit from future production technologies, we underwent an organizational change through which the technical team in body and paint shops designed and launched our own robotic automation solutions, reaching 1,017 robots. All robots were programmed by Ford Otosan engineers and all other automation projects were handed to local Turkish manufacturers. As a result, we acquired know-how as well as creating a cost advantage. With the knowledge and experience of our manufacturing engineering, we worked hard on producibility for our Custom and Courier vehicles that will be renewed in 2018 and in the designing stages of our new Cargo Truck. Our Yeniköy Plant was named “Best in Class” among all of Ford of Europe factories under “Zero Accidents and Quality Metrics” category. Significant improvements were achieved at our İnönü Plant in terms of quality, cost, and time with the introduction of the new generation body scanning system. In addition to our vehicle production and exports, we produced and distributed sheet metal molds of Ford Connect. We implemented €17.5 million cost reduction projects with the help of our employees in 2017 and shared the €756,000 prize with 3,209 employees.”

HIGHEST INSTALLED PRODUCTION CAPACITY
IN EUROPE

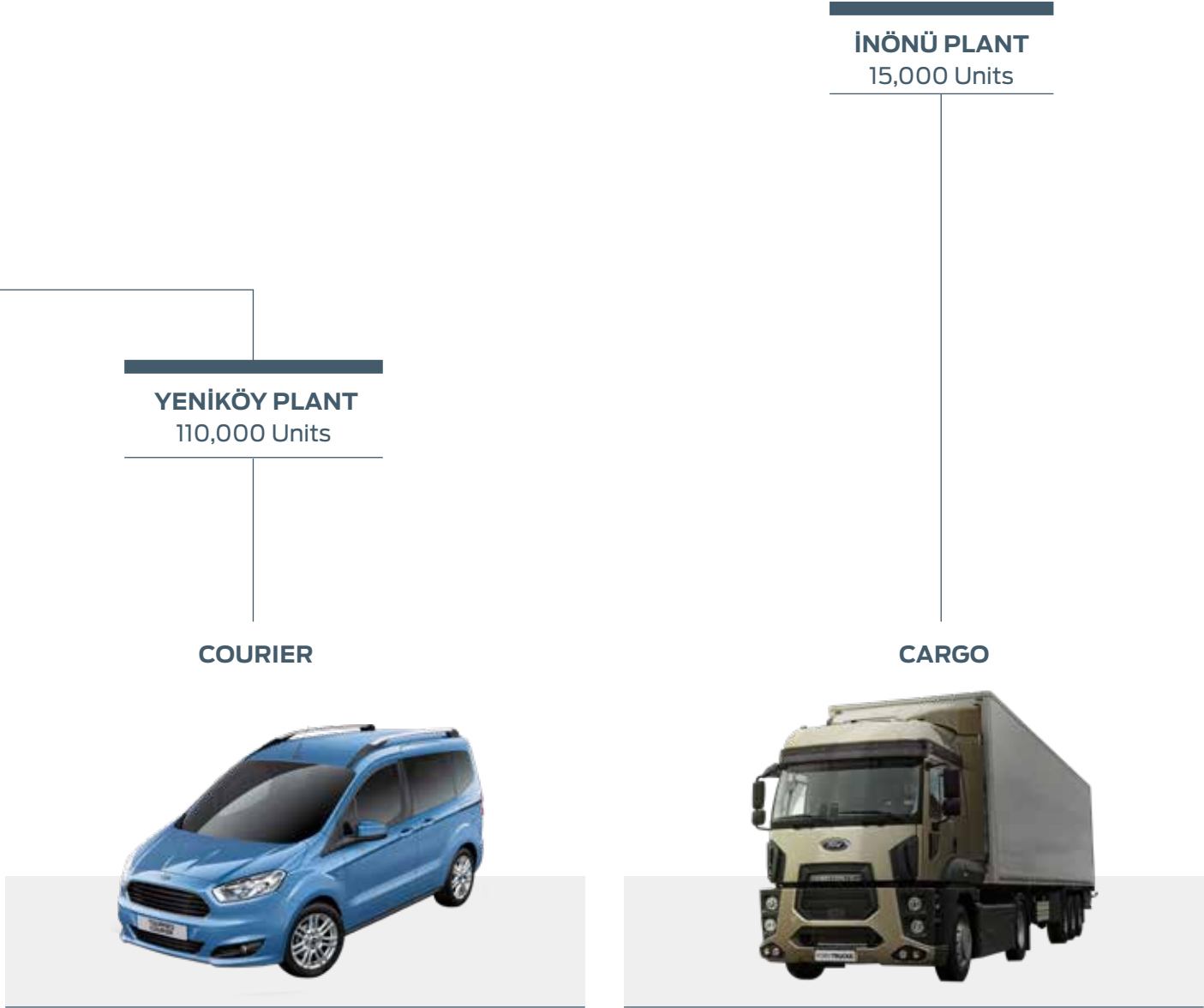


* Total paintshop capacity of the plant

WE ARE INCREASING OUR
TOTAL PRODUCTION CAPACITY



Ford Otosan has taken a decision to increase the annual production capacity of the Gölcük Plant from 290,000 units to 330,000 units in order to meet increasing export demand. The investment will cost US\$52 million and planned for completion in September 2018. When finalized, the production capacity in our three plants will rise from 415,000 units per annum to 455,000 units per annum.



SUPPLIERS

One of the most important stakeholders of our vision “to become Turkey’s most valuable and most preferred industrial company” is our suppliers. The Turkish automotive industry’s competitive position stems from a network of well-established and experienced suppliers. Today, our suppliers, which make up about 40% of total automotive exports, offer competitive goods and services with world-class standards by exporting to the world’s leading producers or producing on-site. As one of the first car manufacturers in Turkey, Ford Otosan supported the development of many suppliers to reach their current levels and helped the leading global suppliers make investments in Turkey directly or by establishing partnerships.

LOCALIZATION

Localization is one of the most important areas where we directly and indirectly add value:

- Cost advantage (price per piece, shipping, storage)
- Increasing the capacity utilization of our domestic suppliers to make them more efficient enterprises
- Increased employment
- Reducing the exchange rate risk in our vehicle costs
- Managing any sudden changes in production more conveniently and at a lower cost
- Favorable position in domestic official purchases by increasing the domestic added value of our vehicles
- Important advantage in providing and pricing spare parts

Many product groups such as metal sheets, body and chassis parts, plastic parts, seats, installations, rims, rubber, glass and insulation materials are supplied from domestic sources. Our company holds domestic goods certificate for our products. We are constantly developing new ideas and projects to increase our localization. Every local product is parameterized and monitored within its own cost components.

SUSTAINABILITY

Sustainability in every sense is the basis of our relationship with our suppliers. We handle sustainability under four main headings:

- Competitive pricing and continuous productivity
- Continuity of quality, manufacturing and supply
- Financial strength and health
- Technical/commercial support for new projects

Our contracts are generally designed to be valid for the relevant parts or products until the vehicle in which they are used goes out of service. Ford and Ford Otosan attach great importance to the fact that our suppliers totally comply with the global Ford Q1 certification criteria showing their commitment to sustainable processes and operations. With this certification, our suppliers achieve the standards to supply to all Ford factories outside of Turkey. Thus, the number of suppliers who supply to Ford factories outside Turkey continues to grow. During the Q1 certification process, Ford Otosan provides close technical support to its suppliers through experienced experts in the field.

SUPPLIER DIGITAL ERROR REPORTING AND MANAGEMENT SYSTEM

A digital platform was created to send the relevant company a rejection notice and to make sure that they address the issue when a quality error originating from the supplier has been detected. This system

- Provides a large archive of reject reports and company returns,
- Allows for monthly and annual monitoring and automatic reporting of supplier performances,
- And enables the users to send and track notifications via tablets and mobile phones.



GÜVEN ÖZYURT

Assistant General Manager
Purchasing



“Transparency is what lies underneath our price/cost policy with our suppliers. Every product is parametrically priced and our priority is to determine and update our prices depending on these parameters. For products that are in their first phase of pricing, we conduct a thorough market research using all of the price alternatives in order to meet the competitive market prices. Commodity prices (steel, plastic, copper, aluminum, rubber etc.) are determined depending on global supply/demand balance. Almost all of the raw material prices have recently been following an upward trend. In order to minimize the adverse effects of such price increases, we are seeking cheaper raw material sources as well as finding alternative materials or conducting production/design improvements. One of our main raw material costs is sheet metal. We manufacture steel parts in our facilities. We take part in Ford’s global procurement and also buy from local suppliers in Turkey. Following the market trends, we work on a contract basis in order to avoid price volatility.”

PLANTS AND FACILITIES

KOCAELİ PLANTS

Gölcük Plant

Opened in 2001, the Gölcük Plant became the world's leading Transit production center in 2004 thanks to its high manufacturing quality and the advanced technology used by Turkish workers. The Gölcük Plant is distinguished among global Ford production facilities for its exceptional quality standards, and has been awarded many prizes both at home and abroad for its environmentally friendly manufacturing.

With a total area of 1.6 million m², including 340,000 m² of indoor space, as well as the plant's proximity to industry and its own port facilities give Ford Otosan logistical superiority. The facility houses tool and die, press, body, paint and assembly shops. Its Central Maintenance, Production Planning, and Quality Assurance Departments provide common services to the entire facility.



LEAD MANUFACTURING PLANT OF FORD TRANSIT



2012

On July 23, production of the new Ford models, Transit Custom and Tourneo Custom – newly added to the Transit family – started on a third production line established at the Gölcük Plant.

2014

The production of the next generation Transit started in January and the vehicle has been successfully commissioned throughout the year. Investments worth \$850 million in the Gölcük Plant for the new Transit series and the Yeniköy Plant increased the annual capacity of the Kocaeli Facilities from 320,000 units to 400,000 units per year.

2015

Investments were completed at the Gölcük Plant to increase Custom's annual manufacturing capacity from 130,000 to 150,000 units, ensuring production flexibility against higher demand.

2016

The second Plastic Paint Shop was opened at the Gölcük Plant. Following new European emission regulations, the Euro 6 Panther engine was introduced and first used in the Ford Custom model at the Gölcük Plant.

2017

Investments have been completed to increase the annual production capacity of Custom vehicles from 150,000 units to 170,000 units. Production capacity of the Gölcük Plant increased from 290,000 units to 315,000 units and Kocaeli Plants to 415,000 units.

Yeniköy Plant

Yeniköy Plant was established as Ford Otosan's third plant. It was the first automobile plant established in Turkey in 13 years. Completed in a record time of 16 months, Yeniköy Plant has been known for a number of "firsts." It was the first and only plant in Turkey where the same project simultaneously included the factory construction, end-to-end vehicle design, prototype production, and production lines. The feasibility studies and engineering behind the manufacturing of Ford Courier, which was designed entirely by Turkish engineers, were completed by the Yeniköy Plant Project Team.

Courier is Ford's only commercial vehicle in the B segment and is manufactured solely at the Yeniköy Plant before being exported to 40 countries. It has an annual production capacity of 110,000 units.

Yeniköy Plant has officially been registered to have the best quality metrics among all of Ford of Europe facilities since 2016.

Yeniköy Plant is recognized as "employee-centered," innovative, efficient, and lifestyle-enhancing thanks to its disability awareness and environmentally friendly approach, in addition to its sensitivity to occupational health and safety and employment gender equality.

With demonstrated quality, technical, and organizational excellence, Yeniköy Plant is fast becoming Ford's leading production center and has been awarded on many platforms. The plant supplied 146 hours of training per person to ensure high employee engagement and won both the "Industrial Excellence Award" and the Ford Chairmans's Leadership Award for Diversity.

THE ONLY FORD COURIER PRODUCTION CENTER IN THE WORLD

İnönü Plant

İnönü Plant in Eskişehir manufactures Cargo trucks (tractors, road trucks, and construction series) in addition to engines and engine systems. As a result of investments made in 2014, the plant now has total indoor space of 109,024 m², 1.1 million m² of open area, and an annual truck production capacity of 15,000 units. Furthermore, it can produce up to 75,000 Cargo and Transit model engines and 140,000 Transit model rear axles each year. To date, the İnönü Plant has manufactured more than 850,000 engines for more than 220,000 trucks and tractors. In the years ahead, after its product range is finalized, Ford trucks made at İnönü Plant will be exported to approximately 50 countries over three continents.

Among Ford Europe, İnönü Plant is the only producer of Transit model rear axles. İnönü Plant produces the Duratorq engines used in Transit vehicles and, following an investment of \$100 million, now also produces the new Euro 6 compliant Ecotorq engines. Ford Otosan's new 13-liter Ecotorq engines, whose intellectual property rights are 100 percent owned by the company, will have a variety of applications, including in heavy commercial, industrial, and marine fields.

İnönü Plant has an R&D Center, an Engine Test Center, a Test Track, and a Prototype Development Workshop. Detailed information can be found on page 64 of our report.

THE ONLY PLANT IN TURKEY
WHERE VEHICLES, DIESEL
ENGINES, AND POWERTRAINS ARE
PRODUCED AT THE SAME LOCATION

Ford Otosan Collaborative Robot Application was Launched as Part of İnönü Plant Innovation Projects

Before the launch, Kuka LBR Robot Programming trainings were given by Belgian instructors. In addition to Ford Otosan employees, Rotsis personnell, one of Kuka's integrators, also participated in these trainings. This contributed to the development process of the subsidiary industry collaboration. Ford Otosan and Rotsis personnell were the first group to attend the Kuka Robot Programming trainings. The robot was first launched on the Puma Engine Assembly Oil Filling Station.



Sancaktepe R&D Center

Ford Otosan is Ford's global engineering hub for heavy commercial vehicles and associated diesel engines and engine systems. It also provides core support for Ford light commercial vehicle design and engineering. The R&D Center in Sancaktepe was recognized and registered as an "R&D Center" by the Ministry of Science, Industry, and Technology in December 2014, becoming Ford Otosan's second R&D Center.

FORD'S GLOBAL ENGINEERING HUB
FOR HEAVY COMMERCIAL VEHICLES
AND THEIR DIESEL ENGINES AND
ENGINE SYSTEMS

Today, with more than 1,200 engineers, Ford Otosan R&D center is the largest organization in the Turkish automotive industry, exporting engineering services.



Sancaktepe Spare Parts Distribution Center

With a closed area of 35,000 m², Ford Otosan Spare Parts Distribution Center is the largest facility of its kind in Turkey. It is the hub where all of Ford Otosan's spare parts, marketing, sales, and after sales operations are managed.

Our center is fourth among Ford's European spare parts distribution centers in terms of indoor space capacity, and provides services to 177 dealers across Turkey and 78 dealers in 59 different countries internationally. The center has a 96 percent order fill rate as a result of its effective spare parts management, a much higher figure than comparable Ford centers.

In 2017, a new spare parts distribution center of 750 m² in Poland where storage and distribution services are made by external purchase methods was opened. With the introduction of this distribution center located in Eastern Europe, we aim to improve spare parts delivery times and to increase customer satisfaction.

SERVICES TO 59 COUNTRIES
ABROAD, AND 177 DEALERS
IN TURKEY

R&D

An Established R&D Culture

Ford Otosan's Product Development Department kicked off the first R&D efforts of the Turkish automotive sector in 1961. Otosan had produced Turkey's first domestic passenger car, Anadol, in 1966 and designed the first diesel engine, ERK, in 1986. Ford Otosan had developed the Transit Connect model, its first big project following the establishment of equal partnership with Ford in 1997, a new Cargo truck and Ecotorq, a brand new heavy commercial vehicle engine, in 2003.

Ford Otosan has all the skills and infrastructure necessary to design, develop, and test a vehicle in its entirety, including the engine, from scratch to commercial product. Our company employs cutting-edge technology to offer competitive products not only in Turkey, but also to all potential export markets, including Europe and North America.

The Largest R&D Organization in the Turkish Automotive Industry

Today, with more than 1,200 engineers, Ford Otosan R&D center is the largest organization of its kind in the Turkish automotive industry, and exporting engineering services. Many different projects are undertaken on behalf of Ford Motor Company and Ford Otosan, including engines, engine systems, body and interior design. Many of the Ford Motor Company's diesel engine calibration and development efforts are performed by Ford Otosan.

Particular emphasis is given to innovative ideas regarding fuel economy and emission minimization, driver assistance systems, testing processes, and analytical method development.

Turkey's Engineering Export Leader

Ford Otosan, Turkey's export champion, was rewarded the first prize in "Architectural, Engineering, Scientific & Other Technical Services" category which was held at the "Turkey's Top 500 Service Exporter" survey in 2015 and 2016 by Turkey Exporters' Assembly (TIM). Our total engineering export has reached US\$ 578 million since 2010.

Transit Courier, the Signature Product of Ford Otosan in Design and Technology

Ford Otosan started producing Ford Transit Couriers at its Yeniköy Plant in March 2014 after successfully completing all engineering, prototyping, and plant construction and production work in 40 months. Courier is Ford's first light commercial B-platform vehicle, and all its engineering work was carried out by Ford Otosan.

Ecotorq Engine Family

Developed entirely by Turkish engineers within a short four-year period, next generation Ecotorq engine family was awarded the Grand Prize at the Technology Awards organized by Turkish Scientific and Technological Research Council (TUBITAK), the Technology Development Foundation of Turkey (TTGV), and the Turkish Industry and Business Association (TUSIAD). Ford Cargo Trucks equipped with new generation Ecotorq engines compliant with Euro-6 emission standards are being manufactured in our İnönü Plant since 2016.

Duratorq Engine Family

The Duratorq Motor Family was built with Ford Otosan engineering, and is used in many Ford vehicles, including Transit Custom, Ranger, Everest, and Territory models. The five cylinder Duratorq, first engine developed by Ford Otosan on behalf of Ford, is installed in new Ford Rangers and Transits manufactured for the U.S. market.

EcoBlue Engine

The 2.0L EcoBlue diesel engine, which will be produced at the İnönü Plant in 2018, will replace the 2.2L Duratorq TDCi engine that is used in Transit and Custom models. Beside its quite form, the new model has higher torque and power at low engine speeds and a lower fuel consumption. The new 2.0L EcoBlue's basic design and development process were carried out by joint leadership of England and Turkey team, the two engineering centers of Ford of Europe.

The EcoBlue engine will create the substructure of the engine that is compatible with the new Euro 6 and future Euro 7 emissions. Besides Transit Vehicles, this engine will be in place at C/ CD type passenger cars (Focus, Mondeo, C-Max, S-Max and Galaxy) which are among common models of Ford Europe, Ford America and Asia-Pacific and also at all "pick up" vehicles (Ranger / Everest also called T6).

FORD OTOSAN IS THE ONLY
TURKISH COMPANY WHICH CAN
DEVELOP ENGINE, INTERIOR AND
OUTDOOR VISUAL DESIGN AS
A WHOLE VEHICLE

BURAK GÖKÇELİK

Assistant General Manager
Product Development



"Our innovative side, flexibility, and ability to improve processes, make Ford Otosan distinct and preferred. The vision of Ford Otosan is "Being Turkey's most valuable and preferred industrial company." The organization and power to provide this change and improvement already exist in our own engineering team. In order to achieve our PD vision, we have identified key digital transformation areas.

- Quality Process Mapping: Increasing productivity by automation of repetitive processes and directing our engineers to value-added works, and simplifying steps with low value-added.
- Increase Virtual Sign-Off: Using virtual prototypes rather than physical prototypes for product verification.
- Knowledge & Data Management: Transforming the PD knowledge and data into a more accessible and sustainable structure.
- Customer Centricity: Integrating customer expectations and needs into our projects starting from the early stages of design process.

We have also identified key R&D technology focus areas as Electrified Powertrain Engineering, Autonomous Truck, Connected Vehicles, Light Weighting and CO₂ Reduction."

A PIONEERING DEVELOPMENT CENTER IN THE FORD MOTOR COMPANY UNIVERSE

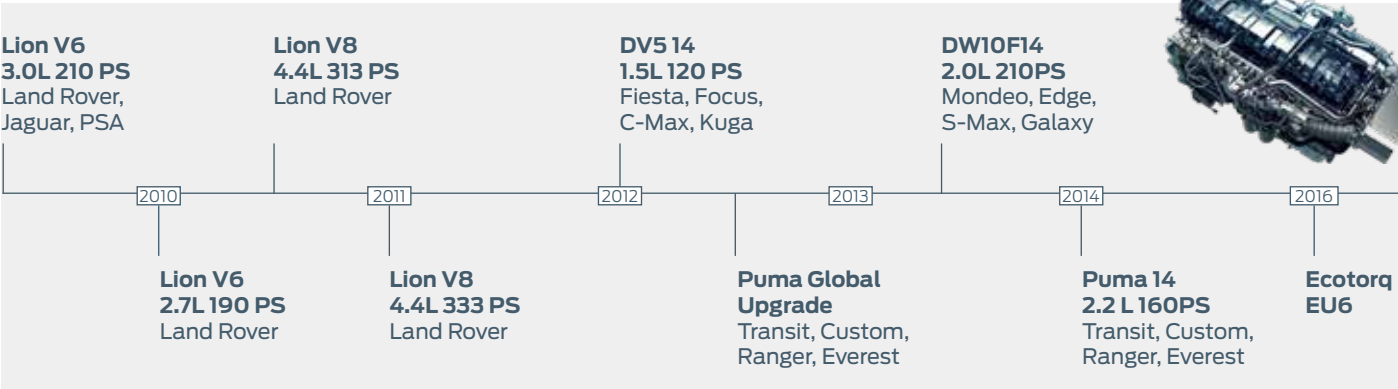
An Engineering Hub For Heavy Commercial Vehicles and Their Diesel Engines



Light Commercial Vehicle Design and Engineering Hub



Diesel Engine Design and Engineering Center



Another First from Ford Otosan: Technology and Engineering Exports to China

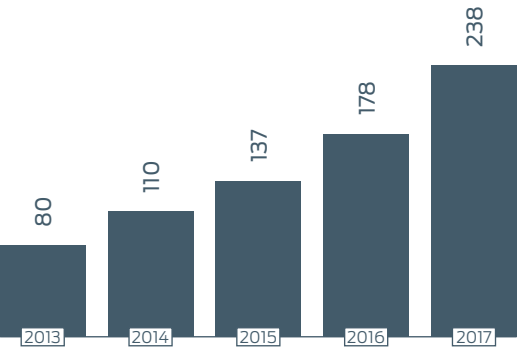
In 2013, Ford Otosan initiated another important first by signing a technology license agreement with China's Jiangling Motors Corporation Limited (JMC). This agreement allows production of Ecotorq engines whose intellectual property rights belong to Ford Otosan by JMC in China (the world's largest truck market). In July 2014, another license agreement was signed with the same company for the technology used in the chassis, cabin, and components of the current truck models. This agreement enables Ford Otosan to export engineering services to China in addition to generating license revenues. Ford Otosan engineers work with engineers from JMC to localize existing parts, adapt these to Chinese market conditions, and then deploy them. The launch of "JMC Weilong" trucks was completed in 2017 in China which is the world's largest truck market. Trucks were designed by Ford Otosan via the technology license agreement with the JMC Company for the production of trucks. Those trucks were developed entirely by Turkish engineers. Moreover, the vehicle was awarded the "Truck of the Year" in China.

Patent Champion of the Turkish Automotive Industry

Ford Otosan believes that growth of the automotive industry in our country on a global scale is only possible through the development and expansion of R&D. Developing a new product that meets all standards in the automotive market, where competition is high and technology becomes outdated in a short time, only comes after long-term engineering focus involving advanced technical teams. To create long-term added value for the company, we also focus on commercializing the activities involved in this process.

Our company has submitted 238 patent applications through the Turkish Patent and Trademark Office in 2017. Five applications of Ford Otosan were filed by Ford Global Technologies (LLC) which manages Ford Motor Company's Intellectual Property to the European Patent Office. 65 patent applications were granted by Turkish Patent and Trademark Office. Our company also creates new strategies about international patent applications with a great pace. Our inventions have been protected internationally by 24 Patent Cooperation Treaty applications in 2017.

NUMBER OF PATENT APPLICATIONS



FORD OTOSAN IS THE FIRST TURKISH COMPANY THAT LICENSED TECHNOLOGY INTERNATIONALLY BY SIGNING A LICENSE AGREEMENT WITH JMC FOR THE PRODUCTION OF THE ECOTORQ ENGINE WHICH WAS DEVELOPED ENTIRELY BY TURKISH ENGINEERING IN 2013

R&D CENTERS

GÖLCÜK

Engine and vehicle test facilities and an exhaust gas filtration systems laboratory are available. Light and medium commercial vehicle and engine systems are under development.



SANCAKTEPE

Turkey's largest automotive R&D center. There exists engine and vehicle development teams, a design studio, cave automatic virtual environment (CAVE), Hardware-in-the-loop (HIL) simulation and software development.

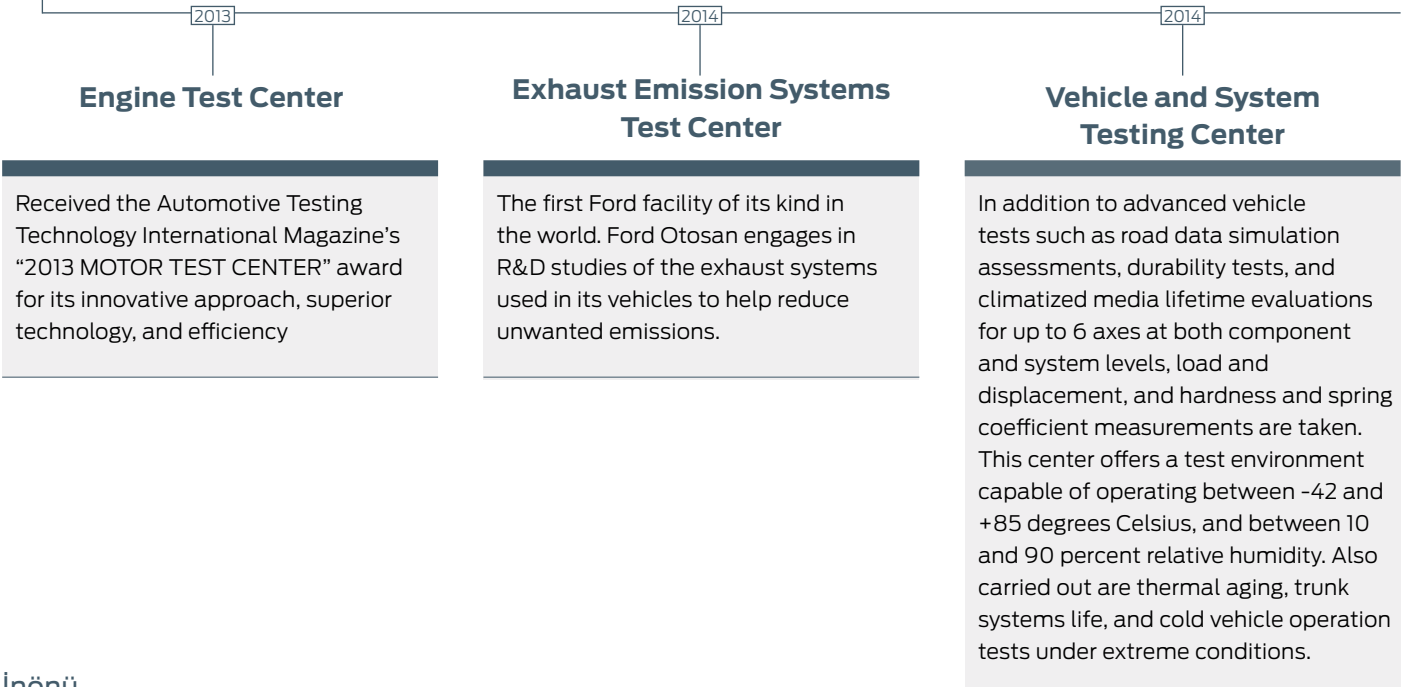
İNÖNÜ

Offers an engine test center, prototyping workshop, a Ford Cargo special vehicle engineering center, and heavy commercial vehicle and engine development sections.

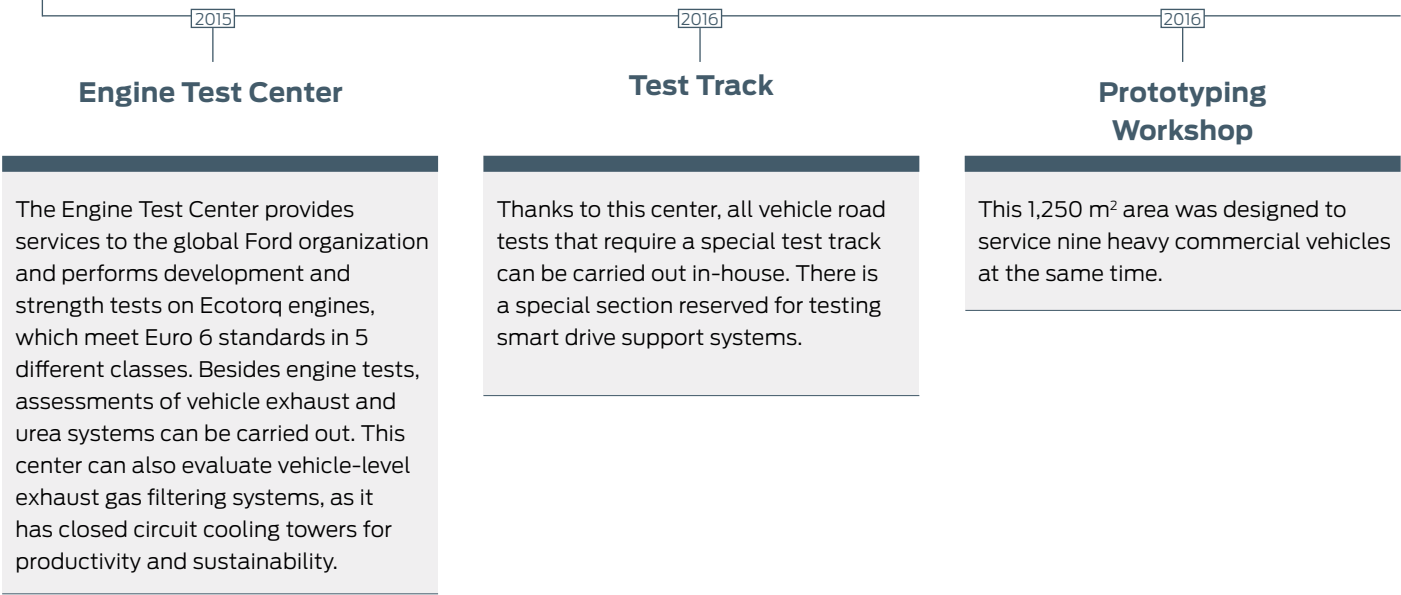


TEST CENTERS

Gölcük



İNönü



INNOVATION

Ford Otosan is adopting Koç Innovation Program with the main objective to “empower all employees to innovate”. Trainings and communication activities that support cultural transformation have started in order to determine an innovation strategy. In addition, a digital platform used to monitor the innovation process was launched in 2016. Digital Transformation, Smart Production, Customer Experience, Connectivity/Telematics Interactive Vehicles, and Autonomous Truck are selected as the main areas of innovation by the Ford Otosan Innovation Committee.

DIGITAL TRANSFORMATION

Digital Transformation is used to create efficiency and value through intelligent and sustainable use of digital tools and methods. It acts as one of the main enablers for the other areas of innovation.

SMART PRODUCTION

Building an agile, high value adding and comprehensive production chain with our skilled team, using adaptable, efficient and self-learning systems at Ford Otosan facilities. It brings together technologies such as “Internet of Things”, “Smart Factory”, and “Cyber / Physical Systems”, and “Industrial Internet”.

CUSTOMER EXPERIENCE

Customer attitudes are changing and online communication channels are becoming increasingly popular. Designing innovative products and services that are developed by taking pre, during, and after purchasing processes into consideration leads to applications such as digital dealer and service, use of vehicle data, car and ride sharing.

CONNECTIVITY/TELEMATICS

Interaction of vehicles between themselves and with the infrastructure as part of a wider transportation ecosystem. It contains a variety of inside/outside vehicle connection systems such as navigation, smart powertrain management, integration with mobile communication channels, fleet management systems, and infotainment systems.

AUTONOMOUS TRUCK

Development of advanced-technology products and new solutions to logistics sector such as advanced detection systems, cyber security systems, automatized tests, platooning, and high-def mapping.

First theme of the Ford Otosan Innovation Program was “Smart Mobility Solutions for Megacities”. In this context, corporate entrepreneurs had the opportunity to develop business models that allowed people to transport from point A to point B in the most convenient way. The second theme was “Smart Logistics Business Models”, where corporate entrepreneurs brought forward business models that enable products and services that enabled efficient ways of moving goods. Ford Otosan Innovation Program enabled more than 70 corporate entrepreneurs to create and test 40 different smart mobility/ logistics concepts by using Lean Start-up Methodology. 4 projects with high customer demand is currently on the way of commercialization.

As for the Open Innovation activities; Ford Otosan organized an important event in July to give Turkish start-ups an opportunity to join Ford’s global connectivity ecosystem. Startups to be invited to Ford Sync AppLink Paris Hackathon were determined by a jury composed of Ford Connected Vehicle and Services team and Turkey’s leading venture capitalist as well as Ford Otosan experts. Ford’s SYNC connectivity system enables drivers to voice-control smartphone apps from the driver’s seat and to access them using a touchscreen.

OpenXC Hackathon at Sancaktepe R&D Center
One other open Innovation activity was “OpenXC Hackathon”. In November, nearly 100 software developers participated in this organization at our Sancaktepe R&D center. These engineers, under the mentoring of Ford Otosan specialists, have developed several Android based software utilizing vehicle data to improve in-vehicle customer experience.



Your Bank in Your Vehicle! Yapı Kredi Mobile App
This November, a project that enables Yapı Kredi applications to become Applink compatible and in-vehicle accessible has been launched with the collaboration of Yapı Kredi and Ford Otosan engineers.



The Concept of “City of Tomorrow”
Ford Otosan presented its vision of future transportation solutions under the concept of “City of Tomorrow” at annual “Turkey Innovation and Entrepreneurship Week” organized by Turkish Exporters Assembly and Republic of Turkey Ministry of Economy. İşeGel and Easy Route, two of the corporate entrepreneurship projects on Smart Mobility, have also been introduced. Ford Otosan creates a safer, cleaner, and more efficient transportation ecosystem via its technologies and smart vehicles as well as aiming to improve the quality of life using these smart cities’ infrastructure.

DIGITAL TRANSFORMATION

2015

Awareness and Learning Period

Digital Transformation investment decision was made.

2016

Awareness and Learning Period

We began to manage Digital Transformation as a separate unit by assigning Turkey’s first CDO.

2017

Acceleration Period

We started 17 Digital Transformation projects as well as training our work force.

2018

Acceleration period

We started to identify new projects.

2021

Acceleration Period

Vision: Becoming Turkey’s leader industrial company in digital transformation and mobility.

Our vision is “Being Turkey’s most valuable and most preferred industrial company.” We believe that digital transformation is the key to improve our business, create new job opportunities, and achieve our vision. We started out by creating a five-year roadmap by reviewing our existing processes and systems. We then categorized and kick started our digital transformation studies under 5 sections varying from our dealers to customers, suppliers to employees, and design to production. We are intelligently adapting new technologies to our production lines while acknowledging the essential requirements of cost benefits, quality, continuity, and security. It is our long-term mission to safely protect the data, to create a solid communication web within different departments, and to correctly analyze the data in order to make accurate decisions. We started out with 17 new projects by carefully selecting champions from all departments to become a leading digital corporation in the automotive industry. We carried out several projects that generated efficiency and revenue by combining digital transformation and a plain work environment in order to primarily reach out to our customers and employees.

CONNECTED CUSTOMER & DEALER

Analyzing our customers’ demands 7/24 and offering customized products.

Connected Dealer: Centralizing all our dealer operations and connecting them to our next generation CRM

Customer Centricity: Capturing Customer Voice Using it in our designs

Field Force Automation: Mobilizing our field sales force

I-Deal: Reshaping our customer journey

Smart Forecasting: Forecasting our next sales using Machine Learning & Data Analysis

CONNECTED MANUFACTURING

Digitizing our manufacturing around Industry 4.0

Manufacturing Information System: Collecting all our IoT and Machine data into a BIG Data Platform

Predictive Quality: Predicting our quality issues using machine learning. Hence continuously increasing our quality

Advanced Production Planning: Dynamically planning our production to adapt instant changes to improve total efficiency

Predictive Maintenance: Acting before a machine gets broken. Predicting failures well in advance

CONNECTED PRODUCT

Transforming our way of designing

Customer Centricity: Capturing Customer Voice Using it in our designs

CIPS: Connecting our vehicles to cloud and providing them value added services

Quality Process Mapping: Digitilazing all our processes amking them lean

Knowledge and Data Management: Making knowledge centralized and easily accessible by all relative parties

CONNECTED EMPLOYEE

Providing digital workspace to our employees

FO-CEP: Allowing all our employees to perform their processes over mobile environments

MOZAIK: Taking talent improvement to a new level

People Analytics: Analyzing our employees and trying to understand their moods and take action using this data

CONNECTED SUPPLY CHAIN

Connecting our suppliers to our central data for just in time ordering and minimum inventory

RFID Implementation: Using RFID methods to track inventory, counting and logistics

Advanced Production Planning: Dynamically planning our production to adapt instant changes to improve total efficiency and plan just in time ordering.



Sustainability

SUSTAINABILITY PRINCIPLES

SUSTAINABILITY REPORTING

Ford Otosan, the flagship and technological pioneer of the Turkish automotive industry, has been showing strong growth performance as well as taking firm steps towards its target of producing sustainable value for the environment and the society in which it operates. In this context, we present, for the information of our stakeholders, a detailed Sustainability Report in addition to our Annual Report, skillfully balancing the social, environmental, and economic dimensions of the activities we carry out.

Ford Otosan sustainability reports are prepared in accordance with the requirements of the latest global reporting initiative (GRI) G4 reporting principles and standard disclosures.

You can access our sustainability reports at www.fordotosan.com.tr.

SUSTAINABILITY COMMITTEE

In 2015, Ford Otosan established a Sustainability Committee in order to undertake the management, consultancy and coordination efforts required by our stakeholders in line with the social, environmental, economic, and ethical responsibilities of our company. The Committee reports to the Board of Directors on the implementation of sustainability measures, areas of opportunity, and the results of activities. The roles and responsibilities of the committee include:

- Preparing Ford Otosan’s “sustainability strategy and policy,” and taking action on the specific responsibilities assigned to this process;
- Preparing a “sustainability roadmap” that is compliant with the adopted strategy and policy, and all activities necessary to carry this out;
- Ensuring that the sustainability strategy, policy, and objectives are communicated to all stakeholders and the necessary training is provided; checking that all procedures, works, and applications are undertaken as required, and that all relevant data is reported;

- Preparing specific samples of sustainable products and services with consideration of their environmental and social impact and the value creation potential of Ford Otosan’s products and services;
- Suggesting improvements on sustainability strategies, policies, and objectives.

Ford Otosan has been included in the BIST Sustainability index since November 2, 2015.

As a result of its success in environmental, social, and governance practices, Ford Otosan has been included in the BIST Sustainability Index and as well as FTSE4Good Emerging Markets Index, one of the most important indeces used by responsible investors.

ENVIRONMENTALLY FRIENDLY PRODUCTION



“Ford Otosan, the leading company of the Turkish automotive sector, became the first automotive company to receive a “Green Office” certificate as part of the WWF-Turkey (World Wildlife Fund) Green Office Program for their efforts to become environmentally sustainable and to reduce their footprint in nature. Moreover, Ford Otosan achieved a first by providing participation in the program with most office workers in a single location in Turkey.”

19,010,840

Energy Savings

4,821.20

CO₂ Reduction

390,742 m³

Wastewater Treatment

7,218.13

Hazardous Waste Recycling

- Train and help employees and contractors to educate and develop themselves with respect to environmental awareness and the efficient use of energy;
- Provide the necessary human resources, as well as technological and financial resources, to reduce environmental impacts and increase efficient energy use;
- Develop energy efficiency projects to decrease greenhouse gas emissions from production and other activities, and carry out programs to increase renewable energy use;
- Highlight the need for reduced greenhouse gas emissions and renewable energy technologies in the design process;
- Increase supplier and stakeholder awareness of green economy and energy efficiency, and provide incentives in this regard.
- Places heavy emphasis on the biodiversity risks and opportunities associated with operational processes.

Environmental and Energy Management System

- Ford Otosan production, product, service and activities were first certified by the ISO 14001 Environmental Management System in 1998.
- Its environmental and energy management system is based on continuous development, and has been integrated with other company management systems such as quality and occupational safety.
- Ford Otosan Kocaeli (Gölcük and Yeniköy) and İnönü plants, and Sancaktepe R&D facility have successfully passed all environmental inspections with zero non-conformance.
- Ford Otosan employees’ respect for the environment and environmental awareness during production are the key aspects of the company’s responsible development.
- To further cultivate this appreciation, Ford Otosan asks for an ISO 14001 certificate from each supplier as a prerequisite for working together.
- In 2013, Ford Otosan integrated its Environmental Management System with the ISO 50001 Energy Management System, and received ISO 50001 certification following an independent audit.

Environmental and Energy Policy

- Meet and even surpass the requirements of applicable environmental and energy regulations through the standards we set and implement;
- Work to continuously develop our environmental and energy management systems;
- Reduce wastes to minimum, prevent pollution at the source, use energy efficiently, and reduce the negative impact of our activities on the environment;
- Protect the environment and spread this principle to everyone around us, both in the country and around the world;
- Determine and mitigate risks associated with emergencies;

In 2017, the Environmental and Energy Management Systems of Ford Otosan were evaluated by an independent organization at Gölcük, Yeniköy, İnönü plants and Sancaktepe facility. All four locations were assessed for compliance with the ISO 14001 standards, and three locations for the ISO 50001 and ISO 14064-1 standards (Gölcük and Yeniköy, Kocaeli; İnönü; and Sancaktepe). As a result, 100 percent success rate was achieved in all locations.

Atmospheric Emissions

As a company who has adopted sustainable development as a principle, Ford Otosan has never failed to opt for the newest and most environmentally friendly process technologies, ever since drawing up the first blueprints of its Gölcük Plant. A suitable example of this is the water-based paint used at the Gölcük Plant Paint Shop. To reduce volatile organic compounds (VOCs), which cause air pollution, water-based paints are used for painting. This practice is a first for primers at European Ford plants, and for both primers and finishing coats in the Turkish automotive industry. At the time of drawing the blueprints for the Yeniköy Plant Paint Shop, the THREE WET PAINT PROCESS was adopted, the first of its kind in Turkey and with very few global precedents reducing the the number of paint chambers and ovens to one. The need for priming and sanding was also eliminated. Subsequently, there were reductions in electricity and natural gas consumption, the use of industrial materials and paints, and maintenance, cleaning, labor, and waste costs. At the same time, the world's most advanced scrubber process, the Dry Scrubber Process, was implemented. With this technique, the paint dust produced in the chamber is carried by air, and combines with calcite in the units, and separated from the air with special filters. Thanks to the Dry Scrubber system on the chamber floor, no water or chemicals are used inside the paint chamber. Solvent use is also low. The Dry Scrubber and THREE WET PAINT PROCESS are valuable for offering much more efficient, modern, and environmentally friendly technologies.

In 2017, 2/3 Wet Paint and 4 Wet Sealer processes were implemented as part of the New Paint Shop Project to focus on environmentally friendly and energy efficient technologies. Significant reductions were achieved in industrial materials, paint, maintenance, cleaning, labor cost, and waste materials by reducing cabin and oven numbers down to one with the 2/3/4 Wet Paint and Sealer Projects.

Energy

An Energy Committee monitors the energy savings at Ford Otosan plants. The electricity and natural gas consumption

of all units are reviewed using scorecard metrics. Investments in energy saving projects are made for departments and processes consuming high amounts of energy. The Energy Committee meets periodically to determine what needs to be done for specific processes and facilities and strategies for reducing energy consumption. Our Energy Management is audited annually by an independent organization and followed up systematically using the ISO 50001 management system certified in 2013. In 2017, inspections were carried out in accordance with the ISO 50001 standard at all locations including Kocaeli (Gölcük and Yeniköy), İnönü, and Sancaktepe. All locations successfully passed the reviews. Likewise, cross audits are carried out with due care to provide internal ISO 50001 checks.

Ford Otosan has also completed energy efficiency and saving projects in 2017. Ford Otosan Gölcük Plant with High Efficiency Heat Recovery Chiller Project, low efficiency chiller has replaced to high efficiency ones in the paintshop process and the recovered heat has used in boiler house. Within the scope of the project 1,673 ton CO₂ greenhouse gas emission has been prevented. In addition, according to the paint shop data of Ford Otosan Yeniköy Plant, 1,601 tons of CO₂ greenhouse gas emissions were prevented with the economiser.

ELECTRICAL SAVINGS OF 10% WERE PROVIDED BY IMPROVEMENTS AND AWARENESS RAISING ACTIVITIES IN THE AUTOMATION SYSTEM AT THE SANCAKTEPE LOCATION



Ford Otosan İnönü Plant with energy projects, 571 tons of CO₂ greenhouse gas emissions were prevented by central cooling system pump replacement and chimney economizer application to the paintshop boiler. Additionally, Dali illumination automation systems have applied to the welding and paintshops. Zigbee automation has completed for outdoor illumination. Valve jacket application to new installed facilities, energy scada system to new facilities and cold test projects were applied. The energy management team's control and optimization efforts have resulted in a total energy savings of 1.2M kWh.

A daylight illumination system was applied to production workshops for the use of renewable energy sources in 2017 at the Ford Otosan Golcuk plant. The wind turbines were applied in front of exhaust chimneys in the paintshop. In addition, LED illumination displace projects are in progress. Within the scope of the Three Efficiency Improvement project were received a grant from the Ministry of Energy and Natural Resources Renewable Energy General Directorate. The projects were supported by the Ministry of Energy and Natural Resources, approximately 30 percent of the total investment cost was awarded by grant.

An electrical savings of 10 % were provided by improvements and awareness raising activities in the automation system at the Sancaktepe location.

Environment

Ford Otosan's environmental management efforts aim to reduce negative impact, support living systems and bio-diversity, and spread awareness across society. The company's efforts to protect biodiversity and local ecosystems at the Kocaeli Plant were recognized by Turkey's Ministry of Development as one of the best practices in the field of sustainability in the country. Ford Otosan's sustainable and environmentally friendly production system was presented at the United Nations Rio+20 Sustainable Development Summit. Under the ISO 14064-1 standard, emissions of direct and indirect greenhouse gases from energy use and other activities are calculated and verified by an independent organization.

Ford Otosan Kocaeli and Inonu Plant greenhouse gas emission reports were verified for the monitoring period of 2015 and 2016 by the authorized laboratory and were approved by the Ministry of Environment and Urbanization. The Ford Otosan Climate Change Action Plan was revised in 2017.

Products and Materials

Ford Otosan continuously strives to reduce negative environmental impacts that arise during a product's entire life cycle, including during its manufacturing. With this in mind, both energy and environmental aspects are considered starting at the design stage. All tire scraps, batteries, used packaging, and other waste generated during product use are collected and recycled by the relevant organizations. Ford services and dealers are informed of this. Even after the product's useful life expires, it is re-evaluated at a licensed recycling facility.

Wastewater Treatment and Water Usage

At Ford Otosan production facilities, all domestic and industrial wastewater is treated in-house. Wastewater processed at the on-site treatment facilities are investigated both at our company laboratories and independently accredited laboratories. COD and pH online measurement and automation systems are in Golcuk Plant Wastewater Treatment Plant. In 2017, a secondary control mechanism was established in Yeniköy Plant Wastewater Treatment Plant for measuring COD, pH, AKM, fluoride parameters with online automation system. However, the Kocaeli Plant is continuously monitors the wastewater by online measurement system in the wastewater treatment plant. The usage water requirements of the facilities are provided by well water. Through conservation and saving of natural resources, significant gains have been achieved in the process water consumption in the previous years. The wastewater recovery project feasibility studies were carried out at the Gölcük Plant Wastewater Treatment Plant. At the Sancaktepe location, 9% water saving was achieved due to lowering toilet reservoir volumes, reducing tap flow rates, and placing labels about awareness.

Waste Management

The facility's waste management system maintains the storage and disposal of hazardous waste in accordance with technical and legal standards to avoid adverse environmental impacts. This is sustained by reducing waste at the source and increasing recycling. Thanks to these efforts, substantial gains were realized in the reduction of hazardous waste. At Ford Otosan facilities, levels of hazardous and other wastes sent to the regular storage facility are monitored on a monthly basis by using separate scorecard metrics for each department.

Material usage and waste reduction were provided by different projects which were waste sealer, waks and solvent decreasing projects and anti masking projects at the Kocaeli Plants. In addition, paper and paper cup consumption is reduced 10% and 12% respectively at our Sancaktepe facility.

QUALITY

TOTAL QUALITY

The Total Quality Directorate supports entire process' of the company that start from the customer and end with the customer. Our main philosophy is to improve process that Ford Otosan and its authorized dealers have experienced starting with the purchasing of the product by the customer.

QUALITY POLICY

Customer satisfaction is our number one priority.

Ford Otosan continues to operate with the need to go beyond customer expectations and to have excellent product and service quality while offering innovative automotive products and services that will benefit society in the direction of its vision.



For this reason;

- Implement and carry out effective quality management systems in all processes
- Meet the customer expectation and go beyond the most appropriate, most accurate and most economical solutions in the fastest way to avoid the issue that may occur in the future production
- Establish university-industry business relationship to develop projects to understand, to meet and to exceed customer expectations
- Follow up and implement technological developments to reduce costs and increase profitability
- Continuously improve the quality level by utilizing the team competent and able to use their talents at the highest level within the framework of quality systems
- Establish quality awareness in all employees
- Ensure that all applicable management system standards (ISO 9001, ISO 14001, ISO 10002, ISO 50001, ISO 27001 and OHSAS 18001) are maintained and that the necessary improvements are carried out to ensure and enforce the applicable conditions,
- Increase trainings, cultural and sports activities for continuous development; to raise awareness in all parts of the society about the benefits provided by these activities.
- Create a fast and effective working system by using technological facilities in corporate communication with our suppliers and customers
- Complete every project initiated on time, in full compliance with the project with the highest level techniques, in the desired qualities and within budget limits
- Contribute to the country's economy by being a model organization that respects the environment we are in and constantly improving business volume

Are Ford Otosan's Quality Policies.

OCCUPATIONAL HEALTH AND SAFETY

OCCUPATIONAL HEALTH AND SAFETY POLICY

Ford Otosan fulfills all legal and business requirements related to occupational health and safety in the workplace to establish a secure and positive work environment. Management and employees work together to consistently achieve improvements that eliminate hazards threatening the safety of life and property, including those related to disease, injury, and fire. At Ford Otosan, we believe that management as well as employee engagement and collaboration are needed to protect employees from the losses that can arise from occupational accidents. Preventing accidents and losses is the direct and joint responsibility of management and staff.

Production and support departments function in accordance with this policy when designing, operating, and maintaining all facilities and equipment. All employees fully comply with occupational safety rules and procedures. Both staff and management strive very hard and take care to act consistently with this policy. Ford Otosan detects and defines the risks associated with occupational health and safety, and establishes and reviews objectives and programs associated with these risks. Stipulated and implemented by Ford Otosan, this policy is not only communicated to all employees and others working with the company, but is also accessible to public and third parties.

Risk Assessment Process

Our Company conducts risk analysis not only for production lines, but also for each operation and process. Risk analysis is performed by the operators directly responsible for the task, and is assessed with the participation and approval of specialists such as occupational safety experts, process and environmental engineers, and ergonomics professionals. Risk analyses are based on reviews of the physical, chemical, ergonomic, and hygienic risks that could arise during operations. The necessary measures against such risks are then taken. Risk analyses are renewed when changes are made to the process or layout plans, new equipment is purchased, a new system is adopted, and following an occupational accident. Risk analyses are reviewed at least once a year, even if none of the above situations occur.

Health Center

With a proactive approach and an understanding of preventive medicine, our Health Centers perform all of the necessary controls and establish monitoring systems to help prevent occupational diseases, as well as ergonomic and hygienic problems. Periodic annual health examinations are provided to all personnel in our Health Centers, which are open every day for 24 hours at each location during both office and production hours. Health Centers respond to emergencies and handle several health issues, including those relating to employees with disabilities, and also provide training on a variety of topics. During the 2016-20147 period, our Health Center continued the Women's Workshops and Disaster Communication Project are additional significant projects that have contributed to our lives.

Ford Otosan Search and Rescue Team (FOKE)

The FOKE Team was founded by employee volunteers during the Gölcük earthquake in 1999. Training methods were renewed following an increase in the number of participants in 2011. The FOKE team responds to disasters, providing voluntary support to search and rescue efforts. Most recently, they volunteered to take part in the emergency response to the Van earthquake. The FOKE team participates in joint drills with other Koç Holding search and rescue teams, and saw an increase in the number of volunteers to 100 with the help of training sessions at the Sancaktepe facility. The team continues to train to remain prepared for search and rescue operations in an event of disasters and emergencies.

Five Awards from Ford Global

Ford Otosan was awarded five prizes at the President's Health and Safety Award competition that has been organized under Ford's umbrella since 1999. The most significant of these five awards, Ford Global Award, went to our İnönü Plant's "Deployment of Safety Culture" project under the Recognition & Engagement category. Moreover, Professional of the Year, Best Performance - Lost Time Case Rate, and 2 Lifesaving Awards were also granted to our İnönü Plant.

HUMAN RESOURCES

Our Vision, Mission and Strategy

Our vision is to make Ford Otosan the most preferred company and having high employee engagement with innovational Human Resources applications. Our mission is to develop and implement Human Resources systems based on equal opportunity, being respectful to diversity and ethical values, focusing development, supporting high performance in line with the company strategy.

- Our strategies;
- Be among the first 10 of the most preferred companies.
 - Be the leader HR brand with sustainable and innovational applications.
 - Be among the first 10 companies in Best Workplaces in Turkey list according to Employee Engagement Survey reports.
 - Be respectful to diversity and ethical values with attaching importance to equal opportunity in all HR applications.
 - Design, launch HR applications and provide continuity with effectively usage of technology.

Recruiting and Talent Management System

We conduct our recruitment processes with the aim of placing the right candidate in the right position at the right time by valuing the differences within our framework of opportunity equity strategy and offering equal opportunity without allowing any discrimination. During our selection and placement process, our objective is to have one of the two candidates that we recruit to be woman. In 2017, the rate of women employees was 26% in office employees, 12% in field workers and 15% in total. Talent Management System has a big role in terms of discovering the potentials of the our employees and determining the areas which are open for development. 360º Competency Assesment is applied to all of the office workers according to Ford Otosan Behavioral Competencies. In the process of adapting to the new job, every new employee has a orientation coach. The ones who complete the orientation are given an engagement survey in order to evaluate the adapting process and an action plan is prepared accordingly. In the Human Resources Planning Meetings talent pools are determined as well as the career plans of the employees. Employees can proceed in either the leadership or the expertise path.

Training and Development Management

Our training and development policy enhances individual success and motivation by providing activities that meet personal, professional and technical development needs of employees in line with company goals and strategies, as well as contributing to organizational development and success. Our training and development calendar is created annually according to the needs identified by competency evaluation, performance evaluation and development center applications and the demands of our employees. Individual Development Plans are performed each year are based on the strengths and development areas of the employee’s knowledge, skills and behavior required by the current and future position.

Internal Communication

Internal communication activities provide the environment for employees to get information about all developments related to Ford Otosan, communicate and share their views with Top Management.

Compensation Management

It is aimed to increase rewarding efficiency by emphasizing business volume, performance and contributions to business with Compensation Management. Ford Otosan gives importance to be consistent and fair in accordance with the principle of “equal pay for equal work”, to ensure the balance within the company and competitiveness in the market. The basis of compensation management is the grade system at Ford Otosan. Grade system is determined in accordance with the scope of business for all positions and the compensation is managed in the direction of wage policies.

Flexible Benefits Program- Flextra

Flextra is a system through which our employees manage their flexible benefit budgets by making annual selections within the framework of specified rules.

Performance Based Bonus – BEST

The BEST system is a long-term variable income application. The bonus of all team leaders and office employees is determined in accordance with the performance of the Company.

Performance Management System

The aim of the system is to manage the performance of the employees objectively in the framework of common principles in order to sustain high performance. At the beginning of the year, the manager and the employee determine the targets together within the scope of company targets. Actual values of the targets are monitored in six-month periods. Competencies also have an important role in the system beside the targets.

Recognition, Appreciation and Rewarding

The rewarding of successful works that make a difference with the “Achievement Reward System” which supports our common values and vision is aimed at creating an environment where employees will be proud and happy when working. The system includes many different programs, including the Most Successful Koç Employees, Instant Award, Ford Otosan’s Stars, Suggestion and Improvement System awards.

ISE (International Service Employee) Management

International Service Employees are the important components which make Ford Otosan global and reinforce the cooperation between Ford Otosan and Ford Motor Company. Being a part of international projects, International employees get experience of working in different cultures and mainly evaluate their management skills. In 2017, Ford Otosan’s ISE employees were assigned in 13 different countries and mainly their relocation&repatriation processes, performance reviews, talent management processes, compensation & benefits plannings have been followed by Ford Otosan HR Team.

Industrial Relations

Our objective is to achieve the Koç Group’s industrial relations goals by leveraging our strong human capital. The continuous development of the employees, protection of their rights and improvement of their working conditions are our main priorities.

Trade Union Processes

While keeping continuous contact with the union that represents our field personnel, we manage the Collective Labor Agreement process and follow up on the allocation and promotion of the rights provided to the field workers within this context.

Performance Management

Field personnel are subject to performance evaluations twice a year. In the interim period, the employee’s work attendance is monitored. The year-end performance evaluation is composed of four main considerations: General Qualifications, Measurable Qualifications, Work Attendance and Judgment of Superiors.



Recognition

The employees who have received high performance scores with a perfect attendance record and without penalties in the year-end Performance Evaluation are rewarded with a vacation with their families.

Disciplinary Board Process

The process is conducted within the framework of Group Collective Labor Agreement. The penalties that can be imposed by the Disciplinary Board are determined according to the “B) Disciplinary Measures” clause of the Group Collective Labor Agreement. All monthly-salaried employees are obliged to comply with the law, the provisions of the legislation and of their employment contract, the Ford Otosan Code of Conduct, the applicable rules and regulations, procedures and instructions of Ford Otosan, and the instructions they receive from their managers for completing the task they are asked to perform. Any action or negligence that constitutes a violation of this obligation shall be assessed and enforced according to the provisions of this procedure. The Disciplinary Board is chaired by the General Manager, or in the absence of the General Manager, by the Deputy General Manager.

Congratulation and Non-compliance System

All employees are obliged to comply with the rules of Occupational Health and Safety, Environmental Management, Quality Management and Work Discipline. A Congratulation/ Non-compliance Form is used to recognize when behaviors rise above, or warn when they fall below, the expected standard.

Business Lawsuits

The court notices related to the employment law are directed to the Industrial Relations department. The information and documents requested in the court notices are conveyed to the issuing court in due course, followed by arrangements such as furnishing the names of witnesses to the court, making the necessary preparations for discovery, and so on.

CORPORATE SOCIAL RESPONSIBILITY

In addition to adopting a corporate citizenship approach, Ford Otosan has launched many social responsibility projects in areas such as education, health, culture and arts, and sports to contribute to efforts to attain national sustainable development objectives.

“I SUPPORT GENDER EQUALITY FOR MY COUNTRY”

The corporate social responsibility (CSR) project entitled “For My Country” enables Koç Group employees and dealers incorporate their individual entrepreneurship tenets into an area of social responsibility. A bridge is formed between the individual, the company, and society while the individual is helped to fulfill their task. Since 2006, a general solutions unit has been launched under the companies of the group. Ford Otosan generates sustainable solutions for social issues as part of its sustainable social vision together with its employees and dealers. The company also participates in projects that support a local focus on social issues with its staff and dealers within the “For My Country” initiative. To move towards an equal society domestically and globally, the company has mobilized its means and resources. In line with its 2015-2017 theme of “I Support Gender Equality,” part of “For My Country,” it has highlighted sexual discrimination, an issue that can result in disadvantages in both social and business life for women and men alike.

As part of these projects,

- A company team of 27 volunteers has been formed to actively support the implementation of the gender mainstreaming awareness project. Volunteer instructors from Ford Otosan delivered seminars on gender mainstreaming to 11,544 Ford Otosan employees from October 2015 to January 2018.
- Ford Otosan's instructors also continue to deliver seminars on gender equality to Koç group suppliers on a voluntary basis.
- Training sessions have been organized for Ford Otosan suppliers in collaboration with Aev. After suppliers complete their internal seminars in their companies, Ford Otosan will have reached 30,000 more people in total.

EQUALITY AT WORK

Committed to uphold the basic principle of equality for all employees, Ford Otosan continues to add individual and social value for its staff through the “Equality At Work” declaration signed in 2013. The company is intent on tackling gender inequality, and continually stresses the importance of equality between men and women at all company activities, including the recruitment process.

ACCORDING TO OUR COMPANY POLICY, ONE OF EVERY TWO NEW NON-MANUAL EMPLOYEES AND ONE OF EVERY FOUR NEW MANUAL EMPLOYEES MUST BE FEMALE

TOTAL NUMBER OF OUR FEMALE EMPLOYEES

15%



YEARLY INCREASE IN THE NUMBER OF OUR FEMALE EMPLOYEES

26%



HONEY BEES ARE BECOMING ENGINEERS

Launched during the reporting period, the two-year long “Honey Bees Are Becoming Engineers” campaign will be implemented in 81 schools operated by the Ministry of Education throughout the 81 provinces of Turkey. This corporate social responsibility project targets the removal of prejudices associated with choices of profession.

With the gender mainstreaming patterns observed in the 81 Turkish provinces in mind, female students are informed and encouraged with regard to employment and engineering. Familiarity with this profession, traditionally seen as a male dominated career area, is provided, and families encouraged to support their daughters interested in this discipline. At the end of 2017, 16,370 students across 81 provinces, including 9,873 female students, were reached.

Goals

- To create awareness of the engineering profession in society;
- To encourage 9th grade female students to become engineers;
- To develop awareness of equal opportunity in education and profession choice for both men and women;
- To increase the ratio of female students selecting engineering as a career;
- To become a leading and inspiring company in the sector with this project supporting gender equality.
- To help expand the country's labor force by supporting female employment.



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Corporate Governance

CORPORATE GOVERNANCE COMPLIANCE REPORT

SECTION I: DECLARATION FOR COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

Ford Otosan has adhered to the mandatory Corporate Governance Principles published by the Capital Markets Board within the scope of “II-17.1 Communique on Corporate Governance Principles” in 2017 and compliance for the remaining principles has been mostly attained. Full compliance target has not been achieved yet due to the challenges encountered in the implementation of some principles, the ongoing discussions in Turkey and in the international platform regarding compliance with certain principles and failure of the current structure to meet such principles in a proper fashion. We are working on the principles that have not been put into practice and application is planned for reinforcing efficient management after the completion of administrative, legal and technical infrastructure.

In 2017, Corporate Governance activities include significant efforts that were made for compliance with the Capital Markets Law and related Communiques. Board of Directors and Board Committees have been established in compliance with Corporate Governance Principles. The Committees founded in the Board of Directors carried out their activities effectively. Remuneration Policy for Board and Executive Management were submitted to the approval of shareholders in the general assembly. Information about preferred shares, shareholder rights, organizational changes, candidate members of the Board, reports for transactions made with related parties were announced three weeks in advance of the general assembly meeting. The Company website and annual report have been reviewed and revised for full compliance with the principles of the Capital Markets Board.

Necessary steps will be taken to ensure compliance with the principles parallel to the developments in legislation and general practice.

According to the Article 6 in the Communique, confirmation for the acceptance of Ford Otosan as a joint venture and determination of the number of independent board members as two was granted by Capital Markets Board and these Board member candidates are also approved in the General Assembly meeting.

Compliance to the Corporate Governance Principles stated below that are not mandatory have not been fulfilled yet due to the reasons explained above.

- Related to 1.5.2 Principle: Minority rights have been defined only with the general framework of regulations and not outlined for the shareholders having less than one twentieth of capital in the Articles of Association.
- Related to 4.3.9 Principle: The evaluation studies continue for determining target ratio and timing for woman member proportion in the Board of Directors. The detailed information about the subject is stated in section 5.1 of this report.
- Related to 4.4.7 Principle: As explained in section 5.1, the members of the Board of Directors are not restricted to take on other duties outside the company.

SECTION II – SHAREHOLDERS

2.1 Shareholder Relations Unit

Investor Relations responsibilities which are described in Article 11 of the “Communique” are performed by Investor Relations Manager Aslı Selçuk (aselcuk@ford.com.tr/0216 5647499) and Treasury and Risk Manager Burak Çekmece (bcekmece@ford.com.tr/0216 5647480) who are direct reports to İ.Oğuz Toprakoğlu (otoprako@ford.com.tr/0262 3156900) the Assistant General Manager - Finance (CFO). Burak Çekmece and Aslı Selçuk have Capital Market Board Activities Advanced Level License and Corporate Governance Rating Specialist License which are required in the Communique.

The Investor Relations Team is responsible for informing the shareholders correctly and equally about the company in line with the Corporate Disclosure Policy. For achieving this objective, meetings are organized with the concerned parties, investor conferences and road shows are attended and all incoming telephone or e-mail questions are answered. During the year, the Team attended 20 conference and roadshows and held more than 350 meetings with investors and analysts. Analyst meetings were held with the participation of CFO after quarterly earnings announcements.

Any type of information that may affect the way in which shareholders exercise such rights is presented to shareholders attention in the company website on a regular basis. In addition, updated information is available by means of Investor Relations mobile application.

The report about the Investor Relations activities is submitted to the attention of Board after year end closure.

2.2 Use of Shareholders Rights to Obtain Information

Ford Otosan does not discriminate among shareholders related to their right to obtain and evaluate information. Enquiries directed to Investor Relations, with the exception of information considered confidential or a trade secret, are answered in writing or by phone by the most authorized person concerning that particular issue. The “Investors” section in the company's corporate website (www.fordotosan.com.tr) includes all kind of information and announcements regarding the utilization of rights by shareholders by using electronic tools effectively as explained in Section 3.1 of this report (<https://www.fordotosan.com.tr/en/investors/investor-relations-home>)

The request for nominating of a private auditor has not been set down in the Articles of Incorporation as an individual right; it has been predicted that the relevant provisions of the Turkish Commercial Code will be implemented. There was no request during the period of operation for the appointment of a private auditor. The Company's activities are audited periodically by the Independent Auditor assigned at the general assembly.

2.3 General Shareholders Meetings

During the calendar year of 2017, two General Shareholders' Meetings were held; one ordinary meeting (on March 23rd at Divan İstanbul Elmadağ Oteli, Asker Ocağı Caddesi No:1 Şişli / İstanbul) and one extraordinary meeting (on October 27th at Akpınar Mahallesi, Hasan Basri Caddesi No:2 Sancaktepe / İstanbul). Both meetings achieved a participation of on average 92% and convened at sessions that were open to the public.

The meetings can be attended by stakeholders and the media. Executive Management and minimum two Board members are present in the General Shareholders' Meetings.

Invitations to the Shareholders' Meetings have been sent out through Public Disclosure Platform, Turkish trade registry gazette, the Company's “e-Şirket” and website in accordance with the regulations set by the Turkish Commercial Code and the Capital Markets Board.

As from 21 days before the date of the Ordinary Shareholders' Meetings; the agenda of the meeting, the power-of-attorney samples, the Board of Directors' Report, the Auditor's Report, the Independent Auditor's Report, Financial Statements and the Dividend Distribution Proposal are made accessible to all shareholders for examination purposes at the Company's Finance Department and published in the website. In addition, Annual Report including the documents mentioned above and the other information are given out upon request.

There were no demands by the shareholders related to the agenda of the meetings.

There is no related party or significant transaction in 2017 that needs General Assembly approval due to the disapproval of independent board members.

Some shareholders who want to ask questions have utilized their rights at the Shareholders' Meetings and satisfactory responses were given to these questions during the meeting.

The Chairman of the Board and the members are granted permission at each Annual Ordinary General Shareholders' Meeting in accordance with articles 395 and 396 of the Turkish Commercial Code to undertake business that falls into the business scope of the company on behalf of themselves or of others and to be shareholders in companies that undertake such business. The members of the Board of Directors are thus allowed to take on other duties, with no restrictions, outside of the company, within the framework of this permission.

Donations and support made in 2016 were subject to a separate agenda item in 2017 Ordinary General Assembly Meeting and donation amount was limited to TL 27.500.000 for 2017. There was no change in the donation policy.

The Shareholders' Meeting Minutes are published in the website and made available to all shareholders at the Finance Department for examination purposes.

2.4 Voting Rights and Minority Rights

The distribution of the shares representing the issued capital according to the share groups (A,B and C group) is explained in the Article 6 (Capital) of Company’s Articles of Association.

There are no privileged voting rights generally. However, according to the provisions of the Articles of Incorporation, following quorum conditions are applied:

- The quorum for Shareholders’ meeting is 60% of Company’s total shares and decisions are taken with affirmative vote of 60% of total share representatives. In order for the resolutions of the Shareholders’ Meetings to be valid, shareholders representing more than half of B or C group shares must have cast an affirmative vote.
- The principle has been set forth that half of the members of the Board of Directors must be elected from candidates representing Group B and the other half from candidates representing Group C shares. One of the candidates representing Group B and Group C shares must have independent member qualifications stated in Capital Market Board legislation.

There are no companies that are reciprocal shareholders.

Minority rights have been defined only with the general framework of regulations and not outlined for the shareholders having less than one twentieth of capital in the Articles of Association.

2.5 Dividend Right

There are no dividend privileged rights in shares.

Our Company conducts a dividend policy within the framework of the provisions of the Turkish Commercial Code, Capital Markets Legislation, Tax Regulations and other relevant legislation as well as the provisions of the Articles of Association governing the distribution of profits. In distribution of profit, a consistent and balanced policy is followed between shareholders and Company requirements in line with Corporate Governance Principles. Dividend Policy is explained in Financial Reports section in the Annual Report which is available in Company website.

In principle, subject to be covered by the resources existing in legal records, and subject to the decision of the Ordinary or Extraordinary General Assembly Meeting, excluding periods of large investment or severe economic downturn, by taking into consideration other legislation, financial and market

conditions, long-term strategy, investment and financing policies, profitability and cash position, minimum 50% of the distributable profit for the period calculated within the framework of the Capital Markets Legislation is distributed in the form of cash or stock.

The dividend distribution date is determined by General Assembly and targeted to be within one month after General or Extraordinary Assembly Meeting date. General Assembly, or if authorized Board of Directors, could decide to pay dividend in installments within the framework of Capital Markets Legislation.

According to Company’s Articles of Association, Board of Directors can distribute advance dividend with the condition of being authorized and compliant with Capital Markets Legislation.

TL 400.037.400 gross dividend was paid on April 3, 2017 and TL 389.510.000 gross dividend was paid on October 31, 2017.

2.6 Transfer of Shares

The restrictions for share transfers are stated in Article 8 of the Company’s Articles of Incorporation that is also available in the Company website. But there are no constraints or similar clauses for Group A shares regarding free transfer between shareholders.

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 The Company’s Website and Its Content

The address for access to the Ford Otomotiv Sanayi A.Ş. corporate website is www.fordotosan.com.tr The website is available both in Turkish and English.

As explained thoroughly in the company’s Corporate Disclosure Policy; “Corporate” and “Investors” sections of the website encompass Vision, Mission and Strategies, Policies, the latest Shareholder and Management structure, the Company’s Articles of Incorporation, Independent Auditor, Stock Information, Board Committees, Annual and Quarterly reports, periodical Financial Statements and Reports, Material Disclosures, Agendas, Attendee List and meeting minutes of the General Shareholders’ Meetings, Independent Auditors’ Reports, Investor and Analyst presentations, Corporate Governance Principles Compliance Report, Sustainability Approach and Reports, Standards of Corporate Conduct, Announcements made by the company, Awards, Memberships, Contact Information and all related data.

3.2 Annual Report

The annual report is prepared in sufficient detail asserted in Corporate Governance Principles to ensure complete, true information is presented to the public about company operations in line with the legal requirements.

SECTION IV - STAKEHOLDERS

4.1 Disclosure to Stakeholders

Stakeholders are regularly informed by the company about company policies, procedures for protection of their rights and matters concerning them.

Employees are informed by management at every opportunity through electronic mail or printed documents. Besides this type of information-sharing, general and departmental open-door meetings are organized for this purpose. Employee union representatives also attend the general meetings at company offices, offering their views.

Stakeholders can report practices which violate regulations and ethically inappropriate transactions to the Internal Control Department to be communicated to the Audit Committee. Additionally, preparations for establishing Ethical Policy and Ethics Committee in 2018 are almost completed.

Explanations about sharing information with shareholders, investors, dealers, suppliers and other stakeholders have been disclosed in related parts of the report.

4.2 Stakeholders Participation in the Company Management

Some of the activities regarding the participation of stakeholders in management are as follows:

It is discussed and a mutual understanding is obtained with the labor union before changes are made in working conditions, working environment and employee rights; decisions are taken together.

Additionally, labor union and working representatives are included in the decisions taken by participating monthly to Health & Safety Council.

During a year, several meetings are held with the local suppliers to review quality, project monitoring, delivery, cost reduction topics and methods for maintaining efficiency and sustainability in supply chain at both sides. A supplier summit is organized annually where high performer mass production suppliers are awarded.

In a similar manner, the participations of local suppliers are provided to Ford of Europe supplier summit organization to improve their potential.

Ford’s Q1 award confirming institutionalisation of sustainable procedures is given to suppliers that have completed necessary work with the support of Ford Otosan specialists. It is also important that certification of local suppliers is made by third parties in terms of Working Conditions and Environmental status.

Detailed feedback workshops are set up by Automotive Manufacturers Association for developing action plans based on supplier engagement survey results. Training participation fees of suppliers’ attendance to technical trainings organized about quality and procurement management during a year are returned with collective social responsibility projects carried out on behalf of Ford Otosan and its suppliers.

The best example of this is the “Journey to Hope Mobile Cafe” Project realized in collaboration with KAÇUV (Hope Foundation of Cancer Children’s) to support the treatment of children with cancer. Besides, joint activities are carried out with the suppliers in order to extend social responsibility projects to the supplier network. Another best example of such recent activity is “Chairman’s Leadership Award for Diversity” (CLAD) prize given by Ford for expanding social gender equality awareness trainings among the suppliers through our Purchasing Specialist volunteers.

The “Recycling Heroes” project that was led by the Purchasing Specialist volunteers have provided awareness trainings about the importance of recycling to primary school students in Kocaeli, Gölcük.

Additionally, Supplier Application Portal project is an on-line platform in Ford Otosan website where companies wishing to become Ford Otosan supplier can apply equally and easily.

Dealers’ participation in management is achieved through the “Dealers Council,” which was formed many years ago. This Council, made up of representatives elected by dealers, meets regularly and develops suggestions concerning company sales, after sales and marketing activities together with management representatives. There is also a Dealers Meeting organized every year with the attendance of all dealers. A regional manager is appointed to each region and meetings are being organized for regional requirements and assessment.

One of the basic strategies of the company is to achieve perfect customer satisfaction regarding the products and services we market. With this aim, many research studies and numerical measurements are carried out by the company and other independent sources to achieve product quality as well as perfect sales and after-sales services. In addition, a program has been exercised to measure dealer satisfaction numerically. In the light of the results of these studies and in consideration of customer demands, our activity plans are mapped out to increase product and service quality and consequently customer satisfaction.

In addition to the various units in the company working on total quality, our Customer Relationship Management (CRM) Department works to answer customer needs and eliminate causes of complaints.

4.3 Human Resources Policy

As in other companies of the Koç Group, the tenet “Our most valuable capital is our human resources” comprises the essence of human resources policies at Ford Otosan. The vision set forth in line with HR policies is to make Ford Otosan the most preferred company with high employee engagement by means of innovative HR activities.

The mission is to develop and apply HR systems which are focused on people, equal opportunities, respect diversity and ethical values leading to high performance.

Our Human Resources Management strategies are: To be HR brand leader in Turkey by applying sustainable and innovative applications; To be amongst the top 10 preferred companies; To be amongst the top 10 companies regarding Employee Engagement Survey; To respect diversity and ethics in all HR applications by keeping equal opportunities for people; To design and implement integrated HR applications by using technology effectively and ensure sustainability.

The Company principle of announcing job descriptions and performance evaluation criteria is applied. The principles for employee recruitment are documented. The “Employee Engagement Survey” distributed every year measures employee satisfaction, loyalty and pinpoint areas for development, facilitating steps for improvement.

The company has signed a 3 year agreement in December 2014, effective from September 1st 2014, with blue colored personnel through Turkish Metals Union. Except union representatives who are appointed in accordance with the Collective Labor

Agreement, there is no other representative from the company appointed to manage employee relations. This relationship with the union is essentially the job of the Human Resources Directorate. The negotiations for Collective Labor Agreement which were continuing as of 2017 year-end resulted in agreement on January 30, 2018.

“Equality and Diversity Strategy” in Ford Otosan focuses on fair and unbiased treatment of employee, stakeholders and suppliers as well as protection of human dignity. A constructive and inclusive approach is followed which doesn’t create discrimination in the relationship with customers, stakeholders and suppliers.

“Declaration on Equality at Work” which summarizes female participation in work ensures equality among women and men in Ford Otosan within the “Equality and Diversity Strategy”.

4.4 Ethical Rules and Social Responsibility

The “Ford Otosan Standards of Corporate Conduct”, that was created for the purpose of determining basic ethical principles for the company and its employees, was revised for increasing the effectiveness. Comprising nineteen guidelines, the text of these principles was distributed to and signed by all personnel working at the company at the time. The same procedure has continued to be carried out for personnel joining the company after that date. In addition, all employees are issued reminders of the guidelines once a year. With the latest revision, an on-line test is made for employees after confirmation to check the comprehension of the standards.

Being included also in the company website, Ford Otosan Standards of Corporate Conduct are being updated and reviewed each year.

Ford Otosan has adopted the principle of developing the environment, community and life standards of the people. The company’s environmental policies have been announced in our annual report and website. The Kocaeli and Inönü Plants both have Environmental Impact Assessment Reports. All of Ford Otosan facilities are holders of ISO 14000 certificates. Company’s social responsibility projects and activities are explained separately in the related sections of the Annual Report and Sustainability Reports. Ford Otosan obtained the right to enter “BIST Sustainability” and “FTSE4Good Emerging” Indices after the success in environmental, social and management areas, which are followed by investors responsive to these topics.

SECTION V – BOARD OF DIRECTORS

5.1 The Structure and Formation of the Board of Directors

Except General Manager Haydar Yenigün and Deputy General Manager Lisa K. King, twelve of fourteen members of the Board of Directors are non-executives as stated in Capital Market’s Board Corporate Governance Principles. The resumes of the Board members are included in the related section of Annual Report.

Mr. James Duncan Farley Jr., nominated by Class C shares, was elected as a Board member and Vice Chairman following the Ordinary General Assembly held on March 23, 2017. As a result of new role in Ford Motor Company organization, he resigned from membership of the Board of Directors effective from September 8, 2017. Mr. Steven R. Armstrong who is currently Board Member was appointed as Vice Chairman and Remuneration Committee member as of this date.

Mr. Joseph Bakaj nominated by Class C Shares was assigned to the membership of Board of Directors to serve until the next General Assembly of Shareholders.

The Chairman of the Board and General Manager are different people. Care is shown by the Board members to spare sufficient time for company matters and there is no restriction for duties outside Company. Especially the contribution of independent members as a result of their experiences does not oblige such restriction. The resumes and duties outside company are announced to shareholders before general assembly meeting.

It is considered that diversity in knowledge, experience and vision of Board Members will contribute to the Company’s operations and Board of Director’s efficiency. There are already two women members in the Board of Directors.

The responsibilities of Nomination Committee are carried out by Corporate Governance Committee.

The list of the Board of Directors as of 31.12.2017 is presented below.

Name - Surname	Indepen- dent	Appointment Date	Duration	Membership in Board Commities	Duties Outside Company
Rahmi M. Koç	No	23.03.2017	12 Months	-	Koç Honorary Chairman
Ali Y. Koç	No	23.03.2017	12 Months	-	Koç Holding Vice Chairman
Steven R. Armstrong	No	23.03.2017	12 Months	Remuneration Committee	Ford Motor Company Man.
Linda A. Cash	No	23.03.2017	12 Months	-	Ford Motor Company Man.
William R. Periam	No	23.03.2017	12 Months	Corporate Governance Committee/Risk Committee	Ford Motor Company Man.
Joseph Bakaj	No	08.09.2017	6 Months	-	Ford Motor Company Man.
Roelant C. de Waard	No	23.03.2017	12 Months	-	Ford Motor Company Man.
O. Turgay Durak	No	23.03.2017	12 Months		-
İ. Cenk Çimen	No	23.03.2017	12 Months	Risk Committee/ Remuneration Committee	Koç Holding Man.
Ali İhsan İlkbahar	No	23.03.2017	12 Months	Corporate Governance Committee	-
Haydar Yenigün	No	23.03.2017	12 Months	-	-
Lisa K. King	No	23.03.2017	12 Months	-	-
Mehmet Barmanbek	Yes	23.03.2017	12 Months	Risk Comm.Pres./ Remun. Comm. Pres/ Audit Comm./	-
L. Martin Meany	Yes	23.03.2017	12 Months	Corp.Gov.Committee Pres/ Audit Committee.	-

The candidate declarations and resumes of two independent members are evaluated in Corporate Governance Committee and Board of Directors meetings dated 12.01.2017 and 13.01.2017 respectively. All the independent board members have submitted their independence declarations to Corporate Governance Committee and no condition which cancels the independency has been observed in 2017.

5.2 Board of Directors Operating Principles

The principles of activity of the Board of Directors have been set out in Articles 10,11 and 12 of the Articles of Incorporation. In summary, according to the Turkish Commercial Code and the provisions of the Articles of Incorporation, the Board of Directors is authorized to take all decisions other than those procedures that are required to be taken at the General Shareholders’ Meeting.

The Board of Directors meets regularly at least three or four times during the year with the participation of all of its members. At these meetings, all the activities of the company are reviewed and decisions are taken on important matters. In addition to these regular meetings, the Board of Directors may meet to take decisions on matters deemed necessary with a simple majority of members or in accordance with Article 390/4 of the Turkish Commercial Code the Board may take a decision without actually convening. According to the provisions of the Articles of Incorporation, members representing more than half of B and C group shares who are not independent must have cast an affirmative vote in the meeting for the resolutions. In the calendar year of 2017, twenty-seven Board of Directors’ resolutions are taken and four of them are circular type BOD resolutions.

The agendas for the regular meetings are prepared by the Board of Director’s Secretarial Office in consideration of previous decisions and decisions that need to be taken on certain matters. Agendas for other meetings are defined by subjects which are required by law to be decided upon by the Board.

The Board of Directors Secretarial duty is managed by the Assistant General Manager – Finance (CFO).

Since no member has opposed to decisions taken at the meetings in recent years, no indication of opposition has been made in the minutes and consequently no such report has been made to the auditors Board Members and Senior Executives have “Directors and Officers Liability Insurance”.

Board of Directors foresee the probability of conflict of interest and if exist, assess the relevant consequences and take necessary actions for the benefit of the Company during its operations.

The Board of Directors evaluates the compliance to the regulations and potential fraud risks in the related party transactions prudently.

5.3. Number, Structure and Independence of Committees established by the Board of Directors

Audit Committee, comprising Mehmet Barmanbek and Leonard Martin Meany, meets before the regular meetings of the Board. It reviews the quarterly financial statements and presents opinion to the Board of Directors. The working principles of the committee have been put forth in a written set of procedures. Reviewing and monitoring detailed data about the company’s financial status, independent audit and internal control mechanisms and presenting all views and decision drafts to the Board of Directors are among the duties of the Audit Committee.

Corporate Governance Committee, which aims to enhance corporate governance activities and carry out Nomination Committee responsibilities, consists of four members, Leonard Martin Meany as President, Ali İhsan İlkbahar, William Richard Periam and İ.Oğuz Toprakoğlu as members.

Early Determination and Management of Risk Committee, which aims to establish risk management system, consists of three members, Mehmet Barmanbek as President, İsmail Cenk Çimen and William Richard Periam as members.

Remuneration Committee, which aims to determine benefits provided to executive management, consists of three members, Mehmet Barmanbek as President, İ.Cenk Çimen and James Duncan Farley Jr. as members. Since James Duncan Farley Jr. resigned from Board of Directors membership on September 8th, 2017, Steven Robert Armstrong was assigned to this Committee.

The members, working principles and responsibilities of the established committees are announced as Special Case Disclosure to the public and published in company website.

The executive members of the Board have not taken on duties in the committees.

5.4 Risk Management and Internal Control Mechanism

The primary goals of Ford Otosan in risk management are to foresee, manage, monitor the potential risks in each area and to prepare action plans for risk and crisis management in advance. The Board of Directors, Early Determination and Management of Risk Committee, Audit Committee and Executive Management of the Company are regularly informed about the risks. Detailed explanations regarding Risk Management and Risk Control systems could be found in “Risk Management” section of the Annual Report.

5.5 Strategic Objectives of the Company

The past performance and degree of reaching the strategic targets developed in line with the manner described in the “Principles of Activity of the Board of Directors” section are announced to the public by Annual/Interim reports and company website.

5.6 Financial Rights

The remuneration criteria of the Executive Management and Board members is announced in the “Information Document” three weeks prior to General Assembly meeting dated 23 March 2017 and put into practice afterwards. The total payments to Board members and Executive Management within scope of remuneration policy are evaluated by Remuneration Committee and Board of Directors annually and announced to the public in the footnotes of our financial statements. The company has not lent any amounts to any of the members of its Board of Directors nor to its executives, nor has it extended credit to them, nor offered any guarantees in their favor that might lead to conflict of interest.

RISK MANAGEMENT
AND INTERNAL CONTROL

A. RISK MANAGEMENT

The primary goal of Ford Otosan in risk management is to foresee, manage, monitor the potential risks in each area and to prepare action plans for risk and crisis management in advance. Board of Directors, Early Determination and Management of Risk Committee, Audit Committee and Executive Management of the Company are regularly informed about the risks.

Risk Management section which has been established under Treasury Department, led the establishment of cross functional ERM (Enterprise Risk Management) team. ERM team consisting of department representatives at management level identifies, measures, prioritizes and manages Ford Otosan's financial, operational, strategic and legal risks at monthly ERM meetings and prepares the action plans. "Impact and Probability Chart" is used to measure the risks; "Impact Severity Classification Chart" is utilized for impact severity. Risk Management section is responsible for reporting ERM studies to Ford Otosan Executive Management and to "Early Determination of Risk Committee".

The company monitors the risk management under four categories.

Financial Risks

Credit Risk

Direct Debiting System, which is an effective way to guarantee the receivables, is applied to dealer receivables from domestic vehicle and spare-part sales. Most of the export sales are made to Ford Motor Company and its affiliates with an average term of 14 days for vehicle shipments. Foreign sales that are made to parties other than Ford Motor Company are guaranteed through letter of credit, guarantee letter, export credit insurance, Ford Credit limit or advance payments.

Liquidity Risk

Ford Otosan keeps cash, credit commitment and factoring capacity to maintain 21 days' cash outflow for managing the liquidity risk. Within this context, Euro 80 Million credit commitment and Euro 125 Million equivalent factoring agreements are established with financial institutions if required. As of December 31, 2017 net financial debt is TL 1.798 Million.

Interest Rate Risk

The policy objective is to balance the maturities of interest bearing assets and liabilities. Interest bearing assets are directed to short term financial investments. Split between fixed and variable interest rate for long term credits is targeted as %50 / %50.

Foreign Exchange Risk

The ratio of the net foreign exchange position (after natural hedge) to Equity is targeted within +/- 10% in the Balance Sheet. Natural hedge calculation involves addition of FX denominated inventory to the assets and exclusion of loans subject to capitalization and hedge from FX denominated liabilities. As of December 31, 2017 net FX position is TL 113 Million. Total export and import amounts are TL 17.830 Million and TL 11.792 Million respectively in 2017.

Capital Risk

Ford Otosan's objectives when managing capital are to continue providing maximum returns for shareholders, maintain an optimal capital structure to reduce the cost of capital and ensure sustainability. The Company monitors the capital on the basis of "net total financial debt to tangible net worth" ratio which is targeted to be less than 1.25

The explanations about Company's indebtedness and capital structure are presented in the relevant sections of Annual Report.

Operational Risks

Ford Otosan manages business processes such as quality, efficiency, customer satisfaction, information security, pricing according to the predetermined targets and metrics.

Another main risk management tool related to operational process is Business Continuity Plan (BCP) which enables critical operations or products to be continuously delivered as a consequence of business interruptions ranging from catastrophic natural disasters to equipment breakdowns. It is a set of predefined strategies and procedures for responding to and recovering from a disaster.

All departments prepared their own BCP's based on agreed procedures and defined forms. After they were completed, all white collared personnel have been trained for awareness and BCP teams are trained for their functions and roles in the plan. Information Technology Department has reviewed and approved all of them. BCP's have been tested for validation under the leadership of managers responsible for BCP's internally and cross tested between departments for four different disaster scenarios by Risk Manager for final validation. Finally they have been uploaded to Ford Otosan ISO system and printed copies are now kept in and outside the company. The BCP's up-to-dateness is ensured by department tests performed internally and tested by Risk Manager annually with a drill based on a disaster scenario.

Furthermore, emergency action plans which describe the implementation of necessary steps in cases of explosion or natural disaster are prepared, ensuring operability through regular trainings and tests.

Strategic Risks

In order to maintain the continuity of business portfolio, Ford Otosan regularly carries out project development studies and submits their results to Board of Directors' periodic evaluation. With the annually updated long term plans, the Company reviews the risks and opportunities related to the business model.

Legal Risks

The Company's Legal team monitors the legislation regularly, informs the personnel and leads training activities to prevent any incompliance with the regulations. Any important discrepancies and serious litigation requirements are being reported to "Audit Committee" and "Early Determination and Management of Risk Committee" and action plans are determined.

B. EARLY DETERMINATION AND MANAGEMENT
OF RISK COMMITTEE ACTIVITIES

Early Determination and Management of Risk Committee has been founded with the purpose of early determination and managing of risk which may jeopardize the Company's existence, development, sustainability and establishing an effective risk management system.

The Committee had six meetings in 2017. Risk reporting activities and the Committee evaluations are periodically submitted to the attention of Board of Directors.

C. INTERNAL CONTROL SYSTEM AND
INTERNAL AUDIT

Policies, procedure and instructions included in process flows are important part of the internal control system. In addition to these, Ford Otosan applies an internal control plan annually which covers all company operations. With this structure, over 3000 control points are being tested as an assurance to the Board of Directors and shareholders related to the accuracy of Company's operations.

The Audit Committee periodically monitors internal control and internal audit activities, reviews and approves annual audit plans as a subcommittee of Board of Directors. The Audit Committee provides opinion on the financial reports for the approval of Board of Directors and provides recommendations to BOD where required.

Koc Holding, Ford Motor Company and Internal Control Department perform regular audits in the Company on an annual basis. Ford Otosan authorized dealers and services are also audited for their transactions with Ford Otosan periodically by dealer audit function, present in internal control department. All denunciations and complaints about Ford Otosan related operations are reviewed, investigated and finalized by internal control department. All control issues identified during the internal control, internal audit or external audit processes are evaluated, corrective actions are planned and tracked for implementation to improve internal control systems by internal control department. Results of these reports are presented to The Audit Committee regularly which consists of independent Board members.

LEGAL DISCLOSURES

A. CAPITAL

Paid-in / Issued Capital: 350,910,000 TL
Authorized Capital: 500,000,000 TL

B. SHAREHOLDER STRUCTURE

Title of Shareholder	Group	Number of Share	Total (TL)	Share in Capital (%)	Type of Privilage	Publicly Traded
Vehbi Koç Foundation	A	355,844,870	3,558,449	1.0%	-	No
"Koç Holding Retirement and	A	325,920,231	3,259,202	0.9%	-	Hayır
Other Shareholders	A	6,278,607,009	62,786,070	17.9%	-	Yes
A GROUP TOTAL		6,960,372,110	69,603,721	19.8%	-	
Koç Holding A.Ş.	B	13,495,335,714	134,953,357	38.5%	Management Privileged	No
Temel Ticaret ve Yatırım A.Ş.	B	235,588,500	2,355,885	0.7%	Management Privileged	No
B GROUP TOTAL		13,730,924,214	137,309,242	39.1%		
Ford Motor Company	C	14,399,703,676	143,997,037	41.0%	Management Privileged	No
C GROUP TOTAL		14,399,703,676	143,997,037	41.0%		
Total		35,091,000,000	350,910,000	100.0%		

C. SHARE INFORMATION

Current List of Other Exchanges or Organized Markets where the Company’s Capital Market Instruments are Listed or Traded					
Title of Holder	First Trade Date	Country	Exchange	Market	ABCD Group
Stock	13.01.1986	Turkey	Borsa Istanbul	BIST Stars	A

Ford Otosan Shares are Traded in the Following Market and Included in the Following Indices:
BIST KOCAELI / BIST METAL PRODUCTS, MACH. / BIST 100-30 / BIST 100 / BIST 50 / BIST INDUSTRIALS / BIST ALL SHARES /
BIST STARS / BIST DIVIDEND / BIST DIVIDEND 25 / BIST SUSTAINABILITY INDEX

D. INFORMATION ON THE EXTRAORDINARY GENERAL ASSEMBLY MEETING HELD IN THE YEAR

Ford Otomotiv Sanayi A.Ş.’s Extraordinary General Assembly Meeting was held on October 27, 2017 Friday at 11:00 to review and resolve the agenda specified below at Company Headquarters located at “Akpınar Mahallesi, Hasan Basri Caddesi No:2, Sancaktepe / İstanbul (Tel: +90 216 564 71 00, Faks: +90 216 564 73 85)”. Following decisions have been made:

- In accordance with article 363 of TCC, Mr. James Duncan Farley Jr, member of Board of Directors, resigned from membership of the Board of Directors due to change of position in Ford Motor Company organization effective from September 08, 2017. Mr. Joseph Bakaj has been appointed by Board of Directors’ resolution dated September 08, 2017 as the member of Board of Directors to serve until the next General Assembly of Shareholders is accepted by the majority of votes corresponding to TL 310.417.215,91 and rejection votes corresponding to TL 13.450.926,60.
- - Approval or approval with amendments or refusal of the Board of Directors’ proposal will be discussed by taking into consideration, the Company’s Dividend Distribution Policy, long-term strategy, investment and financing policies, profitability and cash position. According to the Dividend Communiqué numbered II-19.1, TL 389.510.100 to be paid to shareholders as dividend in cash, out of TL 389.510.100, which is subject to distribution according to the records prepared in accordance with Tax Procedure Law, TL 7.014.685 to be covered from other reserves, TL 97.275.756 to be covered from legal reserves, TL 281.659.657 to be covered from extraordinary reserves and TL 3.560.002 to be covered from retained earnings, and out of TL 38.951.010 second rank legal reserve, which will be allocated: TL 701.468 to be covered from other reserves, TL 9.727.576 to be covered from legal reserves, TL 28.165.966 to be covered from extraordinary reserves and TL 356.000 to be covered from retained earnings. In accordance with the financial statements prepared within the framework of Capital Markets Board regulations, out of TL 389.510.100 proposed to be paid as dividend in cash, TL 97.275.756 to be covered from legal reserves and TL 292.234.344 to be covered from extraordinary reserves; out of TL 38.951.010 second rank legal reserve, which will be allocated: TL 9.727.576 to be covered from legal reserves and TL 29.223.434 to be covered from extraordinary reserves.

Based on the calculations made in accordance with the tax regulations, TL 389.510.100 dividend to be distributed by paying gross Kr 111,00 (%111,00) and net Kr 94,35 (%94,35) for each share with a nominal value of 1-TL in accordance with the dematerialization regulations of Merkezi Kayıt Kuruluşu A.Ş. (Central Registry Agency Corporation) starting from October 31, 2017. The decision is accepted by unanimity with acceptance votes corresponding to TL 323.868.142,51.

E. ORGANIZATIONAL CHANGES WITHIN THE YEAR

Mr. James Duncan Farley Jr (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 23, 2017, resigned from membership of the Board of Directors due to change of position in Ford Motor Company organization effective from September 08, 2017. Steven Robert Armstrong, who is currently member of Board of Directors, is assigned as the Vice Chairman of Board of Directors. Mr. Joseph Bakaj, 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. The appointment was accepted at the Extraordinary General Meeting held on October 27, 2017. Mr. Steven Robert Armstrong has been elected as a member of the Remuneration Committee instead of Mr. James Duncan Farley Jr.

Mr. Cemal Ahmet Kinay, who is Assistant General Manager (Ford Trucks), shall retire from the company effective from December 31, 2017. - Mr. Serhan Turfan, who has been acting as Director-Ford Trucks Turkey, is assigned as Assistant General Manager (Ford Trucks) effective from January 01, 2018.

REPORT ON RELATED PARTY
TRANSACTIONS FOR 2017

FORD OTOMOTİV SANAYİ A.Ş. BOARD OF
DIRECTORS 2016 REPORT ON RELATED PARTY
TRANSACTIONS PREPARED AS PER ARTICLE
199 OF THE TURKISH COMMERCIAL CODE

The Result

Pursuant to Article 199 of the Turkish Commercial Code No. 6102 (“TCC”), which went into effect on July 1, 2012, Ford Otomotiv Sanayi A.Ş. Board of Directors is obliged to annually prepare an affiliation report stating the relationship between the company and the parent company and other subsidiaries of that parent company in the first quarter of the year. The necessary explanations about all of the transactions of Ford Otomotiv Sanayi A.Ş., made with the relevant parties, are cited in footnote number 26 in the financial report.

It is stated in the Report prepared by Ford Otomotiv Sanayi A.Ş. Board of Directors on February 23, 2018 that, “In all transactions made between Ford Otomotiv Sanayi A.Ş. and the parent company and other subsidiaries of that parent company in 2017, it is precipitated that, in the event that the transactions were made, or the measures were taken or not taken, a counter action was applied to each transaction. There were no measures taken or not taken which cause losses to the company, and there were no transactions made or measures taken that require compensation within this frame”.

STATEMENT OF
RESPONSIBILITY

Statement Of Responsibility Prepared Per Cmb’s Financial Reporting Communique Series NO: li-14.1., Article 9

Board Of Director’s Resolution Regarding The Annual Report
Resolution Date : 23/02/2018
Resolution Number : 2018/06

As per CMB regulations; attached Annual Report for 2017 , prepared by Company management and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. , that has been prepared under Turkish Code of Commerce and CMB’s Communiqué Series No: II.14.1 “Communique On Principles of Financial Reporting in Capital Markets” (“Communique”)

- Has been analysed,
- To the best of our knowledge and inline with our Company roles and responsibilities, in all material respects, does not contain any untrue representations or any omissions that would lead to misleading conclusions as at disclosure date,
- To the best of our knowledge and inline with our Company roles and responsibilities, the Annual report prepared in line with the Communique, fairly reflect the Company’s progress and performance, financial position and possible significant risk and uncertainty,

and we hereby represent and state that we are responsible over the disclosures.

Best Regards,
FORD OTOMOTİV SANAYİ A.Ş.

Mehmet Barmanbek
Audit Committee Member

L. Martin Meany
Audit Committee Member

Oğuz Toprakoğlu
Assistant General Manager -CFO

DECLARATION FOR INDEPENDENCY

I hereby declare that I am a candidate for independent board membership at the Board of Directors of Ford Otomotiv Sanayi A.Ş. (“Company”) under related regulations, Articles of Association of the Company and the criteria stated in Capital Markets Board’s Communiqué on Corporate Governance. In that regard I also confirm that;

- a. In the last five years, there has not been any recruitment relationship between the Company, the partnerships (which possess the Company’s managerial control or have substantial influence therein), the partners (who possess the Company’s managerial control or have substantial influence therein), the legal entities (managerial control of which is possessed by the aforesaid partners), and me, my spouse, and my relatives by blood/marriage descending down to second degree for managerial positions, having been established so to assume significant duties and responsibilities, that no more than 5% of the capital, or voting rights, or preferential rights has been possessed collectively, or individually, that no other commercial relationship with similar features has also been established,
- b. I have not become the partner of (by 5% and above), worked in a managerial position (to assume significant duties and responsibilities) within, or become the board member of the companies (from which the Company purchases/sells substantial goods or services under respective agreements), particularly for corporate auditing (tax, legal, internal audits included), rating, and consultation during the periods, when the aforementioned goods or services are purchased/sold,
- c. I have skills, knowledge and expertise to fulfill my duties as an independent board member of the Company,
- ç. I am not going to work full-time in public institutions and corporations (except academic membership), as being stipulated in the respective regulations, after I will be elected as member,
- d. I am not a resident in Turkey under the Revenue Tax Law No.193 (“RTL”) dated December 31, 1960.

- e. I have strong ethic standards, professional reputation and expertise to make effective contributions to the business of the Company, make objective business decisions in case of conflict of interest between the shareholders of the Company and protect the rights of the stakeholders of the Company.
- f. I am going to devote my time to fulfill my duties in full extent and keep track of the activities of the Company.
- g. In the last 10 years, I have not served as the Independent Board Member of Ford Otomotiv Sanayi A.Ş. more than 6 years.
- ğ. I do not serve as an independent board member in more than three companies (managerial control of which is held by the Company, or by the partners who hold the managerial control of the Company), and as a whole in five companies being traded in the stock exchange,
- h. I have not been registered, and announced in the name of the legal entity, which is elected as the board member.

Leonard Martin Meany
January 11, 2017

DECLARATION FOR INDEPENDENCY

I hereby declare that I am a candidate for independent board membership at the Board of Directors of Ford Otomotiv Sanayi A.Ş. (“Company”) under related regulations, Articles of Association of the Company and the criteria stated in Capital Markets Board’s Communiqué on Corporate Governance. In that regard I also confirm that;

- a. In the last five years, there has not been any recruitment relationship between the Company, the partnerships (which possess the Company’s managerial control or have substantial influence therein), the partners (who possess the Company’s managerial control or have substantial influence therein), the legal entities (managerial control of which is possessed by the aforesaid partners), and me, my spouse, and my relatives by blood/marriage descending down to second degree for managerial positions, having been established so to assume significant duties and responsibilities, that no more than 5% of the capital, or voting rights, or preferential rights has been possessed collectively, or individually, that no other commercial relationship with similar features has also been established,
- b. I have not become the partner of (by 5% and above), worked in a managerial position (to assume significant duties and responsibilities) within, or become the board member of the companies (from which the Company purchases/sells substantial goods or services under respective agreements), particularly for corporate auditing (tax, legal, internal audits included), rating, and consultation during the periods, when the aforementioned goods or services are purchased/sold,
- c. I have skills, knowledge and expertise to fulfill my duties as an independent board member of the Company,
- ç. I am not going to work full-time in public institutions and corporations (except academic membership), as being stipulated in the respective regulations, after I will be elected as member,
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- h. I have not been registered, and announced in the name of the legal entity, which is elected as the board member.

Fatma Füsün Akkal Bozok
January 14, 2018



Financial Reports



CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR’S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of Ford Otomotiv Sanayi A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Ford Otomotiv Sanayi A.Ş. (the “Company”), which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards (“TAS”).

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the “SIA”) that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the “POA”). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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T: +90 212 326 6060 F: +90 212 326 6050, www.pwc.com.tr Mersis Numaramız 0-1460-0224-0500015

Key Audit Matters	How our audit addressed the Key Audit Matter
Cash Flow Hedge Accounting (Notes 2 and 28)	
<p>Based on the manufacturing agreements with Ford Motor Company, the Company associates sales of specific models of commercial vehicles subject to export by the end of 2022 with long term loans denominated in Euros, borrowed for the investments related to manufacturing of such vehicles. Sales subject to the agreement are denominated in Euro and are affected by the TRY/EUR exchange rate fluctuations. The Company hedges the foreign exchange rate risk with the borrowings obtained in the same currency.</p> <p>We focused on this matter during our audit for the reasons below:</p> <ul style="list-style-type: none">- The cash flow hedge losses which are classified under equity as of 31 December 2017 amount to TRY503,120 thousand. This amount is material in terms of the financial statements.- Cash flow hedge accounting is structurally complex and its audit requires professional expertise. Mistakes that might occur when calculating and accounting for this subject may affect the financial statements significantly.	<ul style="list-style-type: none">- We tested the official definition and documentation of risk management's target and strategy, which causes the Company to hedge against cash flow risk. We also tested the completeness and accuracy of data and the assumptions used in the hedge accounting work with the support of our subject matter experts.- We reviewed the effectiveness of the cash flow hedge. We tested whether the range of increase/decrease in the fair value of the revenue planned for in future and the increase/decrease in fair value of the borrowings are between 80% and 120%.- We checked the agreements related to the vehicle sales and whether sales volumes and prices of the vehicles subject to cash flow hedging agree with the budget approved by management. We checked whether methods used for calculating vehicle costs comply with the agreement.- We reviewed repayment plans for the borrowings denominated in Euro by reviewing the loan agreements and obtaining bank confirmations. We checked to what extent monthly borrowing payments cover monthly sales.- We checked the mathematical accuracy of the accounting bookings related to this subject.- We assessed the sufficiency of the financial statement disclosures related to the cash flow hedge accounting. <p>We have no significant findings resulting from our work related to cash flow hedge accounting.</p>

Key Audit Matters	How our audit addressed the Key Audit Matter
Warranty Provisions (Notes 2, 8 and 16)	
<p>The Company has warranty provisions amounting to TRY231,525 thousand as of 31 December 2017.</p> <p>We focused on this matter during our audit for the reasons below:</p> <ul style="list-style-type: none">- The warranty provision of TRY231,525 thousand is a liability in the statements. The amount of the warranty provision is material.- The Company provides a standard warranty service and optional roadside assistance, extended warranty and spare part warranty services for any vehicle sold domestically. The Company calculates the current period warranty provision based on the actual warranty expense per vehicle in the previous period. The warranty cost per vehicle is approved twice a year by management and is calculated for each vehicle model, based on the technical department's experience and warranty claims in the past also complying with the instructions of Ford Motor Company. Since the warranty cost per vehicle is determined in Euro, foreign exchange rate estimation is also included in the calculation. Fluctuation of the foreign exchange rates may affect the financial statements materially.	<ul style="list-style-type: none">- When calculating the warranty provision, the management makes assumptions based on the number of vehicles subject to warranty, the length of the warranty period, and the warranty claims in the previous periods. We tested the effectiveness of the controls during the estimation process.- We confirmed that unit managers approve the unit cost estimations per vehicle. We tested unit costs through sampling by detailed tests.- To test the data on which the estimations are based, the number of vehicles sold were agreed to the sales reports. Sales reports were reconciled to the sale accounts.- Foreign exchange rates are considered when estimating the warranty cost per vehicle. We confirmed that the foreign exchange rate, which is a forward-looking estimate used when calculating the warranty provision, is the same foreign exchange rate used in the budget approved by the management. We also evaluated the reasonableness of the warranty provision considering the fluctuations of the foreign exchange rate.- We tested the actual warranty expenses realised in the current period on a sampling basis based on the movements of the warranty provision amounting to TRY231,525 thousand.- We tested the reasonableness of the actual warranty expenses with the warranty provisions set aside in previous periods.- Warranty provisions are calculated based on cost per vehicle estimations, considering the actual claims in the past and also technically and financially planned developments. We performed a sensitivity analysis on these estimations and assessed their impact.- We assessed the sufficiency of the financial statement disclosures related to warranty expenses. <p>We have no significant findings resulting from our work related to warranty provisions.</p>

4. Other Matters

The financial statements of Ford Otomotiv Sanayi A.Ş. were audited by another audit firm whose audit report dated 14 February 2017 expressed an unqualified opinion.

5. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

6. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code (“TCC”) No. 6102 and that causes us to believe that the Company’s bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company’s articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor’s report on the early risk identification system and committee was submitted to the Company’s Board of Directors on 12 February 2018.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Beste Gücumen, SMMM
Partner

Istanbul, 12 February 2018

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FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period Audited 31 December 2017	Prior period Audited 31 December 2016
Assets			
Current assets		6,827,040	4,675,977
Cash and cash equivalents	4	1,805,945	1,189,033
Trade receivables			
- Due from related parties	26	2,057,267	1,362,949
- Due from third parties	7	1,299,746	794,771
Other receivables			
- Due from third parties	8	521	504
Inventories	9	1,152,490	1,054,426
Prepaid expenses	12	101,979	59,011
Other current assets	16	404,561	213,526
Current tax assets	24	-	1,757
Derivative financial assets	28	4,531	-
Non-current assets		5,184,700	4,610,175
Financial assets	5	17,406	18,756
Trade receivables			
- Due from third parties	7	3,002	1,464
Property, plant and equipment	10	3,536,220	3,302,745
Intangible assets	11	690,337	552,563
Prepaid expenses	12	311,292	178,333
Deferred tax asset	24	626,443	556,314
Total assets		12,011,740	9,286,152

Financial statements for the period ended 1 January - 31 December 2017 were approved for issue by the Board of Directors on 12 February 2018.

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period audited 31 December 2017	Previous period audited 31 December 2016
Liabilities			
Current liabilities		6,049,677	4,307,860
Short-term borrowings			
- Bank borrowings	6	1,061,621	771,572
Short-term portion of long-term borrowings			
- Bank borrowings	6	722,259	576,703
Trade payables			
- Due to related parties	26	895,559	794,183
- Due to third parties	7	2,921,390	1,823,160
Other payables			
- Due to related parties	26	31,438	18,763
- Due to third parties	8	56,385	76,129
Deferred revenue	30	10,929	8,811
Short-term provisions			
- Other provisions	13	159,614	136,240
Employee benefit liabilities	15	184,092	102,299
Current tax liabilities	24	6,390	-
Non-current liabilities		2,266,204	1,814,673
Long-term borrowings			
- Bank borrowings	6	1,820,167	1,503,855
Long-term provisions			
- Provision for employment termination benefits	15	153,484	130,326
- Other provisions	13	169,285	100,115
Deferred revenue	30	7,450	4,757
Other non-current liabilities	31	115,631	75,620
Derivative financial liabilities	28	187	-
Equity	17	3,695,859	3,163,619
Paid-in capital		350,910	350,910
Inflation adjustments on capital		27,920	27,920
Share premium		8	8
Other comprehensive income / (loss) not to be reclassified under profit or loss			
- Losses on remeasurements of defined benefit plans		(14,001)	(14,019)
Other comprehensive income / (loss) to be reclassified in profit or loss			
- Gains on remeasurements and / or reclassification of available-for-sale financial assets		15,608	16,890
- Losses on cash flow hedges		(503,120)	(336,189)
Restricted reserves		254,404	284,207
Retained earnings		2,074,147	1,878,584
Net profit for the period		1,489,983	955,308
Total liabilities and equity		12,011,740	9,286,152

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period audited 1 January- 31 December 2017	Previous period audited 1 January- 31 December 2016
Continuing operations			
Revenue	18	25,341,290	18,289,107
Cost of sales	18	(22,704,095)	(16,203,045)
Gross profit		2,637,195	2,086,062
Marketing expenses	19	(544,303)	(448,266)
General administrative expenses	19	(249,480)	(225,038)
Research and development expenses	19	(317,192)	(383,844)
Other income from operating activities	21	460,462	281,426
Other expenses from operating activities	21	(278,508)	(199,316)
Profit from operating activities		1,708,174	1,111,024
Income from investing activities	29	363	422
Expenses from investing activities	29	(3,407)	(6,263)
Operating profit before financial income / (expense)		1,705,130	1,105,183
Financial income	22	562,262	310,182
Financial expenses	23	(786,231)	(445,194)
Profit before tax from continued operations		1,481,161	970,171
Tax income / (expense) from continued operations		8,822	(14,863)
Current tax expenses	24	(19,511)	(20,414)
Deferred tax income	24	28,333	5,551
Net profit from continued operations		1,489,983	955,308
Earnings per share with a nominal value Kr 1	25	4,25 Kr	2,72 Kr

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period audited 1 January- 31 December 2017	Previous period audited 1 January- 31 December 2016
Net profit		1,489,983	955,308
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss			
Gains / (losses) on remeasurements of defined benefit plans	17	23	(15,458)
Other comprehensive income tax not to be reclassified to profit or loss			
Taxes Relating to Remeasurements of Defined Benefit Plans	17	(5)	3,091
Other comprehensive income to be reclassified to profit or loss			
(Losses) / gains on remeasurements or reclassification adjustments on available-for-sale financial assets	17	(1,350)	6,130
(Losses) / gains on cash flow hedges	17	(208,664)	(227,226)
Other comprehensive income taxes to be reclassified to profit or loss			
Taxes relating to gains / (losses) on remeasurements or reclassification adjustments on available-for-sale financial assets	17	68	(306)
Taxes relating to cash flow hedges	17	41,733	45,445
Other comprehensive (loss) / income		(168,195)	(188,324)
Total comprehensive income		1,321,788	766,984

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.
STATEMENT OF CHANGES IN EQUITY FOR PERIODS 31 DECEMBER 2017 AND 2016
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Other comprehensive income to be reclassified in profit or loss				Other comprehensive income not to be reclassified in profit or loss				Retained Earnings			Total equity
	Paid in capital	Inflation adjustments on capital	Share premium	Gains / (losses) on remeasurements and / or reclassification of available-for-sale financial assets	Cash flow hedge reserve	Gains / (losses) on remeasurements of defined benefit plans	Restricted Reserves	Accumulated profit	Net Profit			
Balances at 1 January 2016	350,910	27,920	8	11,066	(154,408)	(1,652)	438,411	1,545,689	841,911	3,059,855		
Profit for the period	-	-	-	-	-	-	-	-	955,308	955,308		
Other comprehensive income / (loss)	-	-	-	5,824	(181,781)	(12,367)	-	-	-	(188,324)		
Total comprehensive income	-	-	-	5,824	(181,781)	(12,367)	-	-	955,308	766,984		
Transfers	-	-	-	-	-	-	64,567	777,344	(841,911)	-		
Dividends paid (Note 17)	-	-	-	-	-	-	(218,771)	(444,449)	-	(663,220)		
Balances at 31 December 2016	350,910	27,920	8	16,890	(336,189)	(14,019)	284,207	1,878,584	955,308	3,163,619		
Balances at 1 January 2017	350,910	27,920	8	16,890	(336,189)	(14,019)	284,207	1,878,584	955,308	3,163,619		
Profit for the period	-	-	-	-	-	-	-	-	1,489,983	1,489,983		
Other comprehensive income / (loss)	-	-	-	(1,282)	(166,931)	18	-	-	-	(168,195)		
Total comprehensive income	-	-	-	(1,282)	(166,931)	18	-	-	1,489,983	1,321,788		
Transfers	-	-	-	-	-	-	77,200	878,108	(955,308)	-		
Dividends paid (Note 17)	-	-	-	-	-	-	(107,003)	(682,545)	-	(789,548)		
Balances at 31 December 2017	350,910	27,920	8	15,608	(503,120)	(14,001)	254,404	2,074,147	1,489,983	3,695,859		

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 2016
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Notes	Current period audited 31 December 2017	Previous period audited 31 December 2016
Cash flows generated from / (used in) operating activities		2,158,569	1,612,405
Net profit for the period		1,489,983	955,308
Adjustments to reconcile profit for the period		1,176,370	930,238
Adjustments for depreciation and amortisation expense	10,11	473,624	456,387
Adjustments for impairment loss of inventories	9	(1,326)	903
Adjustments for provisions related with employee benefits		115,416	36,650
Adjustments for lawsuit and / or penalty provisions	13	12,706	7,372
Adjustments for warranty provisions	13	188,087	155,559
Adjustments for other provisions		8,041	14,267
Adjustments for dividend income	29	(351)	(422)
Adjustments for interest income	22	(74,896)	(22,587)
Adjustments for interest expense	23	42,394	40,739
Adjustments for tax expenses	24	(8,822)	14,863
Adjustments for unearned financing income	21	(139,378)	(92,716)
Adjustments for deferred financing expense	21	177,790	118,062
Adjustments for gain / (loss) on sales of property, plant and equipment	29	3,395	6,263
Other adjustments for which cash effects are investing or financing cash flow		379,690	194,898
Changes in working capital		(332,578)	(102,135)
(Increase) / decrease in trade receivable		(1,213,698)	(374,652)
(Increase) / decrease in inventories		(129,440)	(77,448)
(Increase) / decrease in prepaid expenses		(42,968)	(23,885)
Increase / (decrease) in trade payable		1,211,171	302,813
(Increase) / decrease in other assets		(195,396)	16,439
Increase / (decrease) in other payables		37,753	54,598
Cash flows generated from / (used in) operations		2,333,775	1,783,411
Interest paid		(164,923)	(118,674)
Interest received		127,813	93,596
Payments related with provisions for employee benefits	15	(10,442)	(14,522)
Payments related with other provisions		(116,290)	(110,259)
Taxes paid		(11,364)	(21,147)
Cash flows used in investing activities		(938,317)	(585,715)
Proceeds from sales of property, plant and equipment		571	10,425
Purchase of property, plant and equipment		(590,897)	(419,075)
Purchase of intangible assets		(215,383)	(90,710)
Cash advances given		(132,959)	(86,777)
Dividends received		351	422
Cash flows used by financing activities		(605,875)	(818,294)
Proceeds from borrowings		2,304,890	1,780,922
Repayments of borrowings		(2,141,327)	(1,911,685)
Dividends Paid	17	(789,548)	(663,220)
Interest paid		(52,251)	(46,622)
Interest Received		72,361	22,311
Net increase / (decrease) in cash and cash equivalents		614,377	208,396
Cash and cash equivalents at the beginning of the period		1,188,540	980,144
Cash and cash equivalents at the end of the period	4	1,802,917	1,188,540

The accompanying notes form an integral part of these financial statements.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 1 - ORGANIZATION AND NATURE OF THE OPERATIONS

Ford Otomotiv Sanayi A.Ş. (the “Company”) is incorporated and domiciled in Turkey and manufactures, assembles and sells motor vehicles, primarily commercial vehicles, imports and sells passenger cars and manufactures and imports and sells spare parts of those vehicles. The Company was established in 1959 and presently operates as a joint venture between Ford Motor Company and the Koç Group of Companies. The Company is listed on the Borsa İstanbul (“BIST”) where 17.89% of its shares are currently quoted. The registered office address of the Company is Akpınar Mahallesi, Hasan Basri Cad. No: 2 Sancaktepe, İstanbul.

In its Kocaeli compound; the Company has a Gölcük plant in which the Transit and Transit Custom vehicles are manufactured and a Yeniköy plant in which the Transit Courier vehicle is manufactured and in its Eskişehir İnönü compound; a Cargo truck plant and engines and powertrain plant which manufactures for trucks and Transit vehicles.

Additionally, the Company has a spare part distribution warehouse, sales and marketing departments and a research and development (R&D) centre located in Sancaktepe, İstanbul.

The number of the personnel employed with respect to categories by the Company as of period ends are as follows:

	Average		Year end	
	December 2017	December 2016	December 2017	December 2016
Blue collar	8,172	7,844	8,847	7,561
White collar	2,663	2,749	2,654	2,700
Total	10,835	10,593	11,501	10,261

Research and development operations which are also subject to service export is conducted with 1,176 employees in Sancaktepe branch, conducted with 248 employees in R&D centre in Kocaeli plant, and conducted with 84 employees in R&D centre in Eskişehir İnönü plant, totally 1,508 employees as of 31 December 2017 (31 December 2016: 1.585).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

The Company maintain its legal books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation.

The accompanying financial statements have been prepared in accordance with Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) that are set out in the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. TAS, Turkish Accounting Standards, comprise of Turkish Financial Reporting Standards, its appendix and interpretations.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of presentation (Continued)

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with the financial reporting standards issued by the CMB (“CMB Financial Reporting Standards”). The Company’s financial statements have been prepared in accordance with this decision.

Except for the financial assets and derivative instruments measured at fair value, the financial statements are prepared on a historical cost basis.

Company’s functional and presentation currency is accepted as TL.

Going concern

The financial statements of the Company are prepared on the basis of a going concern assumption.

Comparatives of prior periods’ financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at 31 December 2017 has been provided with the comparative financial information of 31 December 2016 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the period between 1 January and 31 December 2017 have been provided with the comparative financial information, for the period between 1 January 2016 and 31 December 2016.

In order to be consistent with the financial statements of current period, other current assets have been decreased by TL 1,757 the same amount have been reclassified under current tax assets accordingly.

2.2 Amendments and interpretations in the standards

The new standards, amendments and interpretations

The Company has applied the new and revised standards and interpretations issued by the KGK as of 1 January 2017 and related to its own activity.

(a) The new standards, amendments and interpretations which are effective as at 31 December 2017 are as follows:

- Amendments to TAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Amendments and interpretations in the standards (Continued)

- Amendments TAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

- Annual improvements 2014-2016; TFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

(b) The following new standards, interpretations and amendments have been issued as of 31 December 2017, which are not yet effective for the current reporting period and have not been early adopted by the Company as of the date of approval of the financial statements for the year then ended. The Company will make necessary changes to affect its financial statements and footnotes after the new standards and interpretations have entered into force, unless otherwise stated.

- Amendments to IFRS 2, “Share based payments” on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- TFRS 9 "Financial Instruments - Classification and Disclosure"; The UPS has issued TFRS 9 Financial Instruments in January 2016. TFRS 9 combines the three aspects of the financial instruments accounting project: classification and measurement, impairment and hedge accounting. TFRS 9 relies on a rational, single classification and measurement approach that reflects the business model and cash flow characteristics that are managed within financial assets. Thereupon, a single model has been established that can be applied to all financial instruments subject to impairment accounting with a forward 'expected credit loss' model that will enable credit losses to be accounted for more timely. In addition, IFRS 9 requires that banks and other entities choose an option to measure their financial liabilities at fair value, in the form of a so-called "own credit risk" that results in the recording of income in the profit or loss table due to a decrease in the fair value of the financial liability, it deals with the issue. The standard also includes a hedging model developed to better correlate risk management economics with accounting practices. TFRS 9 is effective for annual periods beginning on or after 1 January 2018 and early application of all requirements of the standard is permitted. Alternatively, entities may prefer to apply early provisions for the presentation of gains or losses of financial liabilities designated as "fair value change, profit or loss" only, without applying other standard requirements. The Company is in the process of assessing the impact of the standard on financial position and performance and does not expected to have any significant impact.

- TFRS 15 "Revenue from contracts with customers""; In September 2016, the TFRS published the Revenue Standard from Contracts with Customers. This published standard also includes amendments to IASB in April 2016 to clarify IFRS 15. The new five-phase model in the standard describes the requirements for revenue recognition and measurement. The standard establishes a model for accounting for and measuring the sale of certain non-financial assets (e.g. property, plant and equipment) that are not related to the ordinary activities of an entity, which will be treated as revenue generated from contracts with customers. The effective date of TFRS 15 is annual accounting periods beginning on or after 1 January 2018.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Amendments and interpretations in the standards (Continued)

Early application is allowed. Two alternative applications are presented for transition to TFRS 15; full retroactive application or modified retroactive application. If modified retroactive application is preferred, prior periods will not be restated but comparative quantitative information will be provided in the footnotes of the financial statements. The Company's sales are comprised of sales of vehicles, spare parts and services, and there is usually a single obligation to act. In parallel with the previous periods, sales of vehicles and spare parts will be accounted for when transferring the risks and benefits related to the product when delivering the product and service sales are provided for the service and revenue can be reliably measured. Therefore, it is not expected that the new standard will have a significant effect on the financial position and performance of the Company.

- TFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The TASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the TASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- Amendments to IFRS 4, “Insurance contracts” regarding the implementation of IFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

Amendment to IAS 40, “Investment property” relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1, “First-time adoption of IFRS”, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Amendments and interpretations in the standards (Continued)

- IAS 28 "Investments in associates and joint ventures": This amendment clarifies that investments in associates and joint ventures are accounted for in accordance with TFRS 9 Financial Instruments if investments in associates or joint ventures are held indirectly or directly through an enterprise or similar enterprise it is clear that the ability to choose to measure the fair value difference in profit or loss reflected is valid at the time of initial recognition of each subsidiary or business partnership. The amendment will apply to annual periods beginning on or after 1 January 2018. Early application is allowed.

The financial status of the Company and its impact on its performance are assessed.

- IFRS 22, “Foreign currency transactions and advance consideration”, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment / receipt is made as well as for situations where multiple payments / receipts are made. The guidance aims to reduce diversity in practice.

- IFRS 17 "Insurance Contracts" is effective for annual reporting periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which allows a wide range of applications. TFRS 17 will change the basis of insurance contracts and the accounting of all entities that issue investment contracts with voluntary participation features.

- TFRS Comment 23 "Uncertainties in taxation" are effective for annual reporting periods beginning on or after 1 January 2019. This interpretation clarifies some of the uncertainties in the application of TAS 12 Income Tax Standard. IFRS Interpretation Committee clarified that if uncertainty in tax practices had previously been applied, the uncertainty should apply to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' standard instead of IAS 12.

- TFRS Comment 23 provides guidance on how to measure and account for deferred tax calculations when there are uncertainties in income taxes. Tax application uncertainty arises when a tax application by a company is unknown to the tax authority. For example, especially if an expense is recognized as a deduction or if the tax return is uncertain in the tax statement regarding whether or not to include a certain amount in the tax calculation. TFRS Comment 23; applicable when a tax practice is vague and there are uncertainties including taxable income, expense, asset or liability, tax base and and tax rates.

The Company will evaluate the effects of the above amendments on its operations and will apply them from the effective date.

2.3 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents include cash on hand, deposits at banks and highly liquid short-term investments, with maturity periods of less than three months, which has insignificant risk of change in fair value (Note 4).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Trade receivables and allowance for trade receivables

Trade receivables as a result of providing goods or services by the Company directly to a debtor are carried at amortized cost. Short-term receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant. Foreign exchange gain / loss and credit finance income of trade receivables are classified under “other operating income /expense”.

Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for receivables, debtors, other than the key accounts and related parties, are assessed with their prior year performances, their credit risk in the current market, and their performance after the statement of the financial position date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the impairment amount decreases due to an event occurring after the write-down, the release of the provision is credited to operating income in the current period. The Company collects receivables arising from domestic vehicles and spare parts sales through the “Direct Debit System” (DDS). Within this system which is also named as Direct Collection System; the contracted banks warrant the collection of the receivables within the limits granted to the dealers. Trade receivables are transferred by the contracted banks to the Company's bank accounts at the due dates (Notes 7 and 26).

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined on the moving monthly average basis. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads and exclude the cost of borrowing. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Idle time expenses arising from the ceases in production other than planned in the factory's annual production plan are not associated with inventories and are recognized as cost of sales (Note 9).

Trade payables

Trade payables are recognized at initial cost and subsequently measured at amortized cost using effective interest rate method (Notes 7 and 26). Foreign exchange gain / loss and credit finance charges of trade payables are classified under “other operating income / expense”.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets.

The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land improvements	14.5-30 years
Buildings	14.5-36 years
Machinery and equipment	5-25 years
Moulds and models	Project lifetime
Furniture and fixtures	4-14.5 years
Motor vehicles	9-15 years

Land is not depreciated as it is deemed to have an indefinite useful life.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts and are included in income / expense from investing activities. Repair and maintenance expenses are charged to the statement of profit or loss as they are incurred. Repair and maintenance expenditures are capitalized if they result in an enlargement or substantial improvement of the respective asset (Note 10).

Intangible assets

Intangible assets comprise computer software, rights, leasehold improvements and development costs.

Intangible assets are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over a period depending on the project’s lifetime. Development costs, comprising of engineering design incurred for the production of new commercial vehicles, are capitalized as discussed in Note 2 Research and development expenses (Note 11).

The estimated useful lifetimes of such assets are as follows:

Rights	3-5 years
Capitalized improvement expenses	Project lifetime
Other intangible assets	5 years

Impairment of long-lived assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. Impairment losses are recognized in the statement of profit or loss. Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Financial assets

Investments intended to be held for an indefinite period of time, and which may be sold in response to a need for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the statement of financial position date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Available-for-sale financial assets are subsequently measured at fair value. Available-for-sale financial assets that are quoted in active markets are measured based on current bid prices. If the market for a financial asset is not active, the fair value is determined by using valuation techniques such as discounted cash flow analysis and option pricing models.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are accounted in equity net of tax under “financial assets fair value reserve”. Unrealised gains and losses arising from changes in the fair value of available-for-sale debt securities are the differences between the fair value of such securities and their amortised costs at the reporting date. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are transferred to the income statement. If the difference between the cost and the fair value of the available-for-sale securities is permanent, gains and losses are transferred to the income statement.

Interest and dividends associated to the available-for-sale financial assets are accounted under corresponding interest income and dividend income accounts.

Share premium

Share premium represents differences resulting from the sale of the Company’s subsidiaries and associates’ shares at a price exceeding the face values of those shares or differences between the face values and the fair value of shares issued for acquired companies.

Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends payable are recognized as an appropriation of profit in the period in which they are declared (Notes 17 and 29).

Taxes on income

Taxes include current period income taxes and deferred taxes.

Current period income tax

Current year tax liability consists of tax liability on the taxable income calculated according to currently enacted tax rates and to the effective tax legislation as of statement of financial position date.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Deferred tax

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax bases of assets and liabilities comprise of the amounts that will affect the future period tax charges based on the tax legislation. Currently enacted tax rates, which are expected to be effective during the periods when the deferred tax assets will be utilized or deferred tax liabilities will be settled, are used to determine deferred income tax.

Deferred tax liability is calculated on all taxable temporary differences whereas deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporarily differences can be utilized. Carrying values of deferred tax assets are decreased to the extent necessary, if future taxable profits are not expected to be available to utilize deferred tax assets partially or fully.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (Note 24).

Current and deferred tax

Current and deferred taxes except those which are either related to the items directly recognized in the equity as receivable or payable (which, in such cases, the deferred tax regarding the related items are also recognized directly in the equity) or those which result from the initial recognition of an enterprise merger are recognized as income or loss in the income statement.

Revenue recognition

Goods & services sales

Revenue comprises the invoiced value for the sale of goods and services. Revenues are recognized on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity.

For domestic vehicle and spare parts sales, significant risk and rewards are transferred to the buyer when goods are delivered and received by the buyer or when the legal title is passed to the buyer. But if the Company makes a sales agreement with buyback commitment, which shall most likely be applied, the sales made in this scope are not recognized as revenue and monitored under “Other Non-Current Liabilities” (Note 31). Sales, which are subject to buyback commitment, are evaluated as operating lease and monitored as deferred income through allocating the difference between the price paid by the customers and their buyback price to leasing period. (Note 30). The revenue recognised on lease revenue for the periods over 1 year is recognized as “Long term deferred revenue” (Note 30). For export sales significant risk and rewards are transferred to the buyer on FAS, “Final Assignment to Ship” terms. Exported service sales are recorded when the service is delivered and the amount of revenue can be measured reliably.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Net sales represent the invoiced value of goods shipped less sales returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on an accrual basis (Notes 18 and 21).

Dividend and interest income

Dividend income from the stock investments are recorded when the stockholders become entitled to receive a dividend.

Interest income is realized on a time period basis and the accrued income is determined by taking into account the valid interest rate and the interest rate that is to be effective until its maturity date.

Foreign currency transactions and balances

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the Central Bank of Turkey exchange rates prevailing at the statement of the financial position dates. Foreign currency exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized under the other operating income / expenses and financial income / expense in the statement of profit or loss (Notes 21, 22, 23 and 27).

Foreign currency exchange rates used by the Company at the time of statement of financial position dates are as follows:

	TL / USD	TL / Euro	TL / GBP
31 December 2017	3.7719	4.5155	5.0803
31 December 2016	3.5192	3.7099	4.3189

Financial instruments and financial risk management

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. All trade receivables are due mainly from dealers and related parties. The Company has established effective control procedures over its dealers and the credit risk arising from transactions with such dealers is regularly monitored by management and the aggregate risk to any individual counterparty is limited. The Company covered its credit risk from domestic vehicle sales to dealers by setting credit limits for dealers through arranged banks and collects its trade receivables from banks at the due date through the use of Direct Debit System. The use of DDS for receivables from dealers is an effective way to decrease the credit risk.

Bank letters of collaterals received from dealers for the exceeding part of DDS limit, regarding domestic vehicle sales and spare part sales is another method in the management of the credit risk (Note 7).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Export sales mainly consist of sales to Ford Motor Company and its subsidiaries. Collection terms and conditions are specified in the business agreements with Ford Motor Company. Receivables from Ford Motor Company and its subsidiaries are collected in 14 days for export vehicle sales regularly. Receivables from Ford Motor Company and its subsidiaries, except vehicle sales, are collected in 45 days in average. The collection of receivables resulting from export sales to customers other than Ford Motor Company is secured with letter of credit, letter of guarantee or cash payment.

Price risk

The Company is exposed to equity securities price risk because of investments classified on the statement of financial position as available-for-sale. The Company limits the available-for-sale financial assets in order to manage the price risk arising from investments in equity securities.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The risk of funding current and future debt requirements is managed by having an adequate number of quality loan providers constantly available. The Company management keeps cash, credit commitment and factoring capacity to maintain 21 days cash outflows to manage the liquidity risk. The Company maintains a credit commitment amounting to Euro 80 million and factoring agreement amounting to Euro 125 million in case a requirement for use arises.

Interest rate risk

Management uses short-term interest bearing financial assets to manage the maturities of interest bearing assets and liabilities. The Company makes limited use of interest rate swaps, to hedge its floating rate borrowings, if needed.

Funding risk

The ability to fund the existing and prospective debt requirements is managed as necessary by obtaining adequate committed funding lines from high quality lenders.

Foreign exchange risk

The Company is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities into TL. This risk is monitored by key management personnel through Early Determination of Risk and Management Committee and regular Board of Director's meetings.

Excess cash is invested mainly in hard currency to balance the net foreign currency assets and liabilities and in order to minimize the statement of financial position foreign exchange exposure. In addition to this, distribution of the amount of the export orientated production and sales in the related months can increase the foreign assets (Note 27).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the “net financial debt to tangible capital ratio”. This ratio is calculated as net financial debt divided by tangible capital. Net financial debt is calculated as total short and long term borrowings minus cash and cash equivalents, whereas tangible equity is calculated as equity, as shown in the statement of financial position minus intangible assets. According to the decision of Company management, this ratio is expected not to exceed 1,25.

	31 December 2017	31 December 2016
Net financial debt	1,798,102	1,663,097
Tangible equity	3,005,522	2,611,056
Net financial debt / tangible equity ratio	0.60	0.64

Fair value of financial instruments

The Company measures derivatives and available for sale financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial assets

Bank borrowings are recorded over their fair value of which the transaction costs are discounted. In the following periods, they are evaluated and recognized with their discounted costs by using the effective rate of interest method. The fair values of other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Financial liabilities

Bank borrowings are recorded over their fair value of which the transaction costs are discounted. In the following periods, they are evaluated and recognized with their discounted costs by using the effective rate of interest method. The fair values of other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Cash flow hedge accounting

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Company.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as “hedging reserves”. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the income statement in the period in which the hedged firm commitment or forecasted transaction affects the income statement. If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Company has entered into swap transactions in order to manage its interest rate risk. Swap transactions are initially recognized at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. The fair value of interest swap contracts is determined by using valuation methods based on observable data in the market.

Derivative financial instruments are initially recognized at the transaction cost reflecting the fair value at the date of the contract is entered into and are subsequently measured at fair value. Derivative financial instruments are recognized as assets if the fair value is positive and as liabilities when the fair value is negative. The fair value differences of the Company are reflected in derivative financial instruments and consist of forward foreign currency purchase and sale contracts. Fair value is determined using valuation methods based on observable market data.

Borrowings and borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings (Note 6). With respect to assets which take long time to get ready for use and sale, borrowing costs related to production or construction are integrated to the cost of the asset. The borrowing costs include other costs incurred due to borrowing and interest.

Provision for employee benefits

a) Defined benefit plan

Provision for employee benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees or reasons except for resignation and behaviours stated in labour law, calculated in accordance with the Turkish Labour Law (Note 15). According to the amendments on TAS 19 “Employee Benefits”, the actuarial (gain) / loss of employee benefits are recognized under other comprehensive income.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

b) Defined contribution plan

The Company is obliged to pay social insurance contributions to the Social Security Institution. No other obligation exists as long as the Company pays these premiums. These premiums are reflected to the personnel expenses when they are accrued (Note 15).

c) Other employee benefits

“Long-term provisions for employee benefits” are composed of the unused vacation days accrued in the period incurred and if the impact is material, it is also discounted.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the provision amount decreases, in the case of an event occurring after the provision is accounted for, the related amount is classified as other income in the current period.

Provisions for sales premium

Provision for dealer stock sales premium expenses is accounted based on the last approved sales premium programme (Note 13).

Warranty expenses provision

Warranty expenses are recognized on an accrual basis for amounts estimated based on prior periods’ realization. The Company has reclassified warranty reserves to be expected to be realized in one year as current provision (Note 13).

Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs, except for listed below are classified as development expenditures and recognized as expense as incurred.

- If the cost related to the products can be defined and only if the cost can be measured reliably,
- If the technological feasibility can be measured,
- If the good will be sold or will be used within the Company,
- If there’s a potential market or can be proved that it is used within the Company,
- If necessary technological, financial and other resources can be provided to complete the project.

Development costs previously recognized as expense are not recognized as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the project lifetime. Impairment test for the assets is performed annually within the recognition period of the development expenditures in progress (Note 11).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Leasing - the Company as the lessee

Operating leases

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term

Leasing - the Company as the lessor

Operational leasing

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term

Related parties

Parties are considered related to the company (reporting entity) if;

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity; or,
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entiy is related to a reporting entity if any of the following condition applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

The Company defines its key management personnel as board of directors’ members, general managers, assistant general managers and directors reporting directly to the general manager (Note 26).

Earnings per share

Earnings per share disclosed in the statement of profit or loss are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and the revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year (Note 25).

Reporting of cash flows

In the statement of cash flows, cash flows during the period are classified under operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Company’s operations.

The cash flows due to investing activities indicate the Company cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment. Cash and cash equivalents include cash and bank deposits and the investments that are readily convertible into cash and highly liquid assets with less than three months to maturity (Note 4).

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in the financial statements and treated as contingent assets or liabilities (Note 13).

Subsequent events

Subsequent events and announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the statement of financial position date and the date when the statement of financial position is authorized for issue. In the case that events requiring an adjustment to the financial statements occur subsequent to the statement of financial position date, the Company makes the necessary corrections on the financial statements (Note 33).

Offsetting

Financial assets and liabilities are offset when there is a legal basis, intention to disclose net amount of related assets and liabilities or obtaining an asset that follows the settlement its liability.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary of significant accounting policies (Continued)

Government grants and incentives

Government grants and incentives are recognized at fair value when there is assurance that these grants and incentives will be received and the Company has met all conditions required. Government grants and incentives regarding the capitalized projects, costs are recognized by netting from costs of property, plant and equipment and intangible assets. Incentives which are not subject to assets are shown as other income in the income statement.

2.4 Accounting policies, changes in accounting estimates and errors

Material changes in accounting policies and estimates or material errors are corrected retrospectively; by restating the prior period financial statements. The effect of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current period and prospectively.

2.5 Significant accounting estimates and decisions

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

(a) In calculation of the employee benefit provision actuarial assumptions relating to turnover ratio, discount rate and salary increase are used. The details regarding the calculation are disclosed in provision for employee benefits (Note 15).

(b) In determination of the impairment of trade receivables, the factors such as debtor credibility, historical payment performance and debt restructuring is considered (Note 7).

(c) Discounted inventory price list is used to calculate inventory impairment. Where the sales price cannot be predicted, technical personnel's opinion and inventory waiting time is considered. If expected net realizable value is less than cost, the Company should allocate provisions for inventory impairment (Note 9).

(d) In determination of the legal case provisions, the possibilities of losing the case and the liabilities that will arise if the case is lost is evaluated by the Company's Legal Counsellor and by the Management team taking into account expert opinions. The management determines the amount of the provisions based on the best forecasts.

(e) In calculation of the warranty provision, the Company considers the historical warranty expenses incurred addition to planned technical and financial improvements to estimate the possible warranty expense per vehicle. Provision calculations are realistically performed and based on vehicle quantity, warranty period and historical claims (Note 13).

(f) Deferred tax assets are recognized when the occurrence of taxable profit is probable in the forthcoming years. Deferred tax asset is calculated over any temporary differences in cases when the occurrence of taxable profit is probable, taken into consideration of tax advantages obtained within the context of investment incentive certificates. Deferred tax asset is recorded as of 31 December 2017 and 31 December 2016 since presumptions that the Company will have taxable profit in the forthcoming periods are found to be sufficient (Note 24).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting estimates and decisions (Continued)

(g) The Company recognizes depreciation and amortization for its property, plant and equipment and intangibles by taking into account their useful lives that are stated in Note 2 (Notes 10 and 11).

(h) Development costs related to continuing projects are capitalized and the Company management perform impairment test regarding those capitalized costs annually. As of 31 December 2017 and 31 December 2016, there is no impairment determined related to development costs in progress (Note 11).

NOTE 3 - SEGMENT REPORTING

The Company, which is incorporated and domiciled in Turkey, has primary operation of manufacturing, assembling, importing and selling motor vehicles and spare parts. The Company's operating segments, nature and economic characteristics of products, nature of production processes, classification of customers in terms of risk for their products and services and methods used to distribute their products are similar. Furthermore, the Company structure has been organized to operate in one segment rather than separate business segments. Consequently, the business activities of the Company are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect.

NOTE 4 - CASH AND CASH EQUIVALENTS

The maturity period of time deposits is up to three months and there is no blockage / restriction on cash and cash equivalents. The weighted average interest rate for Euro denominated time deposits is 2.24% (31 December 2016: 1.77%) and the weighted average interest rate for the TL time deposits is 14.91%, (31 December 2016: 10.94%).

	31 December 2017	31 December 2016
Banks - foreign currency time deposits	1,039,955	751,380
Banks - TL time deposits	724,578	405,696
Banks - TL demand deposits	35,399	30,805
Banks - foreign currency demand deposits	2,985	659
Cash and cash equivalents in the cash flow statement	1,802,917	1,188,540
Interest income accrual	3,028	493
	1,805,945	1,189,033

NOTE 5 - FINANCIAL ASSETS

	31 December 2017		31 December 2016	
	Ownership rate (%)	Amount	Ownership rate (%)	Amount
Available-for-sale financial assets:				
Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) (*)	0.59	17,406	0.59	18,756
		17,406		18,756

(*) The Company's shareholding in Otokar was stated at market value at 31 December 2017 and 31 December 2016 which is assumed to approximate its fair value.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

6. FINANCIAL LIABILITIES**Short-term borrowings:**

	31 December 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	0.84	910,746	0.92	630,804
- USD	2.41	150,875	1.96	140,768
		1,061,621		771,572

Short-term portion of long-term borrowings:

- Euro	1.80	722,259	1.50	576,703
		722,259		576,703
Total short-term borrowings		1,783,880		1,348,275

Long-term borrowings:

	31 December 2017		31 December 2016	
	Effective interest rate (%)	TL Amount	Effective interest rate (%)	TL Amount
- Euro	1.62	1,820,167	1.57	1,503,855
		1,820,167		1,503,855

The payment schedules of long-term bank borrowings as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Payment period	Total TL	Total TL
2018	551,302	578,550
2019	489,827	444,441
2020	366,299	274,403
2021	186,965	176,769
2022	150,517	29,692
2023	75,257	-
	1,820,167	1,503,855

The letters of bank guarantee given to financial institutions in connection with borrowings amounting to TL 1,432,410 (31 December 2016 - TL 1,188,529) (Note 13).

The movement of financial liabilities as of 31 December 2017 and 2016 is as follows:

	2017	2016
1 January	2,852,130	2,560,766
Effect of cash flows	163,562	(130,763)
Unrealised foreign exchange differences	588,355	422,127
31 December	3,604,047	2,852,130

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Short-term trade receivables:		
Trade receivables	1,317,031	802,670
Doubtful receivables	4,533	4,533
Less: Unearned credit finance income	(17,285)	(7,899)
	1,304,279	799,304
Less: Provision for doubtful receivables	(4,533)	(4,533)
	1,299,746	794,771

The average turnover of receivables related to vehicle sales to domestic distributors is 25 days (31 December 2016: 25 days), domestic sales of spare parts turnover is 70 days (31 December 2016: 70 days) and discounted by 1.32% monthly effective interest rate (31 December 2016: 0.96%).

The collection of receivables from export sales other than Ford Motor Company is kept under guarantee with letter of credit, letter of guarantee, export credit insurance, Ford credit limit or upfront cash collection.

	31 December 2017	31 December 2016
Long-term trade receivables:		
Deposits and guarantees given	3,002	1,464
	3,002	1,464

	31 December 2017	31 December 2016
Trade payables:		
Trade payables	2,941,886	1,832,582
Less: Unearned credit finance expense	(20,496)	(9,422)
	2,921,390	1,823,160

The average turnover of trade payables is 60 days (31 December 2016: 60 days) and discounted by 1.32% monthly effective interest rate (31 December 2016: 0.96%).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (CONTINUED)

The maximum exposure of the Company to credit risk as of 31 December 2017 and 31 December 2016 is as follows:

31 December 2017	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	2,057,267	1,299,746	-	521	1,802,917
- The maximum of credit risk covered by guarantees	160,000	1,298,956	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	2,010,378	1,298,698	-	521	1,802,917
- The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	46,889	1,048	-	-	-
- Amount of risk covered by guarantees	-	258	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

31 December 2016	Trade receivables		Other receivables		Deposit in bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposed at the reporting date (Notes 26, 7, 8, 4)	1,362,949	794,771	-	504	1,188,540
- The maximum of credit risk covered by guarantees	160,000	729,657	-	-	-
Net book value of the financial assets that are neither overdue nor impaired	1,340,961	791,095	-	504	1,188,540
The carrying amount of financial assets whose terms have been renegotiated otherwise classified as overdue or impaired	-	-	-	-	-
Net book value of financial assets that are overdue but not impaired	21,988	3,676	-	-	-
- Amount of risk covered by guarantees	-	853	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	4,533	-	-	-
- Provision for impairment (-)	-	(4,533)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (CONTINUED)

The aging schedule of receivables that are overdue but not impaired is as follows;

31 December 2017	Trade receivables	
	Related party	Other
1-30 days overdue	37,591	261
1-3 months overdue	6,493	464
3-12 months overdue	2,440	308
1-5 years overdue	365	15
	46,889	1,048
Risk covered by guarantees	-	258

The Company's overdue related party receivables are related to the long term engineering service charges and spare parts exports to Ford Motor Company.

31 December 2016	Trade receivables	
	Related party	Other
1-30 days overdue	10,169	3,456
1-3 months overdue	7,757	49
3-12 months overdue	1,901	171
1-5 years overdue	2,161	-
	21,988	3,676
Risk covered by guarantees	-	853

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Other receivables		
Other miscellaneous receivables	521	504
	521	504

	31 December 2017	31 December 2016
Other payables		
Taxes and funds payable	42,234	43,609
Sales premium accruals	8,359	8,712
Rent accruals	-	17,465
Other	5,792	6,343
	56,385	76,129

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 9 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	410,330	304,206
Finished goods	214,519	289,056
Goods in transit	189,613	200,055
Import vehicles	114,479	89,740
Vehicle spare parts	169,971	127,888
Spare parts	25,014	19,626
Other	32,470	29,087
	1,156,396	1,059,658
Less: Provision for impairment of finished goods and vehicle spare parts	(3,906)	(5,232)
	1,152,490	1,054,426

The allocation of fixed production overheads to finished goods costs of conversion is based on the normal capacity of the production facilities.

The Company has accounted the expenses due to the impairment of inventories as part of cost of sales and the movement in the balance within the year is as follows:

	2017	2016
1 January	5,232	4,329
Change within the period	(1,326)	903
31 December	3,906	5,232

The Company has provided a provision for impairment on the inventories when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The reversal of provisions has been accounted under cost of sales (Note 18).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery & equipment	Models& moulds	Fixture& furniture	Vehicles (*)	Construction in progress	Total
1 January 2017									
Cost	12,269	155,317	938,595	2,406,475	2,097,201	382,723	91,150	93,680	6,177,410
Accumulated depreciation	-	(71,313)	(370,831)	(1,145,067)	(1,053,373)	(219,873)	(14,208)	-	(2,874,665)
Net book value	12,269	84,004	567,764	1,261,408	1,043,828	162,850	76,942	93,680	3,302,745
For the period ended 31 December 2017									
Opening net book value	12,269	84,004	567,764	1,261,408	1,043,828	162,850	76,942	93,680	3,302,745
Additions	-	8,346	14,953	179,274	282,925	25,754	31,467	90,737	633,456
Transfers	-	48	24,209	30,378	8,505	176	6,129	(69,445)	-
Disposals	-	-	(724)	(15,622)	(2,199)	(824)	(5,715)	-	(25,084)
Depreciation charge	-	(5,853)	(31,458)	(140,655)	(75,000)	(32,667)	(10,382)	-	(396,015)
Disposals from accumulated depreciation	-	-	724	14,919	2,159	642	2,674	-	21,118
Closing net book value	12,269	86,545	575,468	1,329,702	1,160,218	155,931	101,115	114,972	3,536,220
31 December 2017									
Cost	12,269	163,711	977,033	2,600,505	2,386,432	407,829	123,031	114,972	6,785,782
Accumulated depreciation	-	(77,166)	(401,565)	(1,270,803)	(1,226,214)	(251,898)	(21,916)	-	(3,249,562)
Net book value	12,269	86,545	575,468	1,329,702	1,160,218	155,931	101,115	114,972	3,536,220

The Company compared the borrowing cost of investment loans in foreign currency to the market loan interest denominated in TL and foreign exchange differences and interest costs equal to an amount of TL 9,857 (31 December 2016: TL 5,882) has been recognized under property, plant and equipment according to the cumulative approach within the context of TMS 23 as of 31 December 2017.

There is no collateral, pledge or mortgage on tangible assets as of 31 December 2017 and 2016.

(*)The Company makes a part of its truck sales with buyback commitment and trucks sold in this scope are monitored in “Vehicles” under Property, Plant and Equipment and their cost value amounts to TL 103,636 (31 December 2016: TL 74,886).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

1 January 2016	Land improvements	Buildings	Machinery & equipment	Models & moulds	Fixture & furniture	Vehicles (*)	Construction in progress	Total
Cost	12,269	150,449	2,287,633	1,941,079	344,843	74,226	45,465	5,761,763
Accumulated depreciation	-	(66,616)	(1,012,441)	(892,703)	(193,167)	(6,843)	-	(2,511,045)
Net book value	12,269	83,833	1,275,192	1,048,376	151,676	67,383	45,465	3,250,718
For the period ended 31 December 2016								
Opening net book value	12,269	83,833	1,275,192	1,048,376	151,676	67,383	45,465	3,250,718
Additions	-	3,846	110,111	153,094	42,795	33,673	93,592	447,235
Transfers	-	2,155	15,931	3,838	13	203	(45,377)	-
Disposals	-	(1,133)	(7,200)	(810)	(4,928)	(16,952)	-	(31,588)
Depreciation charge	-	(5,615)	(139,504)	(161,480)	(31,156)	(9,132)	-	(378,520)
Disposals from accumulated depreciation	-	918	6,878	810	4,450	1,767	-	14,900
Closing net book value	12,269	84,004	1,261,408	1,043,828	162,850	76,942	93,680	3,302,745
1 January 2016								
Cost	12,269	155,317	2,406,475	2,097,201	382,723	91,150	93,680	6,177,410
Accumulated depreciation	-	(71,313)	(1,145,067)	(1,053,373)	(219,873)	(14,208)	-	(2,874,665)
Net book value	12,269	84,004	1,261,408	1,043,828	162,850	76,942	93,680	3,302,745

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of 31 December 2017, there is no capitalized interest costs and foreign exchange differences in accordance with TMS 23 (31 December 2016: None).

The allocation of depreciation expense as of 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Cost of production (Note 18)	367,067	352,537
Research and development expenses (Note 19)	16,328	14,330
General administrative expenses (Note 19)	8,221	7,437
Marketing expenses (Note 19)	2,971	2,723
Associated with construction in progress	1,428	1,493
	396,015	378,520

NOTE 11 - INTANGIBLE ASSETS

1 January 2017	Rights	Development cost	Development cost in progress	Other	Total
Cost	40,352	653,879	129,107	6,483	829,821
Accumulated amortisation	(36,497)	(235,286)	-	(5,475)	(277,258)
Net book value	3,855	418,593	129,107	1,008	552,563
For the period ended 31 December 2017					
Opening net book value	3,855	418,593	129,107	1,008	552,563
Additions	14,741	(1,490)	201,059	1,073	215,383
Amortisation charge	(8,908)	(68,016)	-	(685)	(77,609)
Closing net book value	9,688	349,087	330,166	1,396	690,337
31 December 2017					
Cost	55,093	652,389	330,166	7,556	1,045,204
Accumulated amortisation	(45,405)	(303,302)	-	(6,160)	(354,867)
Net book value	9,688	349,087	330,166	1,396	690,337

There is no fully depreciated intangible assets as of 31 December 2017.

As of 31 December 2017, there is no capitalized interest costs and foreign exchange differences in accordance with TMS 23 (31 December 2016: None).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 11 - INTANGIBLE ASSETS (CONTINUED)

1 January 2016	Rights	Development cost	Development cost in progress	Other	Total
Cost	31,101	649,415	52,669	6,460	739,645
Accumulated amortisation	(29,106)	(165,992)	-	(4,827)	(199,925)
Net book value	1,995	483,423	52,669	1,633	539,720
For the period ended 31 December 2016					
Opening net book value	1,995	483,423	52,669	1,633	539,720
Additions	9,785	4,464	76,438	23	90,710
Disposals	(534)	-	-	-	(534)
Amortisation charge	(7,925)	(69,294)	-	(648)	(77,867)
Disposals from accumulated amortisation	534	-	-	-	534
Closing net book value	3,855	418,593	129,107	1,008	552,563
31 December 2016					
Cost	40,352	653,879	129,107	6,483	829,821
Accumulated amortisation	(36,497)	(235,286)	-	(5,475)	(277,258)
Net book value	3,855	418,593	129,107	1,008	552,563

The allocation of amortisation charges of intangible assets relating to 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Cost of production (Note 18)	69,734	70,824
General administrative expenses (Note 19)	4,502	4,434
Research and development expenses (Note 19)	2,804	2,391
Marketing expenses (Note 19)	472	88
Associated with construction in progress	97	130
	77,609	77,867

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 12 -PREPAID EXPENSES

Short-term prepaid expenses:	31 December 2017	31 December 2016
Advances given for inventories	86,338	53,091
Other prepaid expenses	15,641	5,920
	101,979	59,011

Long-term prepaid expenses:	31 December 2017	31 December 2016
Advances given for investments (*)	300,805	178,333
Other prepaid expenses	10,487	-
	311,292	178,333

(*) Advances given for investments are related to the Company’s new vehicle investments. TL 244,988 (31 December 2016: TL 133,801) is given to domestic vendors as mould advances and TL 55,817 (31 December 2016: TL 44,532) is given for the new project investments.

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

The Company recognizes 2, 3 and 4 years of warranty provision for the vehicles sold by dealers for malfunctions described in the sales agreements. Warranty expense provision is estimated by considering vehicles under warranty as of the balance sheet date and warranty claims of vehicles sold in previous years on a model basis.

Short-term provisions:	31 December 2017	31 December 2016
Warranty expense provision	108,900	93,567
Provisions for sales premium (*)	50,714	42,673
	159,614	136,240

(*) Provisions for sales premium is composed of expense accruals related with dealer vehicle stock at the reporting date (Note 2).

Long-term provisions:	31 December 2017	31 December 2016
Warranty expense provision	122,625	60,820
Provisions for lawsuits	46,660	39,295
	169,285	100,115

The movement of provisions for lawsuits during the period is as follows:

	2017	2016
1 January	39,295	39,395
Paid during the period	(5,341)	(7,472)
Additions during the period	12,706	7,372
31 December	46,660	39,295

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

Movements in the warranty expense provision during the period is as follows:

	2017	2016
1 January	154,387	101,615
Paid during the period	(110,949)	(102,787)
Additions during the period (Note 19)	188,087	155,559
31 December	231,525	154,387

Letters of guarantee and letters of credit

	31 December 2017	31 December 2016
Letters of guarantee given to financial institutions due to bank loans	1,432,410	1,188,529
Letters of guarantee given to customs	49,762	41,696
Letters of guarantees given to other parties	14,102	11,051
	1,496,274	1,241,276

Letters of guarantee given

	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
Euro	293,866	1,326,954	292,482	1,085,078
USD	40,013	150,925	40,013	140,814
TL	18,395	18,395	15,384	15,384
		1,496,274		1,241,276

The allocation of collaterals, pledges and mortgages as of 31 December 2017 and 31 December 2016 as follows:

Collaterals, pledges and mortgages given by the Company

	31 December 2017	31 December 2016
A. Total amount of collaterals / pledges / mortgages given for its own Legal entity	1,496,274	1,241,276
B. Total amount of collaterals / pledges / mortgages given for participations included in entire consolidation	-	-
C. Total amount of collaterals / pledges / mortgages given to assure debts of third parties, for the purpose of conducting the business activities	-	-
D. Total amount of other collaterals / pledges / mortgages given	-	-
i. Total amount of collaterals / pledges / mortgages given for the parent company	-	-
ii.Total amount of collaterals / pledges / mortgages given for other related companies that do not fall into B and C sections	-	-
iii. Total amount of collaterals / pledges / mortgages given for third parties that do not fall into C section	-	-
	1,496,274	1,241,276

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

As of 31 December 2017 and 31 December 2016, total amount of the collaterals, pledges and mortgages obtained by the Company are as follows:

Letters of guarantee received

	31 December 2017		31 December 2016	
	Original currency	TL equivalent	Original currency	TL equivalent
TL	213,657	213,657	73,006	73,006
Euro	13,358	60,318	7,169	26,596
USD	4,602	17,358	396	1,394
		291,333		100,996

Other

The long-term bank borrowing agreements related to the investments require the Company to comply with certain financial ratios. Such financial ratios are met by the Company as of 31 December 2017 and 31 December 2016.

NOTE 14 - COMMITMENTS

Commitments related with bank loans used by the Company are as follows:

a) Based on the one year credit agreements made in 2017, amounting to Euro 40,000,000 with Yapı Kredi and amounting to Euro 40,000,000 with İş Bankası A.Ş., totally Euro 80,000,000, the Company is required to ensure that its export proceeds up to an amount equal to Euro 80,000,000 is transacted through Yapı Kredi and Euro 80,000,000 is transacted through İş Bankası, totalling Euro 160,000,000 for the year 2017.

b) The Company, also committed to Türkiye İhracat Kredi Bankası A.Ş (Eximbank);

- With 8 months term credit amounting to USD 40,000,000 used in December 2017 an export amount of USD 40,000,000,
- With 8 months term credit amounting to Euro 35,000,000 used in May 2017 an export amount of Euro 35,000,000,
- With 8 months term credit amounting to Euro 35,000,000 used in June 2017 an export amount of Euro 35,000,000,
- With 8 months term credit amounting to Euro 105,000,000 used in September 2017 an export amount of Euro 105,000,000,

Operational lease commitments

Future lease payments under non-cancellable operating leases of the Company is as follows:

Operational lease commitments

	31 December 2017	31 December 2016
Within 1 year	8,282	8,844
Between 1 year to 5 years	10,053	5,748
	18,335	14,592

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 15 - EMPLOYEE BENEFITS**Liabilities for employee benefit obligations:**

	31 December 2017	31 December 2016
Salaries and social charges payable	110,644	40,181
Social security premiums payable	40,402	36,991
Withholding income tax payable	30,298	22,989
Other	2,748	2,138
	184,092	102,299

Provision for employee benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	131,726	110,025
Provision for unused vacation pay liability	21,758	20,301
	153,484	130,326

Provision for employment termination benefits:

There are no agreements for pension commitments other than the legal requirement as explained below:

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 5,001.76 for each year of service as of January 1, 2018 (31 December 2016: TL 4,297.21).

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

TFRS requires actuarial valuation methods to be developed to estimate the Company's obligation under defined benefit plans, accordingly, the following actuarial assumptions were used in the calculation of the total liability

	31 December 2017	31 December 2016
Discount rate (%)	11.8	10.8
Expected salary increase rate (%)	6.5	6.0
Net discount rate	4.9	4.5
Turnover rate to estimate the probability of retirement (%)	96.0	95.6

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NOTE 15 - EMPLOYEE BENEFITS (CONTINUED)

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Since the Company calculates the reserve for employee benefits once a year, the maximum amount of TL 5,001.76 which was effective as of January 1, 2018 (July 1 - 31 December 2016: TL 4,297.21) has been used in the calculations.

Movements in the provision for employee benefits during the year are as follows:

	2017	2016
1 January	110,025	87,579
Interest cost	11,850	9,065
Current year service cost	20,316	12,445
Paid during the period	(10,442)	(14,522)
Actuarial (gains) / losses	(23)	15,458
31 December	131,726	110,025

The sensitivity analysis of the assumptions which was used for the calculation of provision for employee benefits as of 31 December 2017 is below:

Sensitivity level	Net discount rate		Turnover rate related to the probability of retirement	
	0,5% decrease	0,5% increase	0,5% decrease	0,5% increase
Rate (%)	(4,4)	(5,4)	95,5	96,5
Change in provision for employee benefits	6,414	(5,922)	(4,430)	4,863

NOTE 16 - OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
VAT to be deducted (*)	371,827	196,050
Prepaid taxes and withholding	12,682	4,363
Other	20,052	13,113
	404,561	213,526

(*) VAT to be deducted includes export VAT receivables related to November and December 2017. VAT receivables amounting to TL 148,432 for November 2017 was collected in January 2018.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
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NOTE 17 - EQUITY

The composition of the Company's paid-in capital as of 31 December 2017 and 31 December 2016 is as follows:

Shareholders	Share Group	31 December 2017	Shareholders percentage (%)	31 December 2016	Shareholders percentage (%)
Koç Holding A.Ş.	B	134,953	38,46	134,953	38,46
Temel Ticaret ve Yatırım A.Ş.	B	2,356	0,67	2,356	0,67
Ford Motor Company	C	143,997	41,04	143,997	41,04
Vehbi Koç Vakfı	A	3,559	1,01	3,559	1,01
Koç Holding Emekli ve Yardım Sandığı Vakfı	A	3,259	0,93	3,259	0,93
Other (Publicly Held)	A	62,786	17,89	62,786	17,89
Total		350,910	100	350,910	100
Inflation adjustment to share capital		27,920		27,920	
Inflation adjusted paid in capital		378,830		378,830	

Adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share.

There are 35,091,000,000 unit of shares (31 December 2016: 35,091,000,000 unit) with a nominal value of Kr 1 each.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital, Under the TCC; the legal reserves can be used only to offset losses, unless legal reserve does not exceed at the rate of 50% of the paid-in capital.

In accordance with CMB Financial Reporting Standards, the Company classified the above mentioned reserves under “Restricted reserves”, the amount of restricted reserves is TL 254,404 as of 31 December 2017 (31 December 2016 : TL 284,207).

In accordance with Communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board of Turkey (“CMB”) on June 13, 2013 which is published on Official Gazette numbered 28676, “Share Capital”, “Restricted Reserves” and “Share Premiums” shall be carried at their statutory amount. The valuation differences shall be classified as follows

- “the difference arising from the “Paid-in Capital” and not been transferred to capital yet, shall be classified under the “Inflation Adjustment to Share Capital”,
- the difference due to the inflation adjustment of “Restricted reserves” and “Share premium” and the amount has not been utilized in dividend distribution or capital increase yet, shall be classified under “Retained earnings”,

Other equity items shall be carried at the amounts calculated based on TAS. Adjustment to share capital has no use other than being transferred to paid-in share capital.

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014. Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation.

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NOTE 17 - EQUITY (CONTINUED)

In addition, dividend can be distributed by fixed or variable instalments and advance dividend can be paid in accordance with profit on year-end financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

In accordance with the General Assembly Meeting dated as of March 23, 2017, the Company has decided to distribute dividends from the net profit of the year 2016, at the rate of 114% gross (96.90% net), with a total amount of TL 400,037 as full TL 1.14 gross (Kr 96.90 net) for each share with a value of full TL 1. The Company made the dividend payment in April 2017.

In accordance with the Extraordinary General Assembly Meeting dated as of October 27, 2017, the Company has decided to distribute dividends at the rate of 111% gross, with a total amount of TL 389,511 as full TL 1,11 gross (Kr 94.35 net) for each share with a value of full TL 1. The Company made the dividend payment in November. (In April 2016, 100% of the gross TL 1 share (TL 85.00 Kr) will be TL 350,910 and in November 2016, the full TL 1 share will be TL 89.00 gross (net 75.65 Kr) amounting to TL 312,310; a total of 663,220 TL cash dividend was distributed).

In accordance with Communiqué No: II-14.1, “Communiqué on the Principles of Financial Reporting In Capital Markets”, equity schedule at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Issued capital	350,910	350,910
Inflation adjustments on capital	27,920	27,920
Share premium	8	8
Gains on remeasurement and/or reclassification of available-for sale financial assets	15,608	16,890
Losses on cash flow hedges	(503,120)	(336,189)
Losses on remeasurements of defined benefit plans	(14,001)	(14,019)
Restricted reserves	254,404	284,207
- Legal reserves	254,404	284,207
Retained earnings	2,074,147	1,878,584
- Inflation adjustment to equity	428,301	428,301
- Extraordinary reserves	1,645,846	1,450,283
Net income for the period	1,489,983	955,308
Total equity	3,695,859	3,163,619

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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NOTE 17 - EQUITY (CONTINUED)

The readjusted amounts and equity inflation adjustment differences of the historical values shown above for the year ended 31 December 2017 and 31 December 2016 are as follows:

	Historical values	Adjusted values	Equity inflation adjustment differences
31 December 2017			
Issued capital	350,910	378,830	27,920
Legal reserves	254,404	313,157	58,753
Extraordinary reserves	1,645,846	2,014,991	369,145
Share premium	8	361	353
Other reserves	-	50	50
	2,251,168	2,707,389	456,221
	Historical values	Adjusted values	Equity inflation adjustment differences
31 December 2016			
Issued capital	350,910	378,830	27,920
Legal reserves	284,207	342,960	58,753
Extraordinary reserves	1,450,283	1,819,428	369,145
Share premium	8	361	353
Other reserves	-	50	50
	2,085,408	2,541,629	456,221

Inflation adjustment difference in equity can be utilized in issuing bonus shares and in offsetting accumulated losses; the carrying amount of extraordinary reserves can be utilized in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

Otokar shares which are publicly traded in BIST are valued at their closing price as of 31 December 2017 and 31 December 2016. As of 31 December 2017, fair value change (negative) amounting to TL (1,282) net of deferred tax, (31 December 2016: TL 5,824) is shown in statement of comprehensive income.

The net of tax effects of the changes in the statement of other comprehensive income and the effects of the changes in accumulated income and expense under equity are as follows:

	2017	2016
1 January	(333,318)	(144,994)
(Losses) gains on remeasurement and/or reclassification of available-for-sale financial assets	(1,282)	5,824
Actuarial gains / (losses)	18	(12,367)
Losses on cash flow hedges	(166,931)	(181,781)
31 December	(501,513)	(333,318)

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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NOTE 18 - REVENUE AND COST OF SALES

	31 December 2017	31 December 2016
Export sales	17,830,091	12,286,677
Domestic sales	8,272,097	6,737,600
Other sales	124,762	75,297
Less: Discounts	(885,660)	(810,467)
	25,341,290	18,289,107

Units of vehicle sales:

	31 December 2017			31 December 2016		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Transit Custom	7,642	157,502	165,144	7,037	129,792	136,829
Transit	29,080	100,181	129,261	27,629	93,077	120,706
Transit Courier	35,549	37,864	73,413	37,451	33,063	70,514
Passenger vehicles	33,543	482	34,025	33,236	402	33,638
Cargo	5,190	1,309	6,499	5,509	877	6,386
Ranger	2,711	32	2,743	2,037	24	2,061
New Transit Connect	1,747	26	1,773	2,887	11	2,898
	115,462	297,396	412,858	115,786	257,246	373,032

Summaries of cost of production as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Raw material cost	(17,893,433)	(12,343,575)
Production overhead costs	(1,249,605)	(1,032,889)
Depreciation and amortization expenses (Notes 10 and 11)	(436,801)	(423,361)
Changes in finished goods	(73,211)	(70,233)
Total production cost	(19,653,050)	(13,870,058)
Cost of trade goods sold	(3,051,045)	(2,332,987)
Total cost of sales	(22,704,095)	(16,203,045)

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 19 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	31 December 2017	31 December 2016
Marketing expenses		
Warranty expenses (Note 13)	(188,087)	(155,559)
Advertising expenses	(90,695)	(85,708)
Personnel expenses	(83,242)	(69,632)
Vehicle transportation expenses	(59,350)	(49,419)
Spare parts transportation and packaging expenses	(25,237)	(19,656)
Dealer and service development expenses	(23,417)	(14,991)
Export expenses	(19,333)	(11,303)
Depreciation and amortization expenses (Notes 10 and 11)	(3,443)	(2,811)
Other	(51,499)	(39,187)
	(544,303)	(448,266)

	31 December 2017	31 December 2016
General administrative expenses		
Personnel expenses	(103,730)	(92,080)
Legal, consulting and auditing expenses	(34,798)	(28,532)
Grants and donations	(27,374)	(22,132)
Organization expenses	(14,220)	(14,500)
Depreciation and amortization expenses (Notes 10 and 11)	(12,723)	(11,871)
New project administrative expenses	(12,349)	(12,851)
Travel expenses	(7,011)	(7,010)
Repair, maintenance and energy expenses	(4,659)	(3,312)
Duties, taxes and levies	(4,038)	(5,697)
Other	(28,578)	(27,053)
	(249,480)	(225,038)

	31 December 2017	31 December 2016
Research and development expenses		
Personnel expenses	(153,748)	(166,361)
Project costs	(108,297)	(170,480)
Mechanization expense	(24,378)	(17,604)
Depreciation and amortization expenses (Notes 10 and 11)	(19,132)	(16,721)
Other	(11,637)	(12,678)
	(317,192)	(383,844)

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 20 - EXPENSES BY NATURE

The classification of expenses by nature for the year ended at 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Raw material cost	(17,893,433)	(12,343,575)
Cost of trade goods sold	(3,051,045)	(2,332,987)
Personnel expenses	(1,004,888)	(872,414)
Other operational expenses	(734,956)	(695,465)
Other overhead costs	(585,438)	(488,547)
Financial expenses	(786,231)	(445,194)
Depreciation and amortization expenses	(472,099)	(454,764)
Other operational expenses	(278,508)	(199,316)
Expenses from investing activities	(3,407)	(6,263)
Changes in finished goods	(73,211)	(70,233)
Total Expenses	(24,883,216)	(17,908,758)

NOTE 21 - OTHER OPERATING INCOME / EXPENSES

	31 December 2017	31 December 2016
Other operating income		
Foreign exchange gains related to trade receivables and payables	212,701	117,234
Credit finance income	139,378	92,716
License fees income	15,481	12,401
Provisions no longer required	14,047	-
Price difference and claim recovery	10,877	10,677
Rent income	5,368	5,172
Commission income	7,057	6,008
Adjustments of prior period corporate income tax	3,302	2,316
Other	52,251	34,902
	460,462	281,426

	31 December 2017	31 December 2016
Other operating expenses		
Credit finance charges	(177,790)	(118,062)
Foreign exchange losses related to trade receivables and payables	(95,109)	(76,684)
Other	(5,609)	(4,570)
	(278,508)	(199,316)

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 22 - FINANCIAL INCOME

	31 December 2017	31 December 2016
Foreign exchange gains	482,835	287,595
Interest income	74,896	22,587
Gains from derivative instruments	4,531	-
	562,262	310,182

NOTE 23 - FINANCIAL EXPENSES

	31 December 2017	31 December 2016
Foreign exchange gains	(722,396)	(388,753)
Interest income	(42,394)	(40,739)
Gains from derivative instruments	(21,441)	(15,702)
	(786,231)	(445,194)

NOTE 24 - TAX ASSETS AND LIABILITIES

Corporate Tax Law was amended by the Law No, 5520 dated June 13, 2006. Law No, 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from January 1, 2006. Accordingly, the corporate tax rate for the fiscal year 2017 is 20% (December 31, 2016 - 20%). Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment incentive, etc.) and corporate income tax deductions (e.g. research and development expenditures deduction). No further tax is payable unless the profit is distributed.

15% withholding tax rate applies to dividends distributed by resident corporations resident real persons except for, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated over the tax declaration of the institutions to be given in the following year. If the temporary tax amount paid remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax declarations to the Tax Office within the 25th of the fourth month following the close of the financial year.

Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 24 - TAX ASSETS AND LIABILITIES (CONTINUED)

There are many exceptions to the Institutions Tax Law. These exceptions to the Company are explained below:

Dividend gains from shares in capital of another corporation subject to resident taxpaying (except dividends from investment funds participation certificates and investment trusts shares) are exempt from corporate.

The Company capitalizes the R&D expenses made within the scope of the Code no 5746 in its legal books. According to the provisions of the same Code, the Company makes calculation within the framework of the related legislation over the R&D expenses incurred, and utilizes R&D deduction exemption at the rate of 100% for the portion of expenses allowed by the Code.

As of 31 December 2017, the Company utilised R&D incentive exemption amounting of TL 518,523 (31 December 2016: TL 414,086) in return for the legal tax.

The decree on Government Subsidies for Incentives regulating investment incentives was published in the official gazette and became effective on 16 July 2009. Within the scope of this decree, the Company acquired a large-scaled investment incentive certificate subject investment is located in the 1. Region and has a 30% rate of contribution to investment. As of the statement of the financial position date, in the framework of the related investment incentive certificates, an investment expense of TL 559,295 (31 December 2016: TL 559,295) was made and subject to document expenditures is completed.

The decree on Government Subsidies for Incentives re-regulating investment incentives was published in the official gazette and became effective on June 19, 2012. The Company revalued its existing investments and within the scope of above mentioned new decree acquired a privileged investment incentive certificate amounting to TL 1,194,398 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697,394 for the new model Transit Courier investment in the light commercial vehicle segment. In addition to vehicle investments, in 2013, the Company acquired a privileged investment incentive certificate amounting to TL 187,379 for the production of new 6 and 4 cylinder engines for the produced Ford Cargo and Ford Transit vehicles. In December 2014, the Company received a privileged investment incentive amounting to TL 331,362 and with a 40% rate of contribution to investment for the expanding investment for the production of Euro 6 emission trucks which will be put into use in the year 2018 in the Eskişehir İnönü plant. Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849,160 because of replacement and factory modernization investments which shall be made in following periods related to Ford Transit, Ford Transit Courier and Ford Transit Custom models whose production is still going on in during 2016. The investments will benefit from the 5. Region contributions according to the new incentive regulation and has a 40% rate of contribution to investment. Since the Privileged Investment Incentive Certificate amounting to TL 1,194,398 received for the New Generation Transit expenses exceeds TL 1 billion, the Company can benefit from the additional 10% rate of contribution to investment.

As of the date of the balance sheet, the investment expenditures amounting to TL 2,814,923 (31 December 2016: TL 2,229,638) was made in the framework of the related new investment incentive certificates.

The Company utilized discounted corporate taxation amounting to TL 167,371 (31 December 2016: TL 66,129) in the current year and this amount has been deducted from the total deferred tax asset.

The Company's net tax position as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Current year corporate tax expense	(19,511)	(20,414)
Prepaid tax and withholding	13,121	22,171
Current years' profit tax liability	(6,390)	1,757

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 24 - TAX ASSETS AND LIABILITIES (CONTINUED)

The taxation on income for the periods ended 31 December 2017 and 2016 are as follows;

	31 December 2017	31 December 2016
Current year corporate tax expense	(19,511)	(20,414)
Current year tax effect of cash flow hedge (*)	(41,733)	(45,445)
Other deferred tax	70,066	50,996
Deferred tax income	28,333	5,551
Continuing operations tax income / (expense)	8,822	(14,863)

(*)The amount represents the tax effect of the reclassification made between the statement of income and other comprehensive income relating to the cash flow hedge transactions.

Calculation of the tax expense reconciliation using the current period tax expense in the statement of profit or loss as at 31 December 2017 and 2016 and current tax ratio based on income before tax is as follows:

	31 December 2017	31 December 2016
Income before tax:	1,481,161	970,171
Effective tax rate	%20	%20
Current year tax expense	(296,232)	(194,034)
Research and development deductions	103,705	82,817
Investment incentive exemption	192,295	87,885
Other	9,054	8,469
	8,822	(14,863)

The Company calculates deferred tax assets and liabilities from the temporary differences identified during the evaluation of the differences between the statement of financial position prepared under TFRS and financial statements prepared for tax purposes.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Certain Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities as at 31 December 2017 and 31 December 2016 using the current enacted tax rates is as follows:

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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 24 - TAX ASSETS AND LIABILITIES (CONTINUED)

	Cumulative temporary differences		Deffered tax assets /(liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred tax assets:				
Investment incentive tax asset	4,037,011	3,987,624	764,963	740,039
Expense accruals and other provisions	398,708	306,055	86,416	61,211
Employee benefits provision	131,726	110,025	26,345	22,004
Warranty expense provision	231,525	154,387	50,520	30,878
Inventories	26,380	33,381	5,803	6,676
	4,825,350	4,591,472	934,047	860,808
Deferred tax liabilities:				
Tangibles and intangibles	1,459,592	1,430,271	(291,918)	(286,054)
Income accruals and other	92,168	92,200	(15,686)	(18,440)
	1,531,760	1,522,471	(307,604)	(304,494)
Net deferred tax asset			626,443	556,314

The deferred tax movement table is presented below:

	1 January 2017	Charged Statement of profit or loss as income / (expense)	Charged to comprehensive income statement as income / (expense)	31 December 2017
Deferred tax liabilities:				
Tangible and intangible assets	(286,054)	(5,864)	-	(291,918)
Income accruals and other	(18,440)	2,686	68	(15,686)
Deferred tax assets:				
Investment incentive tax asset	740,039	24,924	-	764,963
Expense accruals and other	61,211	25,205	-	86,416
Provision for employee benefits	22,004	4,346	(5)	26,345
Warranty expense provision	30,878	19,642	-	50,520
Inventories	6,676	(873)	-	5,803
Deferred tax asset, net	556,314	70,066	63	626,443

	1 January 2016	Charged Statement of profit or loss as income / (expense)	Charged to comprehensive income statement as income / (expense)	31 December 2016
Deferred tax liabilities:				
Tangible and intangible assets	(266,801)	(19,253)	-	(286,054)
Income accruals and other	(12,440)	(5,694)	(306)	(18,440)
Deferred tax assets:				
Investment incentive tax asset	718,283	21,756	-	740,039
Expense accruals and other	18,224	42,987	-	61,211
Provision for employee benefits	17,516	1,397	3,091	22,004
Warranty expense provision	20,323	10,555	-	30,878
Inventories	7,428	(752)	-	6,676
Deferred tax asset, net	502,533	50,996	2,785	556,314

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 25 - EARNINGS PER SHARE

	31 December 2017	31 December 2016
Net income for the year (TL)	1,489,983	955,308
Weighted average number of shares with nominal	35,091,000,000	35,091,000,000
Earnings per share with nominal value of Kr 1 each	4,25 Kr	2,72 Kr

NOTE 26 - RELATED PARTY DISCLOSURES

Related party can be defined according to whether one of the companies has control over the others or has significant effect on its financial and administrative decisions. The Company, is controlled by Koç Holding A.Ş. and Ford Motor Company. In the financial statements, shareholder companies, shareholders and financial fixed assets and other group companies' assets are shown as related parties.

The related party balances at 31 December 2017 and 31 December 2016 and the transactions with related parties during the year are as follows:

a) Receivables from related parties:*i) Trade receivable from related parties:*

	31 December 2017	31 December 2016
Due from shareholders:		
Ford Motor Company and its subsidiaries	1,444,291	892,540
	1,444,291	892,540
Due from group companies (*):		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	619,403	474,021
Other	1,736	1,070
	621,139	475,091
Less: Unearned credit finance income	(8,163)	(4,682)
	2,057,267	1,362,949

(*) The Company's shareholders' subsidiaries and affiliate.

Export sales mainly consist of sales to Ford Motor Company. Payments terms and conditions are specified in the business agreements with Ford Motor Company. Receivables from the Ford Motor Company are due in 14 days and receivables are collected regularly.

Per the domestic dealership agreement between Ford Otomotiv Sanayi A.Ş. and Otokoç Otomotiv Ticaret ve Sanayi A.Ş., the Companies have a vehicle and spare parts trade connection. As mentioned in Note 7, the Company's receivables from Otokoç Otomotiv Ticaret ve Sanayi A.Ş. is due in 25 days on average and sales of spare parts is due in 70 days on average.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 26 - RELATED PARTY DISCLOSURES (CONTINUED)**b) Payables to related parties:***i) Trade payables to related parties*

	31 December 2017	31 December 2016
Due to shareholders:		
Ford Motor Company and its subsidiaries	760,742	698,913
	760,742	698,913
Trade payables due to related parties (*):		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	56,218	34,060
Ram Dış Ticaret A.Ş.	45,224	27,150
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	14,058	6,695
Setur Servis Turistik A.Ş.	4,464	7,031
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	3,403	2,331
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş.	3,193	2,434
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	3,029	10,958
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1,960	1,370
Ram Sigorta Aracılık Hizmetleri A.Ş.	97	476
Other	4,196	3,299
	135,842	95,804
Less: Unearned credit finance expense	(1,025)	(534)
	895,559	794,183

(*) The Company's shareholders' subsidiaries, business associates and affiliates.

ii) Other payables to related parties

	31 December 2017	31 December 2016
Koç Finansman A.Ş.	13,277	7,342
Koç Holding A.Ş.	10,458	8,578
Yapı ve Kredi Bankası A.Ş.	7,703	2,843
	31,438	18,763

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 26 - RELATED PARTY DISCLOSURES (CONTINUED)

c) Sales to related parties:

	31 December 2017	31 December 2016
Ford Motor Company (*)	17,461,276	12,088,758
Otokoç Otomotiv Tic. ve San. A.Ş. (**)	2,098,534	1,705,926
Other	172	1,312
	19,559,982	13,795,996
Less: Financial income from credit sales	(39,602)	(26,706)
	19,520,380	13,769,290

(*) The Company, exports vehicle, spare parts and engineering service to Ford Motor Company.

(**) The Company has a vehicle and spare parts trade in accordance with domestic dealer agreement with Otokoç Otomotiv Ticaret ve Sanayi A.Ş.

d) Material, service and fixed asset purchases from related parties:

	1 January - 31 December 2017			
	Material	Service	Fixed assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	21,117	273,877	205	295,199
Ram Dış Ticaret A.Ş.	136,008	-	-	136,008
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	19,250	13,272	32,522
Setur Servis Turistik A.Ş.	-	30,250	-	30,250
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	17,485	9,915	27,400
Koç Holding A.Ş. (*)	-	20,510	-	20,510
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	19,951	-	-	19,951
Koçtaş Yapı Marketleri Ticaret A.Ş.	11,903	-	31	11,934
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	11,532	-	-	11,532
Ram Sigorta Aracılık Hizmetleri A.Ş. (**)	-	9,620	-	9,620
Opet Petrolcülük A.Ş.	5,215	-	-	5,215
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2,270	-	2,270
Other	312	6,416	223	6,951
	206,038	379,678	23,646	609,362
Less: Financial expense from credit purchases	(4,072)	-	-	(4,072)
	201,966	379,678	23,646	605,290

(*) It includes service costs that are based on finance, law, planning, tax and management provided by Koç Holding A.Ş. to the companies within the group organisation, invoiced to the company within the context of “I1-Intra-group Services” in numbered 1 General Communique about concealed Gain Distribution by Transfer Pricing.

(**) Contains paid and accrued premium amounts for the periods ended 31 December 2017 and 2016 within the context of insurance policies signed with insurance companies through the agency of Ram Sigorta Aracılık Hizmetleri A.Ş.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

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NOTE 26 - RELATED PARTY DISCLOSURES (CONTINUED)

d) Material, service and fixed asset purchases from related parties (Continued):

	1 January - 31 December 2016			
	Material	Service	Assets	Total
Domestic purchases:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	18,372	225,796	216	244,384
Ram Dış Ticaret A.Ş.	99,676	-	-	99,676
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	11,436	17,647	29,083
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	26,663	1,754	28,417
Setur Servis Turistik A.Ş.	-	25,906	-	25,906
Koç Holding A.Ş. (*)	-	19,657	-	19,657
AKPA Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	15,825	-	-	15,825
Koçtaş Yapı Marketleri Ticaret A.Ş.	9,260	-	6	9,266
Ram Sigorta Aracılık Hizmetleri A.Ş.(**)	-	9,090	-	9,090
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş.	8,433	-	-	8,433
Opet Petrolcülük A.Ş.	3,911	-	-	3,911
Tanı Pazarlama İlet. Hiz. A.Ş.	-	2,229	-	2,229
Other	40	5,734	156	5,930
	155,517	326,511	19,779	501,807
Less: Financial expense from credit purchases	(2,803)	-	-	(2,803)
	152,714	326,511	19,779	499,004

Material, vehicle and service purchases from abroad:

	31 December 2017	31 December 2016
Ford Motor Company and subsidiaries	11,019,457	7,547,333

e) License fees paid to Ford Motor Company included in cost of sales:

	31 December 2017	31 December 2016
	148,358	128,112

f) License fees received from Jiangling Motors Corporation, a subsidiary of Ford Motor Company, included in other income:

	31 December 2017	31 December 2016
	15,481	12,401

g) Donations to related parties and foundations, included in general administrative expenses:

	31 December 2017	31 December 2016
	26,369	20,479

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 26 - RELATED PARTY DISCLOSURES (CONTINUED)**h) The details of deposits in related banks and loans obtained from related banks:****Deposits in related banks:**

	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş.		
- TL time deposits	105,630	-
- TL demand deposits	8,005	17,416
- Foreign currency demand deposits	2,561	239
- Foreign currency time deposits	-	251,506
	116,196	269,161

i) Commission income:

	31 December 2017	31 December 2016
Koç Finansman A.Ş	4,272	4,278
Yapı ve Kredi Bankası A.Ş.	2,785	1,730
	7,057	6,008

i) Commission expense:

	31 December 2017	31 December 2016
Koç Finansman A.Ş	113,572	94,768
Yapı ve Kredi Bankası A.Ş.	57,716	22,495
	171,288	117,263

Commissions paid to Koç Tüketici Finansmanı A.Ş. and Yapı ve Kredi Bankası A.Ş. are credit commissions related to sales to end user customers by dealers and are recorded as sales discounts in the statement of profit or loss.

j) Interest income:

	31 December 2017	31 December 2016
Yapı ve Kredi Bankası A.Ş.	10,484	4,760

k) Dividend income:

	31 December 2017	31 December 2016
Otokar Otomotiv ve Savunma Sanayi A.Ş.	351	422

l) Compensation of key management personnel:

The Company defines its key management personnel as board of directors’ members, general managers, assistant general managers and directors reporting directly to the general manager (Note 2).

Compensation of key management personnel includes salaries, premiums, Social Security Institution employer’s contribution, employer’s contribution of unemployment insurance and the attendance fees.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 26 - RELATED PARTY DISCLOSURES (CONTINUED)**l) Compensation of key management personnel (Continued):**

The total amount of compensation given to key management personnel of the Company as of 31 December 2017 is TL 33,611 (31 December 2016: TL 25,918). TL 2,390 of this amount is related to payments made to the key management personnel as a part of their leaving, the remaining balance is composed of short-term benefits.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 December 2017 and 31 December 2016. The carrying amount of the Company's foreign currency denominated assets and liabilities, categorized by currency have been presented below:

31 December 2017	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	1,667,304	32,001	342,509	-
2. Monetary financials assets (including cash and cash equivalents)	1,043,634	40,104	197,508	102
3. Other	215,695	7,702	41,334	-
4. Current assets (1 + 2 + 3)	2,926,633	79,807	581,351	102
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	2,926,633	79,807	581,351	102
8. Trade payables	964,733	25,331	190,882	1,429
9. Financial liabilities (*)	1,783,879	40,000	361,644	-
10. Other monetary liabilities	5,256	-	651	456
11. Short term liabilities (8 + 9 + 10)	2,753,868	65,331	553,177	1,885
12. Financial liabilities (*)	1,820,166	-	403,093	-
13. Other	102,204	-	22,634	-
14. Long term liabilities (12+13)	1,922,370	-	425,727	-
15. Total liabilities (11 + 14)	4,676,238	65,331	978,904	1,885
16. Net foreign currency (liabilities) / assets position (7 - 15)	(1,749,605)	14,476	(397,553)	(1,783)
17. Net monetary foreign currency (liabilities) / assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(1,863,096)	6,774	(416,253)	(1,783)

(*) The Company’s net foreign exchange position is mainly due to long-term Euro denominated loans obtained to fund its investments. The Company is hedging for the foreign currency exchange risk arising from its Euro denominated long-term loans with export agreements signed with Ford Motor Company. The TL equivalent of such loans amount to TL 1,862,921 as of 31 December 2017 (31 December 2016 TL 2,082,685).

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2016

	TL (Functional currency)	USD	Euro	GBP
1. Trade receivables	958,509	22,468	237,052	-
2. Monetary financials assets (including cash and cash equivalents)	752,258	40,114	164,708	9
3. Other	210,843	6,878	50,308	-
4. Current assets (1 + 2 + 3)	1,921,610	69,460	452,068	9
5. Monetary financial assets	-	-	-	-
6. Non-current assets (5)	-	-	-	-
7. Total assets (4+6)	1,921,610	69,460	452,068	9
8. Trade payables	820,276	27,858	193,505	1,008
9. Financial liabilities (*)	1,348,274	40,000	325,482	-
10. Other monetary liabilities	6,450	386	1,327	39
11. Short term liabilities (8 + 9 + 10)	2,175,000	68,244	520,314	1,047
12. Financial liabilities (*)	1,503,856	-	405,363	-
13. Other	75,619	-	20,383	-
14. Long term liabilities (12+13)	1,579,475	-	425,746	-
15. Total liabilities (11 + 14)	3,754,475	68,244	946,060	1,047
16. Net foreign currency (liabilities) / assets position (7 - 15)	(1,832,865)	1,216	(493,992)	(1,038)
17. Net monetary foreign currency (liabilities) / assets (1 + 2 + 5 - 8 - 9 - 10 - 12)	(1,968,089)	(5,662)	(523,917)	(1,038)

Foreign exchange risk

The Company is exposed to foreign exchange risk primarily against Euro and partly against USD. The foreign exchange risk of the Company arises from long-term Euro investments.

31 December 2017

Appreciation / depreciation in foreign currency	Profit / (loss) before taxation	
	Increase by 10%	Decrease by 10%
Change in USD against TL		
USD net assets / (liabilities)	5,460	(5,460)
USD net hedged amount	-	-
USD net- gain / (loss)	5,460	(5,460)
Change in Euro against TL		
Euro net (liabilities) / assets	(179,515)	179,515
Euro net hedged amount	186,292	(186,292)
Euro net- gain / (loss)	6,777	(6,777)
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities) / assets	(906)	906
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss) / gain	(906)	906

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2016

Appreciation / depreciation in foreign currency	Profit / (loss) before taxation	
	Increase by 10%	Decrease by 10%
Change in USD against TL		
USD net assets / (liabilities)	428	(428)
USD net hedged amount	-	-
USD net- gain / (loss)	428	(428)
Change in Euro against TL		
Euro net (liabilities) / assets	(183,266)	183,266
Euro net hedged amount	208,268	(208,268)
Euro net- gain / (loss)	25,002	(25,002)
Change in other foreign currency against TL		
Other foreign currency denominated net (liabilities) / assets	(448)	448
Other foreign currency denominated- hedged amount	-	-
Other foreign currency denominated net - (loss) / gain	(448)	448

The comparative amounts for total export and import amounts for the year ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Total export amount	17,830,091	12,286,677
Total import amount	11,791,955	8,208,716

The Company's net assets are exposed to foreign exchange risk which arises from export sales. To minimize its foreign currency risk, the Company follows a balanced foreign currency position policy. The foreign currency exposure arising from foreign currency denominated borrowings and trade payables is managed through assets denominated in foreign currency.

Interest rate risk

The Company's interest rate sensitive financial instruments are as follows:

	31 December 2017	31 December 2016
Fixed interest rate financial instruments		
Financial assets	1,764,533	1,157,076
Financial liabilities	1,885,646	1,617,170
Floating interest rate financial instruments		
Financial liabilities	1,718,401	1,234,960

If the interest rates of floating interest-bearing Euro denominated borrowings were 100 basis points higher / lower with all other variables held constant, profit before tax for the year would have been lower / higher by TL 2,495 at 31 December 2017 (31 December 2016: TL 2,470) due to higher / lower interest expense.

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

The table below shows the liquidity risk arising from financial liabilities of the Company:

31 December 2017	Book Value	Total contractual cash outflow	Up to 3 months	Between 3-12 months	Between 1-5 years	Longer than 5 years
Non-derivative financial instruments						
Financial liabilities	3,604,047	3,702,568	485,287	1,310,866	1,830,415	76,000
Trade payables						
-Related party	895,559	896,585	896,585	-	-	-
-Other	2,921,390	2,941,886	2,941,886	-	-	-
Other liabilities						
-Related party	31,438	31,438	31,438	-	-	-
-Other	56,385	56,385	56,385	-	-	-
Derivative financial liabilities						
Derivative financial instruments	187	187	-	-	187	-
31 December 2016						
Non-derivative financial instruments						
Financial liabilities	2,852,130	2,927,145	401,094	954,750	1,540,259	31,042
Trade payables						
-Related party	794,183	794,717	794,717	-	-	-
-Other	1,823,160	1,832,582	1,832,582	-	-	-
Other liabilities						
-Related party	18,763	18,763	18,763	-	-	-
-Other	76,129	76,129	76,129	-	-	-

Fair value hierarchy table

The Company classifies the fair value measurement of financial instruments reported at fair value according to their source of valuation inputs, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques that includes direct or indirect observable inputs

Level 3: Valuation techniques that does not contain observable market inputs

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 27 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

As of 31 December 2017 and December, 31 2016, the Company’s hierarchy table for its assets and liabilities recorded at fair value are as follows:

31 December 2017	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	4,531	-
Financial asset available-for-sale - Otokar	17,406	-	-
Total assets	17,406	4,531	-
Liabilities at fair value			
Derivative financial liabilities	-	187	-
Total liabilities	-	187	-

(*) Fair value is calculated at market prices per the Stock Exchange market at the reporting date.
(**) Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

31 December 2016	Level 1 (*)	Level 2 (**)	Level 3
Assets at fair value			
Derivative financial assets	-	-	-
Financial asset available-for-sale - Otokar	18,756	-	-
Total assets	18,756	-	-
Liabilities at fair value			
Derivative financial liabilities	-	-	-
Total liabilities	-	-	-

(*) Fair value is calculated at market prices per the Stock Exchange market at the reporting date.
(**) Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

NOTE 28 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses long term floating rate foreign currency loans from international markets. The Company hedges interest rate risk by securing a portion of the floating rate loans from international markets through long term swap transactions.

The Company hedged the interest rate risk arising from cash flows related to the borrowing used as of 31 December 2017 with the maturity of 3 November 2019 amounting to Euro 51,428,571 with interest rate swapping. The critical conditions of the settlement contract such as maturity, payment, interest rate change dates are in line with the critical conditions of the foreign currency borrowing, which is the subject of financial hedge as of 31 December 2017. The fair value of the interest rate swap transaction calculated as of 31 December 2017 is TL 187 and it is classified as long - term liabilities.

Derivative financial instruments:

	31 December 2017	31 December 2016
Derivative financial liabilities	187	-
	187	-

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 28 - DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In order to hedge the foreign exchange risk arising from the repayment of some its Euro denominated loans, which will mature in January 2018, the Company entered in to forward foreign exchange transactions in the same amount of its loans. The fair value of the foreign currency forward transaction calculated as of 31 December 2017 is TL 4,531 and classified under current assets in the balance sheet.

	31 December 2017	31 December 2016
Derivative financial assets	4,531	-
	4,531	-

There is an effective foreign currency cash flow hedge relationship between foreign currency long-term financial borrowings related with investment expenditures (non-derivative hedging instrument) and highly probable forecast transaction export sales receivables (hedged item). In the frame of the manufacturing agreement signed with Ford Motor Company, the Company will associate a portion of estimated export revenue from 1 April 2013 to December 2022 with long-term financial borrowings.

	31 December 2017	31 December 2016
Cash flow hedge reserve:		
Amount recognized in other comprehensive income	392,450	303,001
Amount recycled from other comprehensive income to statement of profit or loss	(183,786)	(75,775)
	208,664	227,226

NOTE 29 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	31 December 2017	31 December 2016
Income from investing activities		
Dividend income	351	422
Gain on sale of property, plant and equipment	12	-
	363	422

	31 December 2017	31 December 2016
Expense from investing activities		
Loss on sale of property, plant and equipment	(3,407)	(6,263)
	(3,407)	(6,263)

NOTE 30 - DEFERRED REVENUE

	31 December 2017	31 December 2016
Advances received	10,929	8,811
	10,929	8,811

	31 December 2017	31 December 2016
Long term deferred revenue	7,450	4,757
	7,450	4,757

FORD OTOMOTİV SANAYİ A.Ş.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 31 - OTHER NON CURRENT LIABILITIES

	31 December 2017	31 December 2016
Other non-current liabilities (*)	115,631	75,620
	115,631	75,620

(*) The Company makes a part of its fleet truck with buyback commitments and sales made within this scope are followed under “Other Non-Current Liabilities”. The buyback commitments are 3 years on average.

NOTE 32 - GOVERNMENT INCENTIVES AND GRANTS

The Company has completed its New Generation Transit and New Transit Custom factory investment amounting to TL 559,295 which has 30% contribution rate to investment with in the scope of Council of Ministers' Decision numbered 2009/15199 and benefits from related incentive in tax calculations.

Additionally, the Company revalued its existing investments within the scope of the decree on Government Subsidies for Incentives re-regulating investment incentives, which was published in the official gazette in 2013 and became effective on 19 June 2012, and in order to benefit from privileged investment incentive regarding new decree, acquired a privileged investment incentive certificate amounting to TL 1,194,398 for the investment of its new generation Transit model and a privileged investment incentive certificate amounting to TL 697,394 for the new model Transit Courier investment in the light commercial vehicle segment. In addition to vehicle investments, in 2013, the Company acquired a privileged investment incentive certificate amounting to TL 187,379 for the production of new 6 and 4 cylinder engines for the produced Ford Cargo and Ford Transit vehicles. Subject investment incentives has a 40% rate of contribution to investment. Since the Privileged Investment Incentive Certificate amounting to TL 1,194,398 received for the New Generation Transit expenses exceeds TL 1 billion, the Company can benefit from the additional 10% rate of contribution to investment.

In December 2014, the Company received a privileged investment incentive amounting to TL 331,362 and with a 40% rate of contribution to investment for the expanding investment for the production of Euro 6 emission trucks which will be put into use in the year 2018 in the Eskişehir İnönü plant.

Additionally, the Company has obtained primary investment incentive certificate at an amount of TL 849,160 because of replacement and factory modernization investments which shall be made in following periods related to Ford Transit, Ford Transit Courier and Ford Transit Custom models whose production is still going on in during 2016. The aforementioned investments shall benefit from 5th Region and 40% incentive ratio supports in accordance with new incentives legislation.

NOTE 33 - SUBSEQUENT EVENTS

The negotiation process of the Collective Labor Agreement between Turkish Metal Industrialists' Union (MESS) of which the Company is a member and the Turkish Metal Union is signed as of 30 January 2018, effective for the period between 1 September 2017 - 31 August 2019.

NOTE 34 - DISCLOSURE OF OTHER MATTERS

There are no other matters other than stated above, which would materially affect or that would have material effect on the financial statements, required for the purpose of understanding and interpreting the financial statements.

FORD OTOMOTİV SANAYİ A.Ş. INFORMATION
DOCUMENT FOR THE 19 MARCH 2018
ORDINARY GENERAL ASSEMBLY TO
REVIEW FINANCIAL YEAR 2017

1. INVITATION TO THE 19 MARCH 2018 ORDINARY GENERAL ASSEMBLY MEETING

Ford Otomotiv Sanayi A.Ş.'s Ordinary General Assembly Meeting shall be convened on 19 March 2018 Monday at 14:00 at the address of “Divan İstanbul Hotel - Asker Ocağı Caddesi No:1 34367 Şişli / İstanbul (Tel: +90 212 315 55 00, Faks: +90 212 315 55 15)”. At the meeting, the activities of the Company for the fiscal year 2017 will be reviewed, the following agenda will be discussed, and a resolution regarding the agenda will be reached.

In accordance with the legal requirements, 2017 Financial Statements, the Independent Auditor’s Report, the Corporate Governance Compliance Report, and the Board of Directors’ Annual Report, including the dividend distribution proposal of the Board of Directors, along with the following agenda and the Memorandum containing the information required by Capital Markets Board regulations shall be made available to the shareholders at Company Headquarters in Sancaktepe İstanbul, Kocaeli Gölcük Plant, İnönü Plant, on the Company’s corporate website at www.fordotosan.com.tr, and in the Electronic General Meeting System of the Central Registry Agency (CRA) three weeks prior to the meeting.

Shareholders unable to attend the meeting in person, save for the rights and obligations of the ones participating electronically via the Electronic General Assembly System, shall prepare their proxy documents as per the legislation, or shall obtain a proxy sample form from Yapı Kredi Yatırım Menkul Değerler A.Ş. (Yapı Kredi Plaza / Levent-İstanbul), our Company, or from the corporate website at www.fordotosan.com.tr and shall submit to the Company the notarized proxy documents issued in accordance with the requirements of the Communiqué No. II-30.1, Use of Proxy Vote and Proxy Collection through Invitation, enacted on 24 December 2013 and published in Official Gazette No. 28861. A proxy document is not required from a proxy appointed electronically through the Electronic General Meeting System. The proxy documents which do not comply with the requirements of the aforementioned Communiqué, and the sample form attached within the invitation to the general assembly meeting document shall not be accepted, given our legal liability.

Shareholders intending to vote via the Electronic General Meeting System are requested to obtain information from the Central Registry Agency, our Company’s website at www.fordotosan.com.tr or from the Company Headquarters (Tel: 0 216 564 71 00) to ensure that they comply with the provisions of the by-laws for the Electronic Shareholders Meeting.

Pursuant to Paragraph 4 of Article 415 of Turkish Commercial Code No. 6102 and Paragraph 1 of Article 30 of the Capital Markets Law, the right to attend the General Assembly and voting rights shall not be conditional on depositing the share certificates. Accordingly, shareholders participating in the General Assembly do not need to block their shares.

At the Ordinary General Assembly Meeting, the voters shall use open voting system by raising hands, without prejudice to the provisions of electronic voting regarding the voting of each item on the agenda.

All right holders and stakeholders as well as the press are invited to the General Assembly Meeting.

Pursuant to the Capital Markets Law, shareholders holding registered shares that are traded on the stock exchange will not receive a separate registered invitation letter for the meeting.

It is submitted to the shareholders with due respect.

FORD OTOMOTİV SANAYİ A.Ş.
BOARD OF DIRECTORS

Company Address: Akpınar Mah. Hasan Basri Cad. No:2 34885 Sancaktepe /İstanbul
Trade Registry and Number: İstanbul Ticaret Sicil Müdürlüğü / 73232
Mersis ID Number : 0649002036300014

2. ADDITIONAL EXPLANATIONS IN VIEW OF CMB REGULATIONS

The additional explanations required pursuant to Capital Markets Board (CMB) Corporate Governance Communiqué No. II-17.1, enacted 3 January 2014, are made in the related articles of the agenda below. Other mandatory general explanations are provided in this section.

2.1. Capital Structure and Voting Rights:

There is no privilege in Company’s Articles of Incorporation regarding voting rights. Share group B and C have privilege for Board of Directors membership election.

The voting rights of our shareholders, are provided in the following table:

Shareholding Structure	Share Group	Amount of Share (TL)	Percentage of Share (%)	Vote	Percentage of Vote (%)
Koç Holding A.Ş.	B	134.953.357	38.46	13.495.335.714	38.46
Temel Ticaret ve Yatırım A.Ş.	B	2.355.885	0.67	235.588.500	0.67
Vehbi Koç Foundation	A	3.558.449	1.01	355.844.870	1.01
Koç Holding Pension and Assistance Foundation	A	3.259.202	0.93	325.920.231	0.93
Ford Motor Company	C	143.997.037	41.04	14.399.703.676	41.04
Publicly Held	A	62.786.070	17.89	6.278.607.009	17.89
Total		350.910.000	100.00	35.091.000.000	100.00

2.2. Managerial and Operational Changes in Our Company or our Subsidiaries' which may Significantly Affect the Activities of our Company:

There are no managerial or operational changes that has or that will substantially affect the Company's activities in the previous accounting period, or planned for the upcoming accounting periods.

2.3. Information regarding demands of shareholders for placing an article on the agenda:

No such request is made for the Ordinary General Assembly Meeting for 2017 activities.

3. ANNOUNCEMENTS PERTAINING TO THE AGENDA ARTICLES OF THE ORDINARY GENERAL ASSEMBLY MEETING DATED 19 MARCH 2018

1. Opening and election of Chairmanship Panel,

Within the framework of the provisions of “Turkish Commercial Code (TCC) no. 6102” and “The Regulation of the Ministry of Customs and Commerce regarding Principles and Procedures of General Assembly Meetings of Joint Stock Companies and Representatives of the Ministry of Customs and Commerce to be Present in these Meetings” (“Regulation” or “General Assembly Regulation”), and General Assembly Principles Article 7, a Chairman shall be elected to chair the General Assembly meeting. Within the framework of the General Assembly Principles, at least one person will be appointed as Secretary. The Chairman may also appoint adequate number of vote-collectors.

2. Reading, discussion and approval of the Annual Report of year 2017 prepared by the Board of Directors,

Within the framework of the TCC, the Regulation and the Capital Markets Law and related regulations, information shall be given on the 2017 Annual Report that includes the Corporate Governance Compliance Report, which has been announced at the Headquarters of our Company, on the Electronic General Assembly portal of the Central Registry Agency and on the corporate website of the Company at www.fordotosan.com.tr for review of our shareholders three weeks before the General Assembly meeting and it shall be presented for perusal and approval of our shareholders.

3. Reading of the summary report of the Independent Audit Firm of 2017 Fiscal Period,

Independent Audit Report created as per TCC, Regulation and Capital Markets Board legislation and made available at Company Headquarters, Electronic General Assembly Portal of the CRA and Company website www.fordotosan.com.tr, three weeks prior to the General Assembly meeting, will be submitted to the information of our shareholders in General Assembly meeting.

4. Reading, discussion and approval of the Financial Statements of 2017 Fiscal Period,

Information about our financial statements and legal statutory accounts, which, pursuant to the TCC, bylaws and Capital Markets Law are posted three weeks prior to the General Assembly meeting at our Company Headquarters, on the Electronic General Assembly Portal of the CRA, and on the Company website www.fordotosan.com.tr for review of our shareholders, shall be provided to our shareholders for their evaluation and approval.

5. Release of the members of the Board of Directors separately for year 2017 activities,

Pursuant to the TCC and Bylaws, the release of our Board of Directors members for the activities, transactions and accounts for the year 2017 shall be submitted to the General Assembly for its approval.

6. Approval, or approval with amendments or refusal of the Board of Directors' proposal for profit distribution for the year 2017 and the distribution date which prepared in accordance with the Company's Profit Distribution Policy,

According to our financial statements, prepared by our Company within the framework of the Turkish Commercial Code and Capital Markets Law and related regulations in compliance with Turkish Financial Reporting Standards and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi covering the accounting period between 01.01.2017 – 31.12.2017; net profit amount of TL 1.489.982.998 has been obtained. The dividend payment proposal drawn up in accordance with the Dividend Distribution Table format provided in the Dividend Communiqué numbered II-19.1 and the

Dividend Manual announced in accordance with the said Communiqué, and taking into account the Company's Dividend Distribution Policy, long-term strategy, investment and financing policies, profitability and liquidity, is provided in Appendix 1.

7. Determination of the number and the term of duty of the members of the Board of Directors and election of the members based on the determined number, election of the Independent Board Members,

The number of members on the Board of Directors and their terms of office shall be designated in accordance with CMB regulations, TCC and Bylaws and the principles governing the selection of members of the Board of Directors in the Articles of Incorporation. New members will be elected to replace Board members whose terms of office have expired. In addition, Independent Members of the Board of Directors shall be elected in compliance with the CMB's Corporate Governance Communiqué No. II-17.1.

According to Article 10 of the Company's Articles of Incorporation, Company is managed by a Board of Directors with an even number of members and consisting of at least 8 members, elected by the General Assembly for a 3 year period in line with the TCC regulations. General Assembly may decide on the renewal of the Board of Directors even if their terms of office have not expired. 2 of the elected Board members are required to meet the independence criteria as defined in the CMB's mandatory Corporate Governance Principles.

The Board of Directors, upon receipt of the proposal of Corporate Governance Committee, has designated Mr. Leonard Martin Meany and Mrs. Fatma Füsün Akkal Bozok as the Independent Members of the Board of Directors by Board of Directors' resolution and has submitted to the approval of CMB. The CVs and Independence Declarations of Board of Directors candidates are provided in Appendix 2.

8. As per the Corporate Governance Principles, informing the shareholders regarding the “Remuneration Policy” for members of the Board of Directors and the senior executives and payments made under this policy and approval of the “Remuneration Policy” and related payments,

According to CMB's mandatory Corporate Governance Principle No. 4.6.2, the principles for the remuneration of Board of Directors' members and senior management shall be made available in writing and included as a separate article on the General Assembly Meeting agenda to enable the shareholders to share their opinions on the same. Remuneration Policy created for this purpose is attached as Appendix 3. As specified by footnote No. 26 of 2017 Financial Statements, TL 33.611.078 - of benefits were provided for senior management of Ford Otomotiv Sanayi A.Ş. in 2017.

9. Determination of the annual gross fees to be paid to the members of the Board of Directors,

The annual gross remuneration to be paid to the members of the Board of Directors in 2018 shall be determined by the shareholders as per our Remuneration Policy submitted for the approval the shareholders as per item 8 of the agenda.

10. As per the regulations of the Turkish Commercial Code and Capital Markets Board, approval of the Board of Directors' election for the Independent Audit Firm,

In accordance with the Turkish Commercial Code and Capital Markets Board regulations, and taking into consideration the opinion of the Audit Committee, the Board of Directors resolved at their 13.02.2018 meeting to have PWC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi serve as the independent auditors of the Company's financial reports for the financial year 2018 and to let it conduct the other activities that fall within its purview within the context of the regulations. This decision shall be submitted to the General Assembly for ratification.

11. Giving information to the shareholders regarding the donations made by the Company in 2017 and determination of a upper limit for donations to be made in 2018,

Pursuant to Article 6 of the CMB's Communiqué on Dividends No. II-19.1, the limit of donations to be made must be determined by the General Assembly, in cases not specified in the Articles of Incorporation, and information concerning the donations and payments made must be provided to shareholders at the General Assembly. Donations totaling TL 27.373.844 were made to foundations and associations in 2017. The upper limit of donations to be made in 2018 shall be decided by the General Assembly.

12. Under Articles 395 and 396 of the Turkish Commercial Code, authorizing: shareholders with management control, members of the Board of Directors, senior executives and their spouses and relatives related by blood or affinity up to the second degree; and also informing the shareholders regarding the transactions made in this extent in 2017 pursuant to the Capital Markets Board's Communiqué on Corporate Governance,

The members of the Board of Directors can do business only with the approval of the General Assembly, as stipulated in the first subsection of Articles 395 and 396 of the TCC entitled Competition Ban and Ban on doing Business with the Company and Borrowing for the Company.

Pursuant to the Capital Markets Board Mandatory Corporate Governance Principles No. 1.3.6, the General Assembly shall be informed in the event that shareholders having managerial control, shareholder board members, senior management and relatives up to the second degree of blood or affinity engaged in a significant business transaction creating a conflict of interest with the Company or its subsidiaries, competed with the company in the same line of business on their own behalf or on the behalf of others, or was involved in the same business as that of the Company as unlimited partner in another company. Information about said transactions must be included as a separate article on the agenda and recorded into the minutes of the General Assembly. To fulfill the requirements of these regulations, permission shall be sought from the shareholders at the General Assembly and the shareholders shall be informed that no such transaction took place in 2017 in this respect.

13. Wishes and opinions.

DEVELOPMENTS FOLLOWING THE REPORT DATE

30 January 2018

Collective Labor Agreement for the period of 01.09.2017-31.08.2019 was signed between Turkish Employers Association of Metal Industries (MESS), which our company is a member, and Turkish Metal Union. According to this agreement;

Hourly wages are set per 9 TL/ hour for the first six months and an equal wage increase of 1.60 TL/ hour was decided. For each full year of the seniority, 0.10 TL/ hour added to hourly wages just once under the condition that the wages not exceed 1.50 TL/ hour. For the second, 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 23%. For the second year, it will be raised as consumer price index (CPI) ratio.

Trade Name
Ford Otomotiv Sanayi A.Ş.

Trade Registry Number
73232

Central Registration System
Number (MERSIS)
6151881823298226

Authorized Capital
500,000,000 TL

Paid-in Capital
350,910,000 TL

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İnönü Plant
Bozüyük - Kütahya Yolu Üzeri 8.km
26670 İnönü / Eskişehir
T: +90 222 213 20 20

Sancaktepe Spare Parts
Distribution Center
Akpınar Mah. Hasan Basri Cad. No:2
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Sancaktepe Engineering Center
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This Annual Report (“Report”), including the Board of Directors' Report about the operations and financials of 2017, Auditors' Report, Financial Statements and the Independent Audit Report, was prepared in compliance with the legal regulations in force, to be presented to the Ordinary General Assembly of Ford Otosan A.Ş. (Company) to take place on the 19th of March 2018 Monday at 14.00 in Divan Hotel İstanbul, Elmadağ at the address Asker Ocağı Caddesi No. 1, 34367 Şişli, İstanbul. The Report was written only to inform the shareholders, and does not serve the purpose to lay the ground for any investment decision. The opinions stated in the Report regarding the future and projections reflect the Company Management's view on the future situation; their materialization may differ depending on the variables and assumptions that yield the projections. Accordingly, the Company or Members of the Board of Directors, advisors or employees cannot be held liable for any information or communication conveyed as part of this Report or for any direct or indirect loss and damages that may be incurred on any individual because of information based on/omitted from the content of this report. It is believed that all information in the Report was accurate at the time of preparation. The Company rejects any responsibility for errors that may occur during writing or printing.

