

# FORD OTOMOTİV SANAYİ A.Ş.

## 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](mailto:aselcuk@ford.com.tr/0216_5647499)) and Treasury and Risk Manager Burak Çekmece ([bcekmece@ford.com.tr/0216\\_5647480](mailto:bcekmece@ford.com.tr/0216_5647480)) who are direct reports to İ. Oğuz Toprakoğlu ([otoprako@ford.com.tr/0262\\_3156900](mailto: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](http://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](http://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 İnönü 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.

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

Name - Surname	Independent	Appointment Date	Duration	Membership in Board Committees	Duties outside Company
Rahmi M. Koç	No	23.3.2017	12 months	-	Koç H. Honorary Chairman
Ali Y. Koç	No	23.3.2017	12 months	-	Koç Holding Vice Chairman
Steven R. Armstrong	No	23.3.2017	12 months	Remuneration Committee	Ford Motor Company Man.
Linda A.Cash	No	23.3.2017	12 months	-	Ford Motor Company Man.
William R.Periam	No	23.3.2017	12 months	Corporate Governance Committee / Risk Committee	Ford Motor Company Man.
Joseph Bakaj	No	8.9.2017	6 months	-	Ford Motor Company Man.
Roelant C. de Waard	No	23.3.2017	12 months	-	Ford Motor Company Man.
O.Turgay Durak	No	23.3.2017	12 months	-	-
İ.Cenk Çimen	No	23.3.2017	12 months	Risk Committee /Remuneration Committee	Koç Holding Man.
Ali İhsan İlkbahar	No	23.3.2017	12 months	Corporate Governance Committee	-
Haydar Yenigün	No	23.3.2017	12 months	-	-
Lisa K.King	No	23.3.2017	12 months	-	-
Mehmet Barmanbek	Yes	23.3.2017	12 months	Risk Comm. Pres./Remun. Comm. Pres. /Audit Comm.	-
L.Martin Meany	Yes	23.3.2017	12 months	Corp.Gov.Committee Pres. / Audit Committee	-

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 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.