

ACTIVITIES OF THE EARLY DETECTION OF RISK AND RISK MANAGEMENT COMMITTEE

a. Risk Management

A significant portion of commercial risks are managed under the guarantee of 'take-or-pay' export contracts conducted with FCA, PSA and GM groups for the allocation of a certain portion of annual factory capacity to export sales. These export contracts provide substantial protection to the Company against cost, profitability, FX and foreign market risks and help keep commercial risks to a minimum.

In terms of commercial risk management, Tofaş successfully and strategically diversified its product range and markets in 2016. The Company began manufacturing Egea Sedan model in the last quarter of 2015, and Egea Hatchback and Station Wagon models in 2016, thereby further diversifying its product range. For the first time in its history, Tofaş allocated its manufacturing capacity equally to automobiles and light commercial vehicles. Thanks to the successful sales performance of Egea product family, Tofaş entered into new export markets, such as Mexico and the Gulf Region, further increasing diversification which helped render the market risk optimally manageable.

The financial debt of the Company is composed of long-term bank loans that do not bear foreign exchange risk, and are related to New Doblò, Fiat Egea line and the Fiat Florino revamp facelift project. Revenues and cash flows of these models and projects are covered under the guarantee of export agreements. Other financial debts apart from project loans are those of Koç Fiat Kredi Tüketici Finansmanı A.Ş. FX and interest rate risks were minimized through swap and derivative transactions.

FINANCIAL INDICATORS (TL MILLION, UNLESS INDICATED OTHERWISE)	2016	2015
Total Net Sales	14,236	9,921
Net Profit	970	831
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Current Ratio	1.10	1.15
Profit Before Tax/Net Sales	5.6%	6.2%
Profit Before Tax/Equity	27.0%	23.9%
Total Debt/Equity	194.5%	176.1%

b. Activities of the Early Detection of Risk and Risk Management Committee

Early Detection of Risk and Risk Management Committee was established as per the Tofaş Board of Directors resolution dated October 1, 2012 in order to ensure compliance with Article 378 of the Turkish Commercial Code No. 6102, which went into force on July 1, 2012, and also to ensure efficient operation of the Board Committees. The Committee is responsible for early detection of risks that may threaten the Company's existence, development and continuity, and takes necessary actions relating to identified risks, and manages these risks.

The Committee held 26 periodic meetings in total; 2 (two) meetings following its establishment, 6 (six) meetings each in 2013, 2014, 2015 and 2016. Following the re-constitution of the Board of Directors by the General Assembly in 2014, the Board of Directors decided, with the resolution no. 2014/12 dated April 11, 2014, that the Committee would continue its activities with the same members and would preserve its existing structure in line with the previously determined operating principles. Pursuant to the Board of Directors resolution no. 2016/4 dated February 18, 2016, Mr. Giorgio Fossati was appointed to the Committee to fill the member seat vacated by Mr. Ali Aydın Pandır.

Following its establishment, the Committee initially evaluated the Risk Management System in place at Tofaş Türk Otomobil Fabrikası A.Ş., and spelled out the principles of risk reporting. Reports produced in accordance with the set principles and the Committee's assessments are being presented for the information of the Board of Directors periodically.

The Company management carefully considers the extent of the impact the Company's operations, risks and financial, commercial and operational results stemming from the risks will have upon the Company, and manages the same proactively. For the purpose of systematically managing risks, the Company management takes necessary measures to define, measure, assess the risks and to mitigate/transfer them when necessary, and ultimately to monitor and report them.

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Risk management at Tofaş has been organized in line with the Risk Management Policy and with the applicable legislation and so as to be reported to the Board of Directors. It is based on the principles of “protecting the Company assets and values”, “ensuring commercial, financial and operational confidence” and “sustainability of enterprise risk management”. The Company management is financially, commercially, operationally, and organizationally responsible for, and charged with, taking and implementing all necessary measures necessitated by risk management, internal audit and internal control activities.

c. Internal Control System and Internal Audit

An internal control system was built to cover (i) the Company activities and services carried out effectively, reliably and uninterruptedly in conformity with the existing laws and regulations, and (ii) controls made to maintain the integrity, consistency, timeliness and reliability and safety of the accounting and financial reporting system.

Tofaş Türk Otomobil Fabrikası A.Ş. coordinates and carries out an internal audit activity that will provide constant monitoring and assessment of the internal control system.

The Audit Committee has the primary responsibility for monitoring the internal control system and internal audit process. In addition, the Early Detection of Risk and Risk Management Committee takes care to address the related system in conjunction with risk management. The Audit Committee makes assessments to verify that necessary proactive measures are adopted in relation to the Company's internal control system and internal audit activities, enterprise risk management, financial, commercial and operational risks, and foreseeable potential risks, and that the Company fulfills the responsibilities imposed by the legal regulations in relation to internal control, internal audit and risk management.

Committees' statements and reports are directly presented to the Board of Directors. An internal audit activity is carried out that enables continuous monitoring and evaluation of the Company's internal control system.

Accordingly it has been established as per the Turkish Commercial Code, Capital Market Law and Capital Market legislation, that internal audit activities and the internal control system did function solidly as at year-end 2016 and that there were no important problems about the processes so far. Furthermore, records indicating the healthy functioning of the enterprise risk and internal control systems were kept and it was declared that no important issues were found.

The administrative body maintains a positive opinion about the Company's internal control system and internal audit activities. In the report presented to the Board of Directors, the Committee expresses its positive opinion about the efficiency, adequacy and appropriateness of the internal controls carried out to ensure efficient, reliable and uninterrupted performance of Company activities and services, and to guarantee the integrity, consistency, timely availability, reliability and safety of the data derived from the accounting and financial reporting system, as well as for the activities of internal audit and risk management systems in relation to the preparation of consolidated financial statements.

Furthermore; in this context, the Independent Audit firm PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (old name: Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş) Auditor Report about the Early Risk Detection System Committee states that: “As a result of our activities we have reached the conclusion that; Tofaş Türk Otomobil Fabrikası A.Ş.'s Early Risk Detection Committee is sufficient in all significant aspects within the framework of the 378th Article of the Turkish Code of Commerce.”