

# Corporate Governance Principles Compliance Report

## TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş. CORPORATE GOVERNANCE COMPLIANCE REPORT

### SECTION I: DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

In 2014, full compliance was achieved with the applicable compulsory principles of the Corporate Governance Communiqué II-17.1 while compliance was achieved with most of the non-compulsory principles.

Although the aim is to achieve full compliance also with the non-compulsory Corporate Governance Principles, full compliance has not yet achieved due to reasons such as; difficulties in practicing some of the principles, continuing evaluations in our country and on international platform about complying with some of the principles, some of the principles not fully matching with the existing structure of the market and our Company. The process regarding the principles which have not yet been adopted is in progress and they are scheduled for adoption following the completion of managerial, legal and technical infrastructure works in a manner to assist the Company in effective management. Comprehensive activities carried out within our company within the scope of the Corporate Governance Principles, and principles that was not complied with in relevant departments and conflicts of interest (if any) arising for this reason, are explained below.

In 2014, Corporate Governance activities are carried out particularly to achieve compliance with the Capital Markets Law that includes the new regulations about CMB's Corporate Governance Principles, and with the Communiqués based on this Law. To achieve compliance with the New Turkish Code of Commerce and Capital Markets Law, necessary amendments to the Articles of Association were completed in 2013, and our Board of Directors and Board of Directors' Committees were re-evaluated in conformity with the regulations of the Corporate Governance Communiqué that entered into force in 2014. Committees established under the Board of Directors effectively carry out their activities. Board of Directors' and executive managers' remuneration policy was determined and presented for the shareholders' information at the General Assembly. With the informative document prepared for the General Assembly; (i) General Assembly information (that must be announced according to the principles) such as privileged shares, rights to vote, organizational changes, (ii) résumés of the candidate Members of the Board of Directors, (iii) Board of Directors' and executive managers' remuneration policy, (iv) necessary reports that must be prepared and necessary information that must be announced regarding the related party transactions, were presented for the information of our shareholders and investors 3 weeks in prior the General Assembly. Furthermore, our Company's corporate website and Annual Report were reviewed, necessary revisions were made in order to achieve full compliance with the principles.

In the upcoming period, developments in the legislation and practices will be taken into account and necessary activities will be carried out in order to achieve compliance with the Principles.

Within the scope of the Compulsory Corporate Governance Principles, in the context of exceptions in practicing the Corporate Governance principles – as per the first paragraph of the 6<sup>th</sup> Article of the Corporate Governance Communiqué; our Company's status is a "business partnership" composed of "two juridical persons" who "equally control the management with an agreement" while the number of the independent members of the Board of Directors is "two" in line with this regulation. With the Capital Markets Board decision n.5/129 (date: 16.02.2012) approval was received for that it was sufficient to determine the number of the independent members of the Board of Directors as 2 (two).

Furthermore; as per the sixth paragraph of the 5<sup>th</sup> Article of the mentioned Communiqué, Board of Directors' independent member candidates were determined in conformity with the regulation "minimum half of the independent members (would be sufficient)" for the criteria "to be considered resident in Turkey according to the Income Tax Law" stipulated in the paragraph (d) of the first clause of the compulsory principle n.4.3.6. After the necessary consent received with the Capital Markets Board decision n.5/136(date: 17.02.2014) for the independent member candidates of the Board of Directors, and the independent members were elected at the General Assembly.

The implementation of Corporate Governance Principles has a decisive and ever-increasing importance for the Company as a result of the developments in Capital Markets and as a dynamic process. The Company continues its efforts to adopt corporate governance as a corporate culture by adopting the Corporate Governance Principles issued by the Capital Markets Board, making the necessary improvements and regulations based on current conditions on areas which require adoption and making the necessary changes.

Furthermore; in 2014, our activities were meticulously carried out in line with the changes made in the legislation and with our Company's Corporate Governance activities. Within the framework of our Corporate Governance practices, in 2014, our Corporate Governance rating was revised two times by the Corporate Governance rating firm Saha Corporate Governance and Credit Rating Services Inc.. Within the scope of the Corporate Governance Rating Period Revision Report issued as of 12.05.2014, our rating score was 8,95 (89.51) while with the Corporate Governance Rating Report issued as of 05.11.2014 after reviewing the activities within the year, our rating score was once again increased to 9.01 (90.09).

Due to the reasons mentioned above, full compliance has not yet been achieved with the non-compulsory Corporate Governance Principles specified below. Detailed information regarding the issue is given below.

- regarding the principle n.1.4.2, privileges listed below in section 2.4 were specified in our Articles of Association.
- regarding the principle n.1.5.2; there are no minority rights in our Articles of Association for those who have less than one twentieth of the capital, and thus rights were provided within the framework of the general regulations in the legislation.
- regarding the principle n.4.3.9.; there is no target ratio and time set for female members in the Board of Directors, and thus evaluations continue regarding the issue. Detailed information regarding the issue is given below in section 5.1.
- regarding the principle n.4.4.7, there are no restrictions for the Members of the Board of Directors to assume duties outside the company as specified below in section 5.1.

The Company is, as always, striving to further develop its Corporate Governance approach commensurate with Corporate Governance Principles. In case of a significant change within the period, such change will be included in the interim activity report.

## SECTION II - SHAREHOLDERS

### 2.1. Investor Relations Department

Regarding the issue of performing the tasks stipulated within the scope of the 11<sup>th</sup> Article of the CMB's Corporate Governance Communiqué n.II-17.1; with the Board of Directors decision n.2014/15 (date: 27.06.2014) necessary organization was made for our Company's Financial Director and Financial Risk Management and Investor Relations Unit under the Financial Director, and the Corporate Governance and Shareholder Relations Unit to carry out the relevant tasks, and was publicly announced via Public Disclosure Platform on a consecutive date as of 30.06.2014.

For this purpose a decision was taken; (i) to assign the tasks stipulated in the 11<sup>th</sup> Article of the Corporate Governance Communiqué to be performed in 2014 by Mr. M. Adil Salepçioğlu and Mr. M. Emre Ertürk under our Company's Financial Director Mr. Cengiz Eroldu, and (ii) to appoint Mr. Cengiz Eroldu – besides the existing members – to our Corporate Governance Committee that continues its activities within the framework of the principles determined by our Board of Directors. Financial Risk Management and Investor Relations Unit Director Mr. M. Emre Ertürk carrying out activities within the structure of the Department, has a Capital Markets Advanced Level License while the Corporate Governance and Shareholder Relations unit Director Mr. M. Adil Salepçioğlu has a Corporate Governance Rating Specialist License.

Within the scope of the issues stipulated in the 11<sup>th</sup> Article of the Capital Markets Board's Corporate Governance Communiqué, Investor Relations Department Report was prepared regarding the activities carried out in 2014, and was presented to the Board of Directors as of 02.02.2014 after it was discussed in the Corporate Governance Committee.

Within this framework; several meetings with 423 investors, 4 Analyst Meetings, 14 teleconferences were organized about our Company by the Risk Management and Investor Relations Unit within the scope of the relations with shareholders. Moreover, 11 investor conferences and roadshows, and 4 "reverse roadshows" hosting investor group meetings were organized and existing and potential investors were interviewed as the shareholders were informed better about the latest developments.

The General Assembly meeting –organized within the year in line with the activities of the Corporate Governance and Shareholder Relations Unit carried out within the scope of the relations with shareholders – was held in conformity with the legislation in force; while the meeting and announcements and records regarding the meeting were organized in conformity with the legislation, and the Articles of Association and other internal regulations of the company.

This unit is also responsible for the recording activities carried out by the Committees under the Board of Directors as well as providing public information within the scope of Capital Markets Regulations and meeting the information requests of investors including special case explanations via Company website, e-Manage Portal and Public Disclosure Platform (KAP).

Furthermore; within the year 30 Disclosures of Material Matters were made; important announcements for investors were made on the Public Disclosure Platform, and on the company website together with their English translations.

In addition to this, Corporate Governance rating was given for two times (as explained in the Compliance Statement above), and Corporate Governance rating score was revised and increased.

As of the end of the period, information and communication can be provided by contacting; Financial Risk and Investor Relations Unit, Mr. M. Emre Ertürk via e-mail emre.erturk@tofas.com.tr or phone (0212) 275 33 90/2751, and Corporate Governance and Shareholder Relations Unit, Dr. M. Adil Salepçioğlu via e-mail adil.salepcioglu@tofas.com.tr or phone (0212) 275 33 90/2749.

## 2.2. Using Shareholders' Right To Information

No discrimination is made among the shareholders in using right to information and review while all information that do not interfere with trade secrets is shared with the shareholders. Questions sent to Financial Risk Management and Investor Relations Unit and Corporate Governance and Shareholder Relations Unit, that do not interfere with confidential information and trade secrets are answered either in writing or on the phone by the highest level person relevant with the issue. As explained in section 3.1 in this report, all information and announcements that may have impact on using shareholders rights are available on the corporate website.

Within the period, necessary activities and relevant implementations continued with maximum effort within the scope of meeting shareholders' information requests in line with our Company's Information Policy. There are no individual rights stipulated in our Articles of Association to request a private auditor. However; as per the 438<sup>th</sup> Article of the Turkish Code of Commerce in order to use shareholders' rights, all shareholders may request from the General Assembly (even if it's not on the agenda) that a specific case is investigated by a private audit if necessary and if the right to information or review is used earlier. Our shareholders have not made such requests till today.

Within the scope of existing regulations and general practices, about this issue there have not yet been any cases with regard to information or implementation. As specified about the audit of the other issues stipulated in the legislation, our Company implements the relevant provisions of the Turkish Code of Commerce and Capital Markets Legislation. In addition to this, our Company is subject to internal audit and audit of its two main Shareholders (Koç Holding and Fiat Auto) besides internal control practices.

Furthermore; Company activities are periodically audited by the Independent Auditor elected at the General Assembly.

## 2.3. General Assembly Meetings

**a.** Within the Period; Shareholders' Ordinary General Assembly Meeting was held on the 28<sup>th</sup> of March 2014 at the Company Headquarters located at the following address: Büyükdere Caddesi Tofaş Han No: 145 Zincirlikuyu 34394 Şişli - İstanbul. The ads about the call for the General Assembly were published in the Turkish Trade Registry Gazette and announced on the Company's website [www.tofas.com.tr](http://www.tofas.com.tr), Central Registry Agency portals e-GKS (Electronic General Assembly System) and e-Manage and e-Company via Public Disclosure Platform, in a manner including all necessary information and within the legal timeframe. Furthermore, Shareholders registered in the Share Ledger were notified in writing.

Moreover, participation of any person willing to attend the General Assembly as a viewer has been ensured and attendance of all shareholders, press members and all stakeholders has been pursued. In this context, representatives of the media and press, authorities of various investment trusts and banks, as well as civil societies and non-governmental organizations attended this General Assembly Meeting. General Assembly Meetings were transmitted by live-stream via CRA and e-GKS and a list of electronic participants was made as well as a list of physical participants.

List of participants of the Ordinary General Assembly Meeting dated 28.03.2014 reveals that 18 shareholders were physically present and 382 shareholders were registered at list of electronic participants.

In this frame, procedure of general meeting is made to ensure the utmost presence of the shareholders and the minutes of such meetings shall be accessible in writing or electronically at all times. Any measure aimed at increasing the efficiency of the meeting is taken in accordance with the legislation. All measures necessary to provide the required functionality of the General Assembly are taken.

The most natural rights of our shareholders in the General Assembly Meetings are asking questions and raising their opinions, which are shown the utmost respect. Therefore, the right of the Shareholders to ask questions in the General Assembly or make suggestions about the Agenda items, or to deliver speeches regarding their suggestions and current matters is provided by the Board and the required records are kept as per the requirements.

In this context, written and oral suggestions made by the shareholders to the Board about various issues in the General Assembly are added to the Minutes of the General Assembly Meeting posted on the Internet. However, in 2014 there were no questions that required verbal or written answers. Furthermore, shareholders did not give any proposals for the agenda. In addition to this, records in the Meeting Minutes for the shareholders' negative votes (if any) against any of the agenda items are available in the General Assembly documents on [www.tofas.com.tr](http://www.tofas.com.tr).

All the Minutes of Ordinary and Extraordinary General Assembly Meetings and Lists of Participants for previous years can be accessed from the Company Headquarters, as well as from the archives of the Turkish Trade Registry Gazette retained at the Istanbul Trade Registry Office. Furthermore, the Minutes of General Assembly Meetings and other relevant documents for the last 5 years can be accessed and reviewed from the Company web site ([www.tofas.com.tr](http://www.tofas.com.tr)) in "pdf" format.

**b.** Furthermore; there were no cases where Board of Directors had to resolve any issue by majority vote of the independent Members of the Board of Directors, but had to leave the issue/decision to the General Assembly due to the fact that negative votes were cast at the Board meeting.

**c.** At the Ordinary General Assembly meeting held in 2014, information about the donations and aids made in 2013 was given at General Assembly with a separate agenda article and a TL 9.000.000 limit was determined for donations that can be made in 2014 while no changes were made in the donations policy.

**d.** In case the shareholders (who control the management of the Company), Board of Directors' members, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree make any important transaction with the Bank or its associate companies which may lead to conflicts of interest, or in case, the aforementioned persons make any transaction, related to a commercial business that is within the scope of the corporation or its associate companies' field of activity, for their own account or for the account of others or if they become unlimited partners in other companies carrying out similar commercial businesses; permission was given by the General Assembly – within the framework of the 395<sup>th</sup> and 396<sup>th</sup> Articles of the Turkish Code of Commerce – for such transactions and transactions performed within the Company's field of activity by persons (on behalf of themselves) who have access to company information apart from the ones mentioned above. Furthermore; in line with the Capital Markets Board Corporate Governance Communiqué, information was presented to the General Assembly about the fact that no transactions were made within this scope in 2014.

#### 2.4. Rights to Vote and Minority Rights

At the General Assembly, there is one right to vote for each share, but there are no privileges in right to vote. Shareholders attending the General Assembly meeting use their rights to vote in proportion to the nominal value of the total shares. However, Members of the Board of Directors must be elected from among the candidates who will be nominated by the Privileged Shareholders of Group A and D. (10<sup>th</sup> Article of the Articles of Association). This issue is legally confirmed due to the fact that our Company's status is a "business partnership" (joint venture) composed of "two juridical persons" who "equally control the management with an agreement".

Voting rights are exercised as per the provisions contained under the Articles of Association. The regulations of the Capital Markets Board on voting by proxy are observed.

In case of mutual participation, sovereign shareholder is not possible. The Articles of Association do not contain any provision for the representation of minority shares in the management or

cumulative voting method. Due to voluntary application matter and non-planning for sovereign shareholding by the major shareholders as per the Capital Markets Legislation, provision on quorum was not applied for the existing General Assembly (Article 14 of the Articles of Association).

Transactions related to shareholders are based strictly on the principles of equality in transactions in accordance with the regulations, and our Company pays the utmost attention to this by providing the necessary arrangements.

#### 2.5. Dividend Rights

There is no privilege regarding participation in Company profit or allocation of dividends. Dividends are distributed equally regardless of the whole current shares or their dates of issuance and acquisition.

Our Company's Profit Distribution Policy is available in our Company's Annual Report and on the corporate website, and also in the General Assembly Meeting Minutes. Accordingly; the Profit Distribution Policy including the following issues was presented to the approval of the General Assembly. (i) Profit distribution is made within the framework of Turkish Code of Commerce provisions, Capital Markets Regulations, Tax Regulations and other relevant regulations and "Profit Distribution Section" of the Articles of Association, and (ii) A balanced and consistent policy between the shareholders' and Company's benefits is pursued in profit distribution in conformity with the Corporate Governance Principles, and (iii) Furthermore, in principle, the net distributable period profit calculated within the framework of the Capital Markets Regulations by taking market expectations, company's long term strategies, investment and financing policies, profitability and cash status into consideration, is distributed to our shareholders in maximum amount of cash and/or in scrip issue as long as our legal records are available and as long as the relevant regulations and financial means are suitable.

Furthermore, within the scope of this Profit Distribution Policy, the aim is to make profit distribution within maximum one month after the General Assembly meeting while the profit distribution date is decided by the General Assembly. The General Assembly or the Board of Directors, in case authorized by the General Assembly, may decide to distribute dividends with installments in conformity with the Capital Market Regulations.

According to the Articles of Association of the Company; the Board of Directors, provided that it is authorized by the General Assembly and it complies with the Capital Markets Regulations, may make advanced dividend payment.

## 2.6. Transfer of Shares

Article 8 of the Articles of Association "Transfer of Shares and Establishment of Usufruct on Shares" stipulates the provisions to be applied regarding the sale and transfer of registered shares of Issues A and B and there are restrictions on transfer of shares subject to the said rules and arrangements. This features the protection of the existing rights of the dominant shareholders and the limitation of the transfer of shares to any automobile manufacturer or to companies that are controlled indirectly.

Capital Markets Board regulations are applicable for transferring Company's publicly traded Group E registered shares.

## SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. Company Website and Its Content

As previously mentioned in earlier sections, the Company has an active and up-to-date website. Website is at [www.tofas.com.tr](http://www.tofas.com.tr), also with English versions of the information and sections. In 2012 and 2013, our website was revised in order to improve its visual effectiveness. This website includes detailed information on topics included in Corporate Governance Principles and a sub-section titled Corporate Governance is also available at the bottom of Investor Relations page. In addition to this, in 2014, a separate section covering environmental, social and managerial issues was built and added to the Corporate website within the scope of the Corporate Governance and sustainability practices.

The information needed about the company is provided in details on the website. This also includes various information including, among others, presentations, news, human resources, R&D projects. Our regularly updated website also has an "Investor Relations" section under [www.tofas.com.tr](http://www.tofas.com.tr) address, which includes the minimum matters introduced by the CMB as defined above. The sub-sections available here provide the required records and information. These subsections include "Share and Stock Market Information," "Shareholding Structure and the Board of Directors," "Corporate Governance," "Activity Reports," "Presentations," "Financial Results," "Dividend Policy/ Remuneration Policy/Company Disclosure Policy," "Material Disclosures," "Announcements," "Archive," "General Assembly Meetings," "Subsidiaries," "Links and Information for Investors" and "Information on the Main Shareholders and Shareholding Structures" and also "Analysts," "Survey Data Form," and "Investor Feedbacks." Surveys and electronic mail systems have been provided for shareholders, investors and analysts through the "Survey and Information Form" section and an "Investor Feedback" system has been added later.

The "Stock Market Information" subsection which had been enabled previously was activated in 2014 as an information line where our shareholders, investors and analysts could find BIST data. In addition, our Company's Annual Report can be examined on our website site as both current and archived information as well as being available in print. As it is stated, it is always possible to access to the periodic financial tables and reports at our Website and General Assembly meeting minutes and analyst lists are also provided. Responds to surveys coming from these links on the Investor Relations section of the website are followed, recorded and the information requests are responded as necessary.

Besides our main Shareholders Koç Holding A.Ş. and Fiat Auto S.p.A., information is also available on our website about our shareholders who exceed 5% (within our Company's shareholders structure) within the framework of the legislation. Thus, from the link (to Koç Holding's and Fiat Auto's relevant websites) available to have information about our main Shareholders' capital and shareholders' structures, publicly announced information and shareholders' structures of both Companies (that are quoted on their stock exchange) can be viewed. Company is controlled by the shareholders of its main shareholders Koç Holding A.Ş. and Fiat Auto S.p.A. Board members, senior managers and shareholders who hold directly or indirectly more than 5% of the shares, the Company's capital markets instruments and transactions made regarding stocks and the results are publicly announced there. In this context, the required notices regarding share trade are published on the Public Disclosure Platform (KAP).

Furthermore, as required by "Regulations on Web Sites of Stock Corporations" issued in the Official Gazette 28663 dated 31.05.2013 and made effective by T.R. Ministry of Customs and Commerce within the scope of TCC, "Information Society Services" (e-Company) Portal was established and activated on our web sites ([www.tofas.com.tr](http://www.tofas.com.tr) and [www.fiat.com.tr](http://www.fiat.com.tr)) in due time.

The Company shows ultimate attention to Capital Markets regulations and the related legislations.

### 3.2. Activity Report

Board of Directors prepares the annual and interim Activity Reports with the details to fully and accurately inform the public on company activities. Information listed by Corporate Governance Principles are included with due care.

Our Annual Report for the past period, prepared in conformity with the Corporate Governance Principles stipulated in the CMB's "Corporate Governance Communiqué" n.II-17.1 that entered into force after being published in the Official Gazette (date: 03.01.2014) is an accurate and reliable source just like in the previous years, available both in print and online via our website.

The following Activity Reports will be extended in accordance with “Regulations on Minimum Contents of Company Annual Activity Reports” by the Ministry of Customs and Commerce issued on the Official Gazette dated 28.08.2012.

The main topics of the current Company Activity Report are divided in 4 sections. Sub-sections of section one are Shareholders General Assembly Meeting Agenda, Board of Directors Report, CEO’s Assessments, Management and Auditing Boards, Members of Management and Auditing Boards and Top Management. Subsections of section two are Company’s Capital Structure and Information of Partnership, Automotive Industry and Position of Tofaş, Company Information, Affiliates, Social Responsibility Activities and Current Period Activities and Achievements. Subsections of section three are Profit Distribution Table and Profit Distribution Proposal, Audit Board Report, Independent Audit Report and Financial Tables. Sub-sections of section four are Statements of Corporate Governance Principles, Corporate Governance Principles Compliance Report, Activities of Early Detection of Risk and Risk Management Committee, Subsidiary Report, Profit Distribution Policy, Remuneration Policy and Disclosure Policy.

Issues set forth by the mentioned Communiqué n.II-17.1 on Designation and Implementation of Corporate Governance Principles issued by Capital Markets Board Article 2.2 Activity Report Section were provided with the details for informing the public fully and accurately.

## SECTION IV - STAKEHOLDERS:

### 4.1. Disclosure of Information to Stakeholders

The stakeholders are employees, suppliers, customers and basically third persons in direct relationship with the company and policies regarding each of these groups are developed by the Company.

All rightful parties and stakeholders are entitled to the same practices, implementations and effective communications. Our corporate governance practices ensure the protection our stakeholders’ rights, which are both defined by relevant regulations and also those which are not defined yet.

Communication channels have been provided for informing all stakeholders regarding the issues related with them. The process for notification of illegal and unethical transactions to the Committee Responsible for Auditing through Internal Audit has been established by the Company. Utmost attention is shown in Audit Committee and Early Detection of Risk and Risk Management Committee meetings.

Practices particularly about human resources, business management policies, supplier relations and dealer network were included in the Annual Report of the Company.

The attention we pay to universal human rights and practices is supported with the principle; “Our Company respects Human rights, Constitutional freedom of association and Collective bargaining rights”, stipulated in the 1<sup>st</sup> Article of Tofaş Code of ethics’.

We have adopted the principle of “acting in conformity with the principles stipulated in the United Nations Global Compact (signed by our partner Koç Holding and pursued, audited and reported within its companies), and being a model corporate citizen together with our employees, dealers, suppliers and authorized service providers”.

Tofaş Code of Ethics and Ethic Board procedures are available on our Company’s website and intranet. Thus, a communication channel is available to make applications about any actions non-conforming with the code of ethics, and issues of misconduct within the scope of practicing legal legislation and unethical actions. Applications can be made sending e-mail to etikkurul@tofash.com.tr or with a written application. Application that will be made to the Board will be kept confidential.

With this contact line (communication and reporting), Tofaş Ethic Board (then the Audit Committee) is informed about stakeholders’ practices contrary to legislation and their unethical transactions.

Tofaş Ethic Board is composed of Company CEO, relevant Directors, Human Resources Director and Company’s Chief Legal Advisor. The Board periodically convenes every six months. Furthermore, upon the call made by any of the board members, the board must convene in maximum two working days.

The Board, is ex officio or upon any application, entitled to make necessary investigation and research about actions and practices contrary to principles. ID and contact information must be included in these applications. For the investigation and research it will make about actions and practices contrary to principles, the Board may request information and documents from entities by using channels of public authorities.

In terms of Corporate Governance Principles, the system implemented and the Board decisions taken within the scope of the Company’s internal controls and internal audit are submitted for the information of the Audit Committee.

Considering the concepts of management and communication together within the scope of Information Policy, Tofaş carries out “Corporate Governance” activities together with its stockholder, investors and all shareholders.

## 4.2. Participation of Stakeholders in Management

Procedures allowing the participation of the stakeholders in the improvement of administrative matters and expressing their ideas actively in this respect are in place in our company. The process and mechanisms to ensure that beneficiaries as stakeholders participate in Company Management regarding the issues related with them are supported by the Company.

These implementations are developed and maintained with the objective of WCM (World Class Manufacturing) and WCC "World Class Company". Our Company has achieved outstanding performance in this area in 2013 and awarded with golden level by WCM and repeated this achievement also in 2014. Systematic meetings and training programs are organized based on the total quality philosophy such as Kaizen studies, open door meetings. Our employees, suppliers and customers can submit their requests in this system, which is implemented in line with our Human Resources Policies. In addition to our company website, there is also an intranet and printed company magazine (Tofaş Gazete) in order to improve managerial communication within the organization.

In addition to dealership council and dealership organization meetings, there is a system through which customer demands and satisfaction level are analyzed. The company management evaluates this information, takes necessary actions and provides feedback accordingly. Moreover, activities regarding "Customer Relations Principles" and similar practices ensure effectiveness and maximization of customer relations and implementation of policies towards improvement of the service quality. In connection with these practices, we have planned and implemented studies covering current events within the reporting period.

Within the frame of relations with customers and clients, any and all actions to ensure customer satisfaction during marketing, sale and post-sale of the goods and services of the company have been taken and put into practice. A prompt response is made to customer queries and demands regarding our products and the customers are provided with the required feedback. Maximum efforts and resources are used for proactive solutions to company complaints. Improvement studies are organized systematically and high quality is assured by means of quality certifications and quality standards.

The principles and policies for suppliers as well as satisfaction criteria in customer centered product and services are regularly measured and followed up by the related units of the company. Furthermore, we attach importance to arrangements related to customers and suppliers based on the market developments. Comprehensive application procedures are available in this regard.

Customer Relations Management department worked effectively and in coordination in 2014 to increase customer satisfaction concerning marketing and sales of the Company's products and services.

Our company gives utmost importance to practices based on quality, efficiency and institutionalization. Furthermore, in accordance with the feedback received from our shareholders necessary attention is paid to develop and launch "governance" methods that will increase relevant stakeholders' participation in the management.

Furthermore, as you can access and review the issue on our website; as specified within the scope of Company's Sustainability Policy and in the Sustainability Report, due to the fact that "Sustainability Management" and "Shareholder Relations" have importance in terms of "Governance Sustainability", necessary activities are carried out to effectively implement them.

## 4.3. Human Resources Policy

"Human Resources Policy" of the Company has been prepared in accordance with the company strategies and policies and they are accurately implemented as per the new implementations.

In this context, recruitment, career planning and rotation, individual development, wage and performance management issues are handled. Work-related issues and main duties and responsibilities of employees are also outlined in the Personnel Guidelines which are prepared in line with the relevant law and collective bargaining. Various committees have been established to coordinate employee relations and employees also have representatives in each of these committees. However, no representative has been selected and/or assigned to coordinate relations directly with the employees except for the employee union relationships.

The rights and work conditions of both the white collar and blue collar personnel are ensured both in our plant and headquarters without any discrimination or abuse. No employee complaints were made during the reporting period. Due care is taken for participation of Company employees in management at all levels through feedbacks, periodic meetings and other efforts.

Tofaş pays special attention to protecting human rights and to supporting the performance in this field with policies and practices within business processes.

In addition, the Company's culture-related work is open to all employees and is carried out to promote employee development. In 2014, cultural exchange clubs and development programs were continued as they were in previous years. Performance

evaluations, behavioral activities and career management are taken due care of. In 2014, our Company was also awarded by Peryön with its Performance Management System.

An employee compensation policy was created and issued on company website. Human Resources and Business Management Policies were improved and made available to the access of all employees.

A mechanism regarding the development processes has been established under the name of Tofaş Academy and same efforts have been actively maintained in 2014. Effective and efficient use of Tofaş Akademi and Koç Akademi portals is promoted especially in terms of training. In this frame, our Company attaches the utmost importance to social rights and professional training of its employees. It closely monitors and adopts developments in HR practices.

Tofaş Personnel Directive, in which recruitment, working process and dismissal procedures based on effective, efficient and concrete criteria are determined in detail, is available both on our website and on intranet. Company employees' job descriptions, job distributions, subrogation procedures for top management and orientation conditions for all employees were determined while performance management regarding the targets, and criteria regarding behavioristic competencies and technical competencies were defined through a systematic SAP HR program.

We have a comprehensive Human Resources system composed of occupational health and safety management, and Business Management policies. Creating safe working areas and work safety culture with its "Seven Step Work Safety" methodology based on simple, proactive and World Class Production approach, Tofaş aims to protect all Human Resources within the company against work accidents and injuries caused by occupational diseases. Furthermore, Tofaş aims to zero work accidents and occupational diseases by using Occupational Health and Safety (ISG) Policy management system.

#### 4.4. Ethics and Social Responsibility

Social activities for the neighborhood where the plant is located and the society in general are organized according to corporate social responsibility and impact area criteria. Social responsibility activities of our company in the reporting period are explained in the Annual Report. Furthermore, the periodically published Tofaş Newspaper, which is also posted on tofasweb Intranet, provides various news and information on social activities.

Within this scope, Tofaş supports various projects from education, sports, to cultural activities and arts. Within this framework, Fiat Laboratory Master's Program, Tofaş Science High

School, Tofaş Basketball Schools, Bursa Anatolian Cars Museum, Küçükyalı Arkeopark Excavation Sponsorship are among these activities.

Sustainability perspective with events that will create awareness and recognition in social responsibility activities and sponsorship activities is an important issue. Sustainability Policy is particularly crucial in this aspect.

There were no complaints regarding environmental issues during the reporting period and we have records including environmental assessment reports. We have been implementing effective practices and inform our stakeholders within the scope of environmental sensitivity policies with the existing ISO certificates related to meeting quality and effectiveness standards. Furthermore, our Company continues its extensive activities related to Social Responsibility projects and environmental protection and presents them to the knowledge of the public. Furthermore; with comprehensive Corporate Social Responsibility projects, issues of protecting the environment, energy management and awareness and activities for climate change are given maximum importance. Our Company continues and publicly announces the issues regarding these activities it carries out.

Within this scope; in the CDP (Carbon Disclosure Project) Tofaş achieved to be the first and only Turkish company among the 187 corporations in the CDP's Global List - Band A, as a result of the 2014 Climate Change Reporting. Furthermore, Tofaş accomplished to be the first and only automotive company in the Sustainability Index created within the Borsa Istanbul (BIST).

The Company has conducted studies regarding observance of ethical rules and applications as per them in general as indicated under 4.1 headline. The members of the company comply with the generally accepted ethical rules forming a part of the regulations and arrangements. In addition, in the context of Principles of Corporate Governance, our ethical rules are formalized in a written document and announced as "Tofaş Business Ethics Principles" in our "Personnel Regulation". These ethical rules covers issues regarding our shareholders, disclosure of information, employee activities, stakeholders and the Board of Directors. If and when there are revisions in these rules, the updates will be disclosed to all our stakeholders in line with our Disclosure Policy.

The said "Tofaş Business Ethical Principles" are published in our website under the ethical rules section. In 2009, an Ethics Board was also established within the scope of Company's Corporate Policies. Previously revised "Ethics Rules and Implementation Principles" were issued and information was provided by distribution to Tofaş employees at all levels periodically.

In the fight against bribery and corruption, Tofaş Code of ethics covers all Tofaş employees, Members of the Board of Directors, Shareholders, Dealers and Suppliers, in short, all Tofaş members.

All Tofaş members are expected to comply with the Tofaş Code of Ethics. Tofaş employees are responsible for complying with the Tofaş Code of Ethics.

In Tofaş, no discrimination can be made in work relations based on language, race, gender, political idea, philosophy, religion and sect etc. Unless reasons such as risks at work, employee safety, legal obligations do not necessitate, directly or indirectly different procedures cannot be practiced due to gender or pregnancy, in making the labor contact and setting, applying and ending its terms and conditions. For the same job or a job that has equal value, lower remuneration cannot be determined due to gender. Recruiting, appointing and promoting processes are carried out through objective performance criteria without making any discrimination in language, religion, gender, race, etc..

For our employees, in particular, and for all our shareholders in the value chain we have created, Tofaş tries to expand the practices that have respect and awareness for human rights. As a consequence of our approach in this issue, absolutely no "child workers" are employed in Tofaş; and there are no "involuntary servitude" practices.

Activities about the issue were carried out with necessary awareness also in 2014.

## SECTION V – BOARD OF DIRECTORS

### 5.1. Board of Directors' Structure and Formation

The task and duties of the Chairman of the Board of Directors and the CEO are assumed by different persons. Company CEO is an executive Member of the Board of Directors. Since, other Members of our Board of Directors do not have administrative jobs at our Company, they are not executive members according to the definition made in the CMB Corporate Governance Principles. Members of the Board of Directors pay attention to spare the necessary time for the Company affairs. There are no restrictions for them to assume other tasks outside the company. Particularly for the reason that independent members' professional and sectoral experience has significant contribution to the Board of Directors, there is no need for such restriction. Before the General Assembly, members' résumés and tasks they assume outside the company are presented for the shareholders' information.

Corporate Governance Committee carries out the tasks of the Nomination Committee within our Company.

The number of independent member candidates presented to the Corporate Governance Committee for 2014 was two. ID information, statement of candidacy and résumés of these persons were evaluated at the Corporate Governance Committee meeting held on 27.01.2014 and at the Board of Directors meeting n.2014/1 held on 27.01.2014, and a decision was taken to nominate all of them as independent member candidates. Independent All Members of the Board of Directors presented their independence statements to the Corporate Governance Committee. As per the sixth paragraph of the 5<sup>th</sup> Article of the mentioned Communiqué, Mr. Gökçe Bayındır and Mr. Libero Milone were determined as Board of Directors' independent member candidates in conformity with the regulation "minimum half of the independent members (would be sufficient)" for the criteria "to be considered resident in Turkey according to the Income Tax Law" stipulated in the paragraph (d) of the first clause of the compulsory principle n.4.3.6., and an application was made on 27.01.2014 to the Capital Markets Board within the scope of the Article n.4.3.7 of the Communiqué. After the necessary consent received with the Capital Markets Board decision n.5/136 (date: 17.02.2014) for the independent member candidates of the Board of Directors, the independent members were elected for a 3 year term at the General Assembly held on 28.03.2014. As of 2014 operating period, there were no situations that would end the independency.

Independent Member of the Board of Directors Mr. Gökçe Bayındır's Independence Statement is given below;

I do declare that I am a candidate for assuming the role of an "Independent Member" in the Board of Directors of Tofaş Türk Otomobil Fabrikası A.Ş. (Company); within the scope of the criteria stipulated in the legislations, the Articles of Association of the Company and the Capital Markets Board's Corporate Governance Communiqué II-17.1, and within this scope;

- a) Within the last five years, no executive employment relation that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) the subsidiaries of Company, and (iii) shareholders who control the management of Company or who have significant influence in Company and juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares nor have significant commercial relations,

- b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchase products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/purchasing of the products and services,
- c) I do have the professional training, knowledge, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,
- d) In accordance with the legislations, I will not be working fulltime in public institutions and organizations (except working as an academican at the university) after being elected as a member,
- e) I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,
- f) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of Company and remain neutral in conflicts of interests between Company shareholders, and that will help me take decisions freely by taking the rights of the stakeholders into consideration,
- g) I will be able to spare the sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfil the requirements of my tasks and duties,
- h) I have not been a member of the Board of Directors of the Company for more than 6 years in total within the last decade,
- i) I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five of the publicly traded companies in total,
- j) I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,
- a) Within the last five years, no executive employment relation that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) the subsidiaries of Company, and (iii) shareholders who control the management of Company or who have significant influence in Company and juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares nor have significant commercial relations,
- b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchase products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/purchasing of the products and services,
- c) I do have the professional training, knowledge, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,
- d) In accordance with the legislations, I will not be working fulltime in public institutions and organizations (except working as an academican at the university) after being elected as a member,
- e) I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,
- f) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of Company and remain neutral in conflicts of interests between Company shareholders, and that will help me take decisions freely by taking the rights of the stakeholders into consideration,
- g) I will be able to spare the sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfil the requirements of my tasks and duties,
- h) I have not been a member of the Board of Directors of the Company for more than 6 years in total within the last decade,
- i) I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five of the publicly traded companies in total,
- j) I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,

Independent Member of the Board of Directors Mr. Libero Milone's Independence Statement is given below;

I do declare that I am a candidate for assuming the role of an "Independent Member" in the Board of Directors of Tofaş Türk Otomobil Fabrikası A.Ş. (Company); within the scope of the criteria stipulated in the legislations, the Articles of Association of the Company and the Capital Markets Board's Corporate Governance Communiqué II-17.1, and within this scope;

- h) I have not been a member of the Board of Directors of the Company for more than 6 years in total within the last decade,
- i) I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five of the publicly traded companies in total,
- j) I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,

# Corporate Governance Principles Compliance Report

The final list of Members of the Board of Directors of our Company and their tasks and duties are as follows. As of the end of 2014 period, for the position of Mr. Kamil BAŞARAN who used to serve as our Company CEO and a Member of the Board of Directors, Mr. Cengiz EROLDU was appointed as our Company CEO and a Member of the Board of Directors with the Board of Directors Decision n. 2015/1 taken on 13.01.2015.

The résumés of the Members of the Board of Directors and Company CEO are available in the relevant section of our Annual Report.

Name/Surname	Gender	Position	Job	Positions in Partnership for last 5 years	Current Positions Held Outside the Partnership	Share of Capital (%)	Share Group	Independent BoD Member	Committees and Position
Mustafa Vehbi KOÇ	Male	Chairman	Director	Chairman of the Board of Directors	Chairman of the Board of Directors in Koç Holding A.Ş.	0,0389	A	Dependent	-
Sergio MARCHIONNE	Male	Vice Chairman	Director	Vice Chairman of the Board of Directors	Chairman of the Board of Directors in Fiat Industrial S.p.A. & Chairman of the Board of Directors and CEO in Chrysler Group	-	D	Dependent	-
Cengiz EROLDU	Male	Member & CEO	Director	Financial Director	-	-	D	Dependent	-
Temel Kamil ATAY	Male	Member	Director	Member of the Board of Directors	Vice Chairman of the Board of Directors in Koç Holding A.Ş.	-	A	Dependent	-
Osman Turgay DURAK	Male	Member	Director	Member of the Board of Directors	CEO of Koç Holding A.Ş.	-	A	Dependent	-
Alfredo ALTAVILLA	Male	Member	Director	Member of the Board of Directors	CEO of Fiat Group S.p.A. EMA & Chairman of the Business Development in Fiat	-	D	Dependent	Corporate Governance Committee - Member
İsmail Cenk ÇİMEN	Male	Member	Director	Member of the Board of Directors	Chairman of Koç Holding A.Ş: Automotive Group	-	A	Dependent	Corporate Governance Committee – Member Risk Early Detection and Management Committee - Member
Kudret ÖNEN	Male	Member	Director	Member of the Board of Directors	Chairman of Koç Holding A.Ş. Defense Industry, Other Automotive and Information Group	-	A	Independent	-
Ali Aydın PANDIR	Male	Member	Director	Member of the Board of Directors and CEO	Chairman and Executive Director of Erdemir Group	-	D	Dependent	Risk Early Detection and Management Committee - Member
Scott Richard GARBERDING	Male	Member	Director	-	Purchase Chairman of Fiat Chrysler Group And Member of Executive Committee of Group	-	D	Dependent	-
Gökçe BAYINDIR	Male	Independent Member	Director	Independent Member of the Board of Directors	Independent Member of the Board of Directors in Tüpraş	-	A	Independent	Audit Committee – Chairman Corporate Governance Committee – Member Risk Early Detection and Management Committee – Chairman
Libero MILONE	Male	Independent Member	Director	Independent Member of the Board of Directors	Independent Member of the Board of Directors in Falck Renewables S.p.A and Paltrona Frau Group	-	D	Independent	Audit Committee – Member Corporate Governance Committee – Chairman Risk Early Detection and Management Committee – Member

We believe that diversity of knowhow, experience and point of view in our Board of Directors will have positive impacts on the Company activities and will enable the Board of Directors to work effectively. Furthermore; Corporate Governance Principle n.4.3.9 is evaluated within this scope. Our evaluations continue to set a target ratio and policy for female Members of the Board of Directors who also serve as an instrument for representing different ideas.

## 5.2. Functioning of the Board of Directors

Titles or agenda items regarding Resolutions of the Board of directors are prepared and issued periodically and as necessary. The number of the meetings of the Board may vary depending on emerging needs.

The Board of Directors has made 21 decisions in 2014 and the minutes of meetings regarding the decisions are duly registered. Board of Director meetings are called and convened whenever Company business requires it.

The relevant unit coordinates the meeting agenda, minutes, and board resolution records. When there is a dispute regarding a board resolution, the relevant case, along with its justifications, is recorded. Board resolutions also should contain relevant inquiries and responses in this regard. Board decisions are made by attendance and positive vote of absolute majority of members (within the scope of Article 10 of the Articles of Association). Requirements set forth by Corporate Governance Principles by Capital Markets Board are reserved.

In accordance with TCC, there is no cast vote or veto right. Articles 10 and 11 of the Articles of Association regulate the selection, structure, decision quorum and assignment term of the Board of Directors as well as division of tasks, representation and transfer of assignment. All Board Decisions are made by attendance and positive vote of absolute majority of members. Insofar; attendance and positive votes of minimum 2 non-independent members representing Group A shares and minimum 2 non-independent members representing Group D shares are required for quorum. Articles of Association Article 15 is applicable for the decisions which require attendance and positive vote of independent members.

Article 11 of the Company Articles of Association regulates "Division of Tasks, Representation and Transfer of Management for the Board of Directors". In addition, other items the Articles of Association also cover the required issues. The Company management is specified pursuant to Turkish Trade Code and the relevant regulations mainly based on representation and binding of the company, and the authorities are exercised pursuant to legal requirements. Duties and responsibilities of members of the Board of Directors and the executives of the Company are included in the legal regulations, capital market regulations and the Articles of Association.

Procedural process of electing and appointing candidates who will be nominated to the Board of Directors, is carried out by our Corporate Governance Committee. There is an "Employer's Liability Insurance" for the Members of the Board of Directors and executive managers of our Company.

While pursuing the activities of the Company, the Board of Directors evaluates the possibility of conflict of interests and the outcomes of the conflict of interests (if any) for the company, and thus takes necessary decisions to ensure that the most appropriate action for Company interests is taken. Furthermore, the Board of Directors ensures compliance with the regulations in related party transactions, and assesses the possible risks of misconduct besides meticulously evaluating the related party transactions.

## 5.3. Number, Structure and Independency of Committees Formed under the Board of Directors

Pursuant to the Article 11 of the Articles of Association, an Executive Committee consisting of 4 persons -2 Group A and Group D shareholders – can be established if and when deemed necessary. The Committee can be established among the members of the Board of Directors in order to carry out the necessary actions between two Board meetings.

As per the communiqué by CMB, an Audit Committee has been established in 2003 for follow-up of financial issues, review of periodic financial tables and footnotes, other works required as per the Corporate Governance Principles and review of Independent Auditor Report, submittal of the offer on financial results based on the current information and control of internal audit process. In 2012, working principles of the Audit Committee have been reestablished and disclosed.

As of 2014 yearend, Mr. Gökçe Bayındır (Chairman - Board of Directors Independent Member) and Mr. Libero Milone (Member - Board of Directors Independent Member) serve in the Audit Committee that was restructured with the Board of Directors Decision n.2014/12 (date: 11.04.2014).

Furthermore, Corporate Governance Committee under Corporate Governance Principles been established in 2008. Corporate Governance Committee has started its activities in accordance with the Corporate Governance Principles, regulations issued by CMB as per the related legislation and the activities of the Company regarding Corporate Governance Principles. The said Committee carried out its activities effectively in 2013, as it has since its establishment. Compliance of the Company with Corporate Governance Principles is followed up by the Board of Directors, rules of procedures of Corporate Governance Committee have been revised in 2012 and disclosed.

The Corporate Governance Committee was restructured with the Board of Directors Decision n.2014/12 (date: 11.04.2014); and with the Decision n.2014/15 of the Board of Directors taken on 27.06.2014 – in line with the CMB Corporate Governance Communiqué n. II-17.1 – it was decided to appoint our Company Financial Director (CFO) Mr. Cengiz Eroldu – besides the existing members – within the scope of the 11<sup>th</sup> Article of the relevant Communiqué. As of 2014, the structure of the Committee is as follows: Mr. Libero Milone (Chairman - Board of Directors Independent Member), Mr. Gökçe Bayındır (Member - Independent Member of the Board of Directors), Mr. İsmail Cenk Çimen (Member - Member of the Board of Directors), Mr. Alfredo Altavilla (Member - Member of the Board of Directors) and Mr. Cengiz Eroldu. As explained in the relevant section; for the position of Mr. Kamil BAŞARAN who used to serve as our Company CEO and a Member of the Board of Directors, Mr. Cengiz EROLDU was appointed as our Company CEO and a Member of the Board of Directors with the Board of Directors Decision n. 2015/1 taken on 13.01.2015. For this purpose, as per the Corporate Governance Principle n.4.5.4, the issue of appointing a new Committee member (within the scope of the relevant regulation) for the position of Mr. Cengiz Eroldu, was discussed in the Corporate Governance Committee meeting held on 02.02.2015.

As per the related provisions of new Turkish Commercial Code effective as of 01.07.2012, Early Detection of Risk and Risk Management Committee has been established with the purposes of efficiency of Committees established under the Board of Directors, early detection of risks which may jeopardize the Company's existence, improvement and progression, implementation of measures related with such risks and risk management and implementation and follow-up of Company's internal control, internal audit and risk management activities and its rules of procedures have been set as of 2012.

This Early Detection of Risk and Risk Management Committee consists of Mr. Gökçe Bayındır (Chairman - Independent Board Member), Mr. Libero Milone (Member - Independent Board Member), Mr. İsmail Cenk Çimen (Member - Board Member) and Mr. Ali Aydın Pandir (Member - Board Member) as of 2014.

The Chairmen of these Committees should be selected among Independent Board Members as per the mentioned Communiqué on Corporate Governance Principles. Both Independent Board Members are members of each committee. Mr. İsmail Cenk Çimen, member of Corporate Governance Committee is also a member of Early Detection of Risk and Risk Management Committee. Board Member is a member of both Committees for their coordination.

Audit Committee, Corporate Governance Committee and Early Detection of Risk and Risk Management Committee hold periodic and other meetings as required by the legislation. In accordance with the rules of procedures, meetings with a certain agenda can be held other than periodic meetings. In this context, Audit Committee has held 5 meetings and Corporate Governance Committee has held 4 meetings in 2014. Early Detection of Risk and Risk Management Committee has held 7 meetings.

Board of Directors is informed about the committee roles, its activities and the reports. When required, experts and other managers who are not Committee members but related with the agenda can be invited to the Committee. Furthermore, task groups consisting of people with required experience and information can be formed. The committees act in line with their responsibilities and submit their comments and recommendations to the Board. Final decisions are made by the Board.

#### **5.4. Risk Management and Internal Control Mechanism**

A risk management is envisaged and internal control organization is established depending on financial and administrative activities of the company and the functioning and effectiveness of the internal auditing shall be followed up according to capital market regulations and rules.

Board of Directors is responsible for proper functioning of internal control system and internal audit and CEO will make the coordination on behalf of the Board of Directors. Early Detection of Risk and Risk Management Committee as well as the Audit Committee will follow-up proper functioning of internal control system, internal audit and risk management and submit the results to the Board of Directors.

Thus, corporate risk management and internal control systems were established by the Board of Directors. The activities of these processes and systems are coordinated within the Committees. Internal Control Systems and Internal Audit Process are primarily monitored and pursued in the Audit Committee. Furthermore; the effectiveness of these systems are evaluated by the Early Risk Detection and Risk Management Committee together with the corporate risk management process.

In line with the Risk Management Policy, Company's risk management is organized in conformity with the legal regulations and legislation to make reporting to the Board of Directors. Within this framework the policy is based on the following principles; "protecting company assets and values", "ensuring commercial, financial and operational confidence" and "ensuring sustainability in corporate risk management". In addition to this,

Company Management is financially, commercially, operationally and organizationally responsible for taking and implementing all measures necessary for corporate risk management and internal audit activities.

As of the end of 2014, it has been assessed that proactive measures are taken against financial and operational risks and predictable potential risks through the Company's internal control system, internal audit activities and corporate risk management and that the Company meets the legislative requirements regarding internal control, internal audit and risk management. After reviews, it has been stated that no problems were observed on the effectiveness of internal controls for providing effective, secure and uninterrupted provision of Company's activities and services; integrity, consistency, timely availability and reliability of data provided by the Company's accounting and financial reporting system; effectiveness, efficiency and adequateness of internal controls aimed at providing security and the running of internal control, internal audit and risk management system regarding the preparation of consolidated financial tables in accordance with the applicable legislation and corporate risk and internal control system was functioning well and the related records are kept. The unit responsible for Internal Audit directly reports to the Company's CEO who at the same time is a Member of the Board of Directors. This unit examines processes and prepares reports regarding current and potential risks and proposes solutions. Predictable risks attached to the activities will be evaluated, information flow will be followed up by the Board Member and CEO and the results will be evaluated by the Audit Committee and Early Detection of Risk and Risk Management Committee and submitted to the Board of Directors.

Within this framework, the Board of Directors carries out risk management activities via Early Risk Detection and Risk Management Committee. The Committee reviews the effectiveness of the risk management systems, and reports its studies and evaluations to the Board of Directors. Necessary explanations are available in the relevant section of the Annual Report regarding the activities of the Committee. Furthermore; the Auditor's Report sharing positive evaluations of the Independent Audit, is also included in the Annual Report.

### 5.5. Strategic Targets of the Company

Company's strategic targets are set, approved, and implemented by the Board of Directors. Board of Directors makes assessments by periodically reviewing the level of achieving Company's targets, and activities and previous performance of the Company. In this context, the Board of Directors ensures that necessary measures are taken in a manner most appropriate to Company's risk, growth and revenue balance in terms of strategic decisions while it administers the Company by overseeing the Company interests.

As per the strategic priorities and objectives, the mission, vision and values of the Company have been formulated and published and renewed upon revisions in line with the improvements. Board of Directors audits the management and performance of the Company within the scope of providing necessary resources and risk management by identifying Company's strategic targets.

Vision, mission and values along with designation and implementation of Company's strategic objectives will be completed by the Company top-level management, submitted to the Board of Directors and followed-up. Strategic decisions of our Company were implemented in 2014 according to their priorities. Based on the strategic targets, the Board of Directors reviews and evaluates previous year's performance, compares the results with targets and determines the upcoming year objectives proposed by the senior management.

Board of Directors will coordinate the Company Top-Level Management in designation of Company's strategic objectives, actively participate in approval and implementation processes, periodically review the level of achievement of objectives, activities and performance of the Company and evaluate the functioning, efficiency and outcomes of the related system.

In accordance with the vision and methods offered by the Board of Directors and the legislation, Company Top-Level Management will use its maximum efforts to ensure effective management of the Company and periodically inform the Board of Directors and the related Board Committees as per the regulations and the legislation based on Directorates on behalf of the CEO and all stakeholders.

## 5.6. Financial Rights

Board of Directors is responsible for Company's determined and publicly announced operational and financial performance targets. Furthermore; remuneration principles for the Members of the Board of Directors and executives who have administrative responsibilities were printed and presented to the shareholders' information with a separate agenda item at the General Assembly.

Our Company's "Remuneration Policy for the Members of the Board of Directors and Executive Managers" – that includes all their rights, benefits and remuneration of the Members of the Board of Directors and executive managers as well as the criteria and remuneration principles used in determining these rights, benefits and remuneration – was presented to our shareholders' review on our corporate website and in the Annual Report and also with the "Informative Document" issued three weeks prior to our Ordinary General Assembly held on 28.03.2014. Subsequently, the policy was put into practice after the General Assembly.

The policy publicly announced on our corporate website and in the Annual Report, is included on the meeting agenda of the Ordinary General Assembly meeting (to be held on 27.03.2015) where 2014 activities will be discussed; and is to be presented to the shareholders' information.

The total amount of payments made and benefits provided to Members of the Board of Directors and Executive Managers within the framework of the Remuneration Policy, are evaluated every year by the Corporate Governance Committee and Board of Directors. In our financial statements' footnotes, the payments made and benefits provided to the Members of the Board of Directors and executive managers are classified together and publicly announced in parallel to general practices.

Furthermore, the Company does not perform any transactions that may create conflicts of interest and does not lend money, extend credit, or does not give surety to any of the members of the Board of Directors or executive managers who have administrative responsibilities.

In the reporting period and as of 2014, no loans were granted to the members of the Board or to the senior managers and no credit was utilized by them; none of them received benefits through third-persons and moreover, no indemnities or similar were provided in their favor.