

# 2017 CORPORATE GOVERNANCE COMPLIANCE REPORT

## STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE

In the period between January 1, 2017, and December 31, 2017, our company complied with the mandatory provisions of the Corporate Governance Communiqué of the Capital Market Board ("CMB") and put a considerable amount of effort to comply with the non-mandatory principles.

### Corporate Governance Rating

The level of compliance of LOGO with the Principles of Corporate Governance is publicly announced through our Corporate Governance Compliance Statement. Saha Corporate Governance and Credit Rating A.Ş. ("Saha Rating") completed the revision study on December 15, 2017, and announced Logo's corporate governance rating score as 9.08 on a scale of 10.

LOGO's rating on the four main sections are presented below:

<b>Main Sections</b>	<b>Weight</b>	<b>Score</b>
Shareholders	25%	88.44
Public Disclosure and Transparency	25%	88.96
Stakeholders	15%	96.01
Board of Directors	35%	91.67
<b>Total</b>	<b>100%</b>	<b>90.83</b>

The full text of the corporate governance compliance report prepared by Saha Rating is available at our official website [www.logo.com.tr](http://www.logo.com.tr).

## **SECTION II – SHAREHOLDERS**

### **2.1. Investor Relations Department**

The Investor Relations Department carries out the investor relations activities in our company and reports to the CFO.

Investor Relations contact information is as follows:

Glnur ANLAŐ, CFO

Telephone: +90 262 679 8000 (pbx) Ext: 8200

E-mail: [gulnur.anlas@logo.com.tr](mailto:gulnur.anlas@logo.com.tr)

Canan Őenkut, Investor Relations Manager

Telephone: +90 262 679 8000 (pbx) Ext: 8235

E-mail: [canan.senkut@logo.com.tr](mailto:canan.senkut@logo.com.tr)

Dođan KARACA, Investor Relations Senior Specialist

Telephone: +90 262 679 8000 (pbx) Ext: 8223

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E-mail: [investor@logo.com.tr](mailto:investor@logo.com.tr)

Main duties of the Investor Relations Department are as follows:

- Ensuring that the records on communication with investors and related documents are kept in a reliable, secure and up-to-date manner.
- Responding to written information requests from the investors
- Organizing the general assembly meeting in line with the relevant regulations, the articles of association and internal policies of the company, and preparing the documents to be submitted to investors in the general assembly meeting
- Ensuring fulfillment and monitoring of the company’s responsibilities in relation to the capital markets regulations, including all among others corporate governance and public disclosure.

Activities carried out by the Investor Relations Department during the reporting period are as follows:

- Information requests received from our investors through e-mail or telephone were responded pursuant to legal requirements and the company's disclosure policy. All information requests, except for the confidential information and trade secrets, were responded in accordance with the principle of fairness.
- General assembly meeting was organized in accordance with the regulations, the articles of association and other by-laws of the company.
- An information document was prepared for the investors before the general assembly meeting.
- Voting results were properly recorded. No investor has requested these records.
- Public disclosure requirements were fulfilled in accordance with the regulations and the required disclosures were announced on the Public Disclosure Platform completely, directly, clearly, sufficiently and without any misleading content.
- Various meetings and teleconferences were held with domestic and international investors as well as potential investors.

## **2.2. Exercise of the Right to Information by Shareholders**

Our company adopts the equal treatment of all investors as a principle in the exercise of the right to information and the right of inspection. Information, which has not been publicly disclosed previously, is not shared with investors. Information and documents that might affect the exercise of shareholders' rights are posted on the company website both in Turkish and English. Information requests received from investors are responded both via phone and in writing without discriminating any investor pursuant to the Capital Markets Regulations. Financial statements and mandatory material event disclosures to be submitted to the Capital Market Board and Borsa Istanbul under the supervision of the Capital Market Board, are presented to our shareholders on the Public Disclosure Platform and the company website.

The company's Articles of Association does not include the right to request a special auditor as an individual shareholder right. The company has not received any request in the reporting period in that respect.

## **2.3. General Assembly Meetings**

### Ordinary General Assembly Meeting

The ordinary general assembly meeting was held on April 25, 2017, at the company's headquarters, located in Gebze Organize Sanayi Bölgesi, Şahabettin Bilgisu Caddesi No: 609 Gebze/ Kocaeli. The announcement was announced together with the meeting agenda three weeks prior to the meeting on the Turkish Trade Registry Gazette dated March 28, 2017 and numbered 9293, on the Public Disclosure Platform and on the company's official website on March 23, 2017 pursuant to the procedures prescribed by the Law and the Articles of Association of the company.

The examination of the list of participants revealed that out of the 2,500,000,000 units of shares corresponding to 25 million TL capital of the company, all of the 3,300,000 units of Class A preferred shares corresponding to 33,000 TL capital were represented by proxy; 1,914,360,076.30 units of Class B shares corresponding to 19,143,600.763 TL capital were represented by proxy, and 61,833,994 units of Class B shares corresponding to 6,183,399.4 TL capital were present in person. As a result, 1,923,843,475.70 units of shares corresponding to a total of 19,238,434.757 TL capital was represented with a meeting quorum of 76.95%, satisfying the decision quorum set forth in the Articles of Association.

Investors did not propose any additional agenda item in the meeting.

Investors exercised the right to ask questions in the general assembly meeting and all questions were answered.

In order to facilitate the attendance to the general assembly meetings, the venue and time of the meeting were announced on the Public Disclosure Platform and the website of the company.

The meeting quorum of the board of directors (including the postponed meetings) is met with the attendance of at least 5 (five) members. The quorum for board resolutions (including the postponed meetings) is affirmative votes of at least 4 (four) members, without prejudice to the conditions subject to the affirmative votes of independent members as per the Capital Markets Legislation and Corporate Governance Principles and insofar as these rules are not violated. There were no transactions referred to the general assembly due to dissenting votes of the independent board members.

Other stakeholders attended the meeting as well.

An information note for the general assembly meetings, which included explanatory information on the agenda items was issued and published on the website of the company prior to the meeting. Additionally, the annual report for the reporting period, financial statements, dividend distribution proposal and the Articles of Association of the company were made available for review in the headquarters of the company.

Under a separate agenda item, the investors were informed that the company made donations in the reporting period in the amount of 103,360 TL, which remains below the upper limit determined by shareholders for 2016. The proposal to set the annual upper limit for the year for donations at 500,000 TL was approved.

Minutes of the general assembly meetings are available at the "General Assembly Notifications" link in the "For Investors" menu at our company's website and in the Central Registry Agency Public Disclosure Platform.

No conflict of interest occurred between the company including its subsidiaries and the controlling shareholders, members of the board of directors, executives with administrative responsibility or their spouses, relatives by blood and by marriage up to the second degree.

#### **2.4. Voting Rights and Minority Rights**

The Company's shares are classified into two groups as Class A and Class B shares. As per the Articles of Association, one plus half of the board members, the chairperson, and the auditors shall be elected from among the candidates nominated by Class A shareholders.

The share capital of the company does not involve any cross-shareholding. Hence no subsidiary has voted in the general assembly meeting, which has a cross-shareholding relationship with the company.

The Articles of Association does not include a provision in relation to extending minority rights beyond one-twentieth of the capital or does not include the cumulative voting method in relation to the representation of minority shareholders in the board of directors.

#### **2.5. Dividend Rights**

There are no privileges in the Articles of Association for participation in the profit of the company. The board of directors reviews the dividend policy annually. A balanced and consistent policy with respect to the interests of the investors and the company is applied to the dividend distribution. The dividend policy is prepared by the board of directors, taking into consideration the

general economic conditions, long-term investment, and financing policies, as well as the profitability of the company. Up to 55% of the distributable net profit for the period calculated in accordance with the Turkish Commercial Code and the Capital Markets Board regulations and the Articles of Association of our company shall be distributed to our shareholders. Dividend distribution shall be made in cash or as capital increase by bonus issue or partly in cash and partly as capital increase by bonus issue. If the dividend amount remains below 5% of the paid-in capital, the corresponding amount in question may not be distributed and retained in the company.

Due to our dividend policy, market projections, long-term company strategy, investment policy and financial policy, on March 23, 2017, the board of directors resolved to propose to the General Assembly not to distribute dividends from the profit available for distribution in the amount of 47,043,512 TL calculated in our Consolidated Financial Statements for the reporting period between January 1, 2016 and December 31, 2016 by deducting the "tax expense" and "first contingency reserve" amounts and adding the "donation", which was issued in compliance with International Financial Reporting Standards pursuant to the Capital Markets Board Communiqué Series II:14.1 and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

## **2.6. Transfer of Shares**

The Company's Articles of Association do not contain any provision that restricts the transfer of shares.

## **SECTION III- PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1. Company Website and the Content**

Available at [www.logo.com.tr](http://www.logo.com.tr), the corporate website includes the information specified in the CMB Principles of Corporate Governance. A significant part of this information is also available in English.

### **3.2. Annual Report**

The annual reports are prepared to contain all of the information specified in the Principles of Corporate Governance.

## **SECTION IV- STAKEHOLDERS**

### **4.1. Disclosure to Stakeholders**

The Company recognizes that any person, group or institution who affects or is affected by the achievement of our objectives and the continuity of our operations have legitimate interests on the operations of the company and respects them as stakeholders. The company believes that maximization of the shareholder value requires respecting the interests of all stakeholders; thus the interests of the shareholders and stakeholders are parallel to each other. In line with this understanding, the company takes maximum care for the interests of stakeholders.

Stakeholders are invited to the meetings regarding any matter concerning them. Meetings, company website, e-mail, Public Disclosure Platform, e-Yönet website and the Central Registry Agency Disclosure Platform are used as the means of communication.

The Corporate Governance Committee and the Audit Committee are authorized for the assessment of the transactions that are considered to be against the regulations or ethically inappropriate by the stakeholders. The stakeholders are entitled to submit potential complaints to the Investor Relations Department via e-mail and/or telephone.

### **4.2. Stakeholder Participation in Management**

The Company develops mechanisms and models encouraging participation of stakeholders, particularly employees, in management without impeding the company's operations. The suggestions and opinions collected via surveys are integrated into the activities of our company.

Employee participation is one of the main principles of our human resource policy. Employees are granted adequate rights and responsibilities within their teams, and suggestions regarding the business processes received from various channels are taken into consideration. The employees are encouraged by management to share their creative ideas, suggestions, and requests regarding the company's operations through the intranet. Work teams, which are open to all employees, are established for business process improvement; and all improvement decisions are made based on the employees' suggestions. The company's status is reviewed periodically with the employees. Employee recommendations are received regularly and they are evaluated and implemented. Additionally, the top management holds one-on-one discussions with all employees to receive and implement their recommendations. Regular

briefings are held with dealers and business partners. The customers and dealers are regularly updated through bulletins, interviews, and the Internet.

### **4.3. Human Resources Policy**

Our human resources policy is based on the principles of respect for human knowledge, objective evaluation, equal opportunity, employee participation, encouragement of development, continuous education, competency and performance-based progress. The recruitment and promotion decisions are made based on the principle of equal opportunity according to the individual performance, knowledge, and experience. No complaint of discrimination has been received to date. The company management considers the equal opportunity principle as one of the most important subject matters. The human resources department is in charge of performance and career management practices; planning, conducting, and measuring the training and development activities; carrying out the recruitment process; managing the compensation system; and improving the employee satisfaction. The job descriptions, the criteria for performance and rewards are announced to employees based on the company's human resources policy.

The employee relationships are represented at the board level. In addition, the human resources department addresses, evaluates and resolves the requests and problems of all employees in relation to their professional, personal, career and training needs.

The representatives in charge of employee affairs:

H. Esra Akar, Member of the Executive Committee, Human Resources and Operations

Nebahat Erden, Human Resources Manager

### **4.4. Code of Ethics and Social Responsibility**

The company's code of ethics is published on the corporate website. In addition to the generally accepted ethical principles, the code of ethics is reviewed and revised regularly as the board of directors introduces new ethical rules concerning the company and its stakeholders.

Responsibility towards the society and the world is at the center of our company's mission and we work to develop constructive approaches to the social issues. The company holds free educational seminars in vocational schools and organizes activities to help students to pursue a career. We support educational programs both financially and in kind with our products. In addition to the financial support provided in campaigns organized by the

NGOs and charities, Logo employees are also encouraged to participate in these events in person.

Aiming to become the leader in all areas, LOGO is also setting the precedent with its contributions to the natural and social environment. In line with this, the company has made infrastructure investments, including solar energy supported transformers and virtual server systems, and developed new processes to eliminate paper and packaging use. The electronic, paper, battery and plastic wastes are recycled and new tools and applications have been adopted to reduce electricity, water, and fuel consumption. We also strive to decrease the carbon emission. Within the framework of our sustainability initiatives, a voluntary application for inclusion to Borsa Istanbul (BIST) Sustainability Index was filed and the company was included in the index as of November 1, 2017.

## **SECTION V – BOARD OF DIRECTORS**

### **5.1. Board Structure and Composition**

The Board of Directors, which consists of 6 (six) members who are elected by the General Assembly in accordance with the provisions of Turkish Commercial Code carries out the activities and administration of the company. One plus half of the members of the board are elected from among the candidates, who were nominated by the Class A shareholders. The board members may be elected for a maximum term of 3 (three) years and can be re-elected after their term is complete. If deemed necessary, the General Assembly may dismiss or replace the board members. The number, qualifications, election, nomination, terms of reference and duties of the independent board members are determined in accordance with the Capital Markets regulations and the Principles of Corporate Governance. In that respect, Mr. M. Cengiz Ultav and Mr. Kutlu Kazancı were elected as the independent board members. The Chairman of the Board is elected from among the board members, who were nominated by the Class A shareholders.

The biographies of our board members and members of the executive committee are available on the corporate website.

In case any member of the Board of Directors is declared bankrupt, faces restriction of capacity or loses the legal conditions required for membership or qualifications set forth in the Articles of Association, his/her membership automatically terminates.

If there is a vacancy in the board for any reason, the Board of Directors temporarily elects a person, who satisfies the legal conditions for board membership and submits it to the approval in the following general assembly meeting. The members selected in such manner shall serve until the general assembly meeting and if approved, they can complete the term of their predecessors.

If an independent board member fails to satisfy any of the independence criteria during his/her term or resigns due to other reasons or when they are not able to serve on the board anymore, new independent members shall be appointed for the vacancy by the board of directors to meet the criteria for the minimum number of independent members in accordance with the Capital Markets Law and the Capital Markets Board's regulations.

The nominees to fill the vacancy of a board member, who was nominated by the Class A shareholders, shall be determined by all the remaining board members, who were nominated by the Class A shareholders.

The Chairman of the Corporate Governance Committee is Independent Board Member Mr. M. Cengiz Ultav.

All of the independent members fulfill the independence criteria.

<b>Director</b>	<b>Title</b>	<b>Executive Duty (if any)</b>	<b>Term of Office</b>
M. Tuğrul TEKBULUT	Chairman of the Board	Non-executive	25.04.2017 /Ongoing
Murat ERKURT	Vice Chairman of the Board	Non-executive	25.04.2017 /Ongoing
S. Leyla TEKBULUT	Board Member	Non-executive	25.04.2017 /Ongoing
Orhan AYANLAR	Board Member	Non-executive	25.04.2017 /Ongoing
M. Cengiz Ultav	Independent Board Member	Non-executive	25.04.2017 /Ongoing
Kutlu Kazancı	Independent Board member	Non-executive	25.04.2017 /Ongoing

## **Other Duties of the Members of the Board of Directors**

The board of directors is authorized to manage, represent, and bind the company, as well as make the decisions on any matter except the issues, on which the General Assembly has been exclusively authorized to resolve pursuant to the Turkish Commercial Code, the Capital Market Law, and the Articles of Association. The duties undertaken by our board members in our group companies or in other companies do not cause any conflict of interest with their board membership position.

### **5.2. Terms of Reference of the Board of Directors**

The Board of Directors meets upon the invitation by the chairman as required. During the absence of the chairman, the invitation is to be made by the vice chairman. Any board member may invite the board of directors for a meeting with a written request made to the chairman. The agenda for the periodic or ad hoc board meetings is prepared by the board secretary in coordination with the chairman and the vice chairman of the board. The financial and legal affairs department and the executive management secretary facilitate the communication among the board members in respect of the meetings. The date and agenda of the board meetings shall be notified seven days in advance by registered letter, telex, fax or electronic mail. The board of directors meets and resolves at the headquarters of the company. If deemed necessary the chairman may invite members for a meeting in a place other than the headquarters of the company or in a place abroad.

The meeting quorum of the board of directors including the postponed meetings is established upon the attendance of at least 5 (five) members. Affirmative votes of at least four board members are required for the board to resolve (including the postponed meetings), save for and without detriment to the board resolutions that require affirmative votes of the independent board members as per the Capital Markets Regulations and the Principles of Corporate Governance.

The board members do not have the right of veto, privilege or a special voting right in case of equality of the votes. Each member of the board of directors has one vote including the chairman and no board member has a weighted voting right.

In 2017, the board of directors has convened 30 times in total. In the reporting period, there was no dissenting vote, reasons for which were required to be recorded in the minutes, submitted to the independent auditors in writing or announced to the public.

Meeting minutes, which are considered as trade secrets shall not be disclosed to the public. However, the material issues that are resolved in the meeting are publicly announced through a material event disclosure statement. The material board resolutions are also disclosed on the company's website.

The board resolutions, which involve material transactions or related party transactions, require affirmative votes of the majority of the independent members pursuant to the Corporate Governance Communiqué II-17.1 of the Capital Markets Board.

The company has a directors and officers' liability insurance policy for potential losses that might occur as a result of a fault by the board members.

### **5.3. Number, Structure and Independence of Board Committees**

The terms of reference of the board committees were prepared and the relevant units were assigned with the duty to follow up. The Audit Committee provided opinion to the board of directors on the appointment of the independent auditor, the audit of the financial statements and the financial situation of the company. The Corporate Governance Committee evaluated the amendments to the Articles of Association, compliance with the Principles of Corporate Governance and the investor relations activities. The Risk Committee provided opinion in the meetings of the board of directors.

The Audit Committee, the Corporate Governance Committee, and the Risk Committee provided a significant contribution to the company in terms of improving the corporate governance practices and ensuring that the financial statement is accurately and transparently prepared in compliance with the regulations. The Nomination Committee and the Remuneration Committee were also established pursuant to the CMB Principles on Corporate Governance.

The committee members are elected from among non-executive members and independent members of the board. Only independent members serve as the chairperson of the committees. Since there are two independent members, the same individuals have to serve on multiple committees. The procedures to be followed by the committees were specified in the terms of reference disclosed on the website of the company and Public Disclosure Platform. Both the Chairman and the member of the Audit Committee were appointed from among independent members. The chairpersons of other committees are also independent board members and their members were elected from among the non-executive members. Qualifications of committee members are presented to the board of directors section of the annual report and the company website.

## **TERMS OF REFERENCE OF THE COMMITTEES**

### **AUDIT COMMITTEE**

**Mümin Cengiz Ultav - Chairman**

**Kutlu Kazancı - Member**

### **Terms of Reference of The Audit Committee**

#### **Purpose**

The Audit Committee was established with a Board of Directors resolution in accordance with the Capital Market Board's Communiqué Series X, No. 19, Article 3 in order to assist the Board of Directors in fulfilling its financial and operational duties. The Audit Committee shall supervise the execution and monitor the efficiency of the accounting system of the company, the audit and the disclosure of the financial information and the internal control system.

#### **Authority and Scope**

The Audit Committee

- takes all necessary measures to ensure that financial statements footnotes thereto and the other financial information are accurate, transparent and prepared in accordance with international accounting standards;
- investigates the independence and competencies of the independent audit firm and its staff on behalf of the Board of Directors;
- monitors the accounting system of the company, the public disclosure of financial statements, and the efficient functioning of the external audit and internal control systems;
- oversees the appointment of the audit firm, preparation of audit agreements, and initiation of the audit process and all activities related to the external audit process;
- evaluates and resolves any complaint from within or outside the Company regarding accounting practices, the internal control system, and external auditing; and
- reviews the measures taken for compliance with the legal and internal policies of the company.

The Committee shall advise the Board of Directors within its scope of responsibilities. Final decisions ultimately rest with the Board.

### **Structure of Audit Committee**

In accordance with the Communiqué Series: II-17.1 CMB Communiqué on Determination and Implementation of the Principles of Corporate Governance, all members of the Audit Committee consist of independent board members.

The Committee members shall be determined each year at the first board meeting following the Ordinary General Assembly meeting.

### **Committee Meetings and Reporting**

The Audit Committee shall convene at least quarterly and submit the minutes to the Board of Directors.

The Audit Committee shall produce minutes of its proceedings, which shall be signed and properly filed by the Committee members.

The Committee shall inform the Board about matters within its scope of responsibility.

### **Responsibilities**

#### a) Financial Statements and Public Disclosure

- The Audit Committee shall monitor whether financial statements and their explanatory notes are prepared in accordance with the applicable accounting standards upon receiving the opinion of the external audit firm and the responsible executives.
- The Committee shall review the annual report disclosed to the public and ensure the accuracy and consistency of the information included in the report.
- The Audit Committee shall review the changes in the accounting policies, internal control system and the regulations, which would materially impact the financial statements of the Company and report the same to the Board of Directors.
- The Audit Committee shall review significant accounting and reporting issues as well as legal matters, and their potential impact on the financial statements.

#### b) Independent Audit Firm

- The Audit Committee is responsible for evaluating the external audit firm to be appointed and monitoring their activities and signing of the agreement.
- The Appointment or replacement of the external audit firm, initiation of the audit process, and review and evaluation of the audit firm's activities shall be conducted under the monitoring of the Audit Committee.
- The Audit Committee shall review the scope and process proposed by the audit firm and informs the Board of Directors about the matters that impede the efficiency of the same.
- The Audit Committee shall assess the external auditor's independence.
- The Audit Committee shall ensure that the information regarding material issues identified by the external auditor and the recommended actions obtained and discussed in a timely manner.
- The Audit Committee shall review and approve the fees and compensation provided to the external auditor.

#### c) Compliance with Legal Requirements

- The Committee shall ensure that the activities of the company are conducted in accordance with the legal requirements and internal regulations, and identify procedures to be applied in case of non-compliance.
- The Audit Committee shall ensure the confidential evaluation of complaints received regarding the accounting, the internal control system and the external audit.

## **CORPORATE GOVERNANCE COMMITTEE**

**M. Cengiz Ultav, Chairman**

**M.Tuğrul TEKBULUT, Member**

**Murat ERKURT, Member**

**Orhan AYANLAR, Member**

**Canan Şenkut, Member**

### **Terms of Reference**

#### **Purpose**

The Corporate Governance Committee monitors whether the company follows the corporate governance principles, determine the reasons and any conflict of interest due to lack of compliance, offer remedial advice to the Board of Directors, and supervise the Investor Relations Department.

#### **Authority and Scope**

The Committee shall arrange for periodic reviews of the terms of reference and recommend changes, if needed, to the board of directors. The final decision ultimately rests with the board of directors.

The Corporate Governance Committee's responsibilities include

- a) improving the corporate governance standards and facilitating the adaptation and implementation of the Principles of Corporate Governance within the Company;
- b) conducting the annual corporate governance evaluation of the board of directors and presenting a report to the approval of the board in this regard;
- c) supervising the Investor Relations Department; and
- d) making recommendations on the functioning and effectiveness of the board of directors and its committees;

## **NOMINATION COMMITTEE**

**M. Cengiz ULTAV, Chairman**

**M. Tuğrul TEKBULUT, Member**

**Murat ERKURT, Member**

**Orhan AYANLAR, Member**

The Nomination Committee;

- a) establishes a transparent system to identify, evaluate and train appropriate nominees to the board of directors and developing related policies and strategies;
- b) arranges for periodic reviews of the structure and efficiency of the board of directors and recommending changes thereto;
- c) establishes and reviews the approach and practices for the evaluation of performance and career planning of the board members and the executive team.

## **REMUNERATION COMMITTEE**

**M. Cengiz ULTAV, Chairman**

**M. Tuğrul TEKBULUT, Member**

**Murat ERKURT, Member**

**Orhan AYANLAR, Member**

The Remuneration Committee;

- a) advises the board on the framework for remuneration of the members of the board and the executive team in line with the long-term objectives of the company;
- b) determines compensation criteria for the board members and the executive team according to the company and the individual performance (Stock options and payment schedules based on the company's performance are not applied to the remuneration of the independent board members.);
- c) advises the board on the compensation packages of the members of the board and the executive team based on their achievements.

## **Structure of Committee**

- a) The Committee shall be established as per the Articles of Association of the company. The Committee shall consist of at least two members.
- b) The chairperson of the committee shall be appointed from among the independent board members.
- c) If the committee comprises two members, both of them if more than two members the majority of them shall be appointed from among the non-executive Board members. The CEO, the general manager, and the CFO cannot be appointed to the committee.
- d) The Committee may obtain a professional opinion from specialist advisors if necessary.
- e) The Committee members shall be determined each year at the first board meeting following the Ordinary General Assembly meeting.
- f) The Committee shall convene with the presence of the majority of its members and make decisions by a majority of the votes.
- g) The board secretary shall also serve as the secretary of the committee.

## **Committee Meetings and Reporting**

- a) The Remuneration Committee shall convene as it is required to perform its duties.
- b) The committee decisions shall be reported to the Board of Directors.
- c) The Board secretary shall take minutes and file the proceedings and resolutions of the meetings.

## **RISK COMMITTEE**

**Kutlu KAZANCI- Chairman of the Committee**

**S. Leyla TEKBUŁUT, Member of the Committee**

### **Terms of Reference of the Risk Committee**

#### **Purpose**

The Risk Committee identifies the risks that might endanger the existence, development, and continuity of the company, implements the required measures and conducts risk management related studies, and reviews the risk management systems at least once a year.

#### **Authority and Scope**

The Risk Committee shall;

- a) create effective internal control systems to determine the possibility and extent of the significant risks that would affect the company in achieving its strategic objectives;
- b) integrate the risk management and internal control systems to the corporate structure and monitors their effectiveness;
- c) carry out duties which are required to measure and report the risk factors through the risk management and internal control systems, and use the same in the decision-making process; and
- d) arrange for a periodic review of its terms of reference and, if necessary, recommend changes to the board of directors. The final decision on approval ultimately rests with the board of directors.

#### **Structure of Committee**

- a) The Committee shall be established in line with the Articles of Association of the Company.
- b) The Committee shall consist of at least two members and the chairperson shall be appointed from among the independent board members. The CEO or the general manager cannot be appointed to the committee.
- c) The Committee may obtain professional opinions from specialist advisors if necessary.
- d) The Committee members shall be determined each year at the first board meeting following the ordinary general assembly meeting.

e) The Committee shall convene with the attendance of one plus half of its members and take decisions by the majority of the votes.

f) The secretary of the board of directors serves also as the secretary of the risk committee.

### **Committee Meetings and Reporting**

a) The Risk Committee shall convene at least quarterly and submit the minutes of its meeting to the board of directors.

b) The committee shall inform the board about the matters within its scope of responsibility.

c) The board secretary shall take minutes and file the proceedings and decisions of the committee.

The number of committee meetings held in 2017 is presented below:

Audit Committee: 5

Corporate Governance Committee: 4

Nomination Committee: 1

Remuneration Committee: 1

Risk Committee: 6

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

The purpose of risk management and internal control mechanism is to identify all existing and potential risks faced by the company, development of actions to minimize the risks and carry out the implementation.

The internal control mechanism was constituted by the company and the effectiveness of risk management and internal control mechanism was monitored by the Risk Committee in 2017. The risk management and internal control mechanisms are effectively functioning to identify and manage existing and potential risks. The company attends the risks in two categories as operational and financial.

The functioning and effectiveness of the company's accounting system, the announcement of financial statements and the independent audit and internal control systems are monitored by the Audit Committee, which consists of two members.

## **5.5. Strategic Objectives of Company**

The board manages and represents the company by taking strategic decisions taking into account primarily the long-term interests of the company with a prudent risk management philosophy. The board aims to balance the risk, growth and return at the optimum level while achieving the specified and publicly disclosed operational and financial performance targets. The strategic targets of the company are prepared and set in line with the suggestions of the executive team and the guidance of the board of directors and translated to budget targets in numbers. The board of directors holds meetings for periodic strategic reviews and sets the periodic targets, together with the CFO.

## **5.6. Financial Rights**

Any rights, benefits, and remuneration provided to the board members and the executive team as well as the criteria used for specifying the same and the Remuneration Policy are announced on the company website. The Remuneration Policy applicable to the board members and the executive team, which was prepared in accordance with the Principles of Corporate Governances, was presented to the shareholders in the General Assembly meeting dated April 25, 2017, pursuant to the Capital Markets Board's regulations. The explanation was made both for the members of the board and the executive team. Only the independent members of the board receive a gross fee of 6,000 TL per month and the other board members do not receive any financial benefit for their service on the board. The company did not grant any warranty, debt or loan to any board member or executive.