

# **CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**

## **SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES**

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. Transparency, accountable management approach, compliance with ethical and legal codes is integral components of the corporate management. ERDEMİR has always fulfilled its responsibilities, arising from legislations, in an accurate and prompt manner.

Our Company has assigned Investor Relations Manager who has “Capital Market Activities Advanced Level License” and “Corporate Governance Rating Specialist License”, also works as a full-time manager in the corporation and a member of Corporate Governance Committee in accordance with CMB’s II-17.1 Communiqué on Corporate Governance. In addition, Company has appointed an employee who works in Investor Relations Department.

Within the year 2014, our Company has been continued its endeavors to ensure full compliance with the mandatory or optional regulations of the Corporate Governance Principles within the scope of Communiqué numbered II-17.1 “Corporate Governance” - the details of which are presented below. The procedures for designating independent candidates and making public disclosures were completed and candidates were elected according to regulations. The established committees under the BoD functioned effectively during the year. The information that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of BoD membership applicants and the reports and announcements that need to be prepared for related party transactions, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company’s website and annual report were reviewed and revisions required to comply with the principles were made. The policies formed under the scope of the Corporate Governance Principles and the working directives of the committees are published on our website.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. However, a number of obstacles stand in the way of compliance. There are a number of difficulties in the national and international arena concerning compliance, failure to ensure an overlap with the market and the current structure of the Firm. These are the difficulties which have caused possible delays in practice for the operations within the firm and a number of arguments in Turkey. Thus, full compliance has not yet been achieved as to a number of non- mandatory principles. An array of efforts and undertakings towards the goal of ensuring full compliance promptly are in progress. This goal will have been achieved upon the completion of administrative, legal and technical infrastructure projects. The said goal also includes the monitoring of the recent developments including the Capital Markets Board, which are to be issued, concerning the limited number of principles that have not been put into practice. The Principles of the corporate governance in practice and those which have not yet been harmonized are presented below.

## **SECTION II – THE SHAREHOLDERS**

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

The relationships with our partners, corporate investors and analysts are carried out systematically in a fashion that supports Company value. In line with this very purpose, the Company organizes meetings with the domestic and the foreign investors and announces material disclosures to the public immediately. Additionally, the Company fulfills its responsibilities towards regulatory bodies such as

the Borsa Istanbul and the Capital Markets Board, and provides prompt replies to the queries of the partners, the analysts and the portfolio managers. In 2014, Investor Relations Department answered per month around 300 questions received from shareholders, institutional investors and analysts of investment firms by phone and e-mail.

Inquiries made by our shareholders by telephone and e-mail within the year are responded to. Such inquiries are concerned with the entry into the registration system, the general assembly and the dividend distribution. Depending on the nature and the content of the requested information in case of necessity, the query is shared with the independent auditors of the Company and the relevant responses are submitted to the enquirer.

The remarks concerning the financial statements and the footnotes as well as the material disclosures are announced to the investors of the Borsa Istanbul and to the public via Public Disclosure Platform. The financial statements, the footnotes and the material disclosures are also published on the Company website.

Investor Relations Department has been formed which reports directly to the Group Chief Corporate Affairs Officer Banu Kalay Erton. The relevant contact information is available in the annual report and on the Company website.

#### **Investor Relations Department**

<b>Name</b>	<b>Title</b>	<b>Telephone</b>	<b>E-mail</b>
İdil Önay	Manager	+90-216-578 81 49	<a href="mailto:ionay@erdemir.com.tr">ionay@erdemir.com.tr</a>
Ahmet Görpeoğlu	Specialist	+90-216-578 80 97	<a href="mailto:agorpeoglu@erdemir.com.tr">agorpeoglu@erdemir.com.tr</a>

İdil Önay who has “Capital Market Activities Advanced Level License” and “Corporate Governance Rating Specialist License” was employed in the corporation as a full-time manager and appointed as a member of Corporate Governance Committee in accordance with CMB’s II-17.1 Communiqué on Corporate Governance.

Investor Relations Department prepares an activity report, at least annually, to the BoD. 2014 activity report presented in BoD meeting dated 10 February 2015.

The table below present’s activities performed within 2014 so that investors could be informed in-depth concerning the operations of the Company:

The number of the investor meetings attended in Turkey and abroad	35
The number of investors and analysts who have been contacted	426
The number of tele-conferences held regarding financials	4
The number of analyst meetings held	3

## **2.2. The Use of Shareholders’ Rights to Obtain Information**

Pursuant to the inquiry policy of our Company, all shareholders, potential investors and analysts shall be treated equally and fairly with regard to their right of the use of request and enquiry of information. It is also essential that our disclosures be passed onto everyone simultaneously with the same content. All information sharing is to be made in line with the content announced to the public earlier. Within the framework of the sharing of information, the shareholders and the market players are informed regarding all types of information along with material disclosures. The retrospective material disclosures are published on the Company website.

Loads of written and verbal requests for information from the shareholders are responded to promptly under the supervision of the Investor Relations Department and in line with the provisions of the Capital Markets Board Legislation. For the purpose of extending the shareholders' right to enquiry, any information that might harbour an impact on the shareholders' right of use under the principles of the Corporate Governance is updated and published on the website. The information on our website is published in Turkish and English, and duly allows fair use for both domestic and foreign shareholders.

The company's activities are audited by an Independent Auditor(s) and statutory auditor, appointed by the General Assembly/Board, regularly and periodically. The independent auditing procedures for the year 2014 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global Limited).

The request of shareholders allowing the appointment of a special auditor has not been drawn out as an individual right as per our Articles of Association. Accordingly, no request concerning the appointment of a special auditor has, yet, been received by our Company.

### **2.3. The General Assembly Meetings**

Ordinary General Assembly shall be held within three months from the end of the Company's activity period and at least once in a year, discussing and resolving upon the subjects of agenda. Extraordinary General Assembly shall be held whenever required by the Company's business in compliance with the provisions written in the law and Articles of Association.

The Ordinary General Assembly Meeting for the year 2013 was held on March 31, 2014 in İstanbul and 63.75% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the TCC, Capital Markets Code and Company's Articles of Association. The public is informed immediately of the BoD's decision to hold the General Assembly Meeting through the Public Disclosure Platform and Electronic General Meeting System (e-GEM). It is also published in the Turkish Trade Registry Gazette and national newspapers. General Assembly announcements are made in a way that complies with legal regulations as well as made on our website at [www.erdemir.com.tr](http://www.erdemir.com.tr) no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Shareholders' Meetings and made available to shareholders within the period determined in the applicable regulation via the website, at the Karadeniz Ereğli branch and at the Head Office of the Company in İstanbul and a copy of the above documents are provided upon request. The General Assembly Meeting Minutes and information documents which Company is obliged to provide as per corporate governance principles, are made available for uninterrupted access to our shareholders at [www.erdemir.com.tr](http://www.erdemir.com.tr).

Open ballot voting is used in the General Assembly for voting on agenda articles simply by raising hands. Chairman of the General Assembly Meeting is responsible from managing the meeting efficiently and providing usage of shareholders' rights.

The members of Board of Directors, officers responsible from preparing financials, auditors and people who are related with the agenda items take great care to attend the meetings.

A number of shareholders intended to raise their concerns outside of the agenda during the speeches they delivered at the Ordinary General Assembly Meeting. They addressed queries relating to the

Company's performance and strategies. Such questions were replied by the Assembly Chairman and the relevant executives under the guidance of the Chairman. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly.

During the Ordinary General Assembly Meeting held in 2014, the company did not receive any requests from shareholders for any additional items to be included on the agenda.

The minutes and the list of attendants of the General Shareholders' Meetings are disclosed to public via the Company's website, Electronic General Meeting System (e-GEM) and published in the Turkish Trade Registry Gazette pursuant to the relevant regulations. Consequently, media members and other stakeholders cannot attend the general shareholders' meetings.

General Assembly meetings are held at Company Headquarters and Electronic General Meeting System to facilitate attendance at meetings. Under conditions stipulated in the Articles of Association, meetings may be held in Ankara or Karadeniz Ereğli. The location of the General Assembly meeting is selected to enable easy access to all shareholders. Proxy forms were placed on our website and announced to shareholders in a newspaper for shareholders wishing to be represented through proxy at the meeting. Resolutions made by the Board of Directors for the convention of General Shareholders' Meetings are shared with the public via disclosures.

A separate item on the General Assembly agenda regarding the donations and the aids offered in the period is included. Within the framework of the Company's policy, the Shareholders were kept informed of the donations and aids realized in 2012 and 2013, which amounted to 379,526 TRY and 926,757 TRY, respectively.

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

The shareholders or their proxies who present in the Ordinary and Extraordinary General Assembly meetings shall exercise their voting rights pro rata to the total nominal value of the shares. Each share has only one voting right. In the meetings of General Assembly, shareholders may cause to represent themselves through other shareholders or proxies assigned from outside of the Company. Proxies who are also company shareholders have the authority to cast the votes of shareholders to whom they represent, in addition to their own votes. The rights of voting by proxy are reserved within the Capital Markets Board regulations.

Shareholders may participate in General Assembly meetings via electronic environment pursuant to Article 1527 of Turkish Commercial Code. Company may setup an electronic general assembly system which will enable Shareholders to participate in the General Assembly meetings, to communicate their opinions, to furnish suggestions and to cast their votes or may purchase service of systems set up for such purposes pursuant to the provisions of Regulation on General Assembly meetings of Joint-Stock Companies to be held via Electronic Environment.

The capital is divided into shares Group A and Group B. 1 share of certificate, issued to the bearer amounting to 1 Kr is Group A and 349,999,999,999 share of certificates amounting to 3,499,999,999.99 Turkish Liras is Group B.

Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to the Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to the Group A shares,

- Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,

- Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,

can be passed only through affirmative votes of the usufructuary in representation of Group A shares. Otherwise, the resolutions passed shall be invalid.

No cross shareholding relations exist in the capital of the Company. Minority shares are not represented in the management. Minority rights are not determined less than one in twenty by the Articles of Association. Cumulative voting system is not mentioned in the Articles of Association.

## **2.5. Dividend Right**

The Articles of Association do not grant any privileges regarding participation in the company's profits. Each share has an equal dividend right.

The dividend distribution policy, as disclosed to shareholders at the General Assembly, is in the activity report. In addition, the policy is posted on the Company website, along with a short history of dividend distribution and detailed information about capital accumulation.

The distribution of the company profit is stated, in compliance with the arrangements of the Capital Markets Board, following the Article 34 of the Articles of Association, titled "Determination and Allocation of the Profit".

Our Company's Dividend Distribution Policy is as follows:

"Company implements the policy of distributing the maximum dividend which the financial leverage ratios and expectation of future cash flow generation allow within the scope of effective legal regulations and clauses of Company's Articles of Association. In accordance with this policy, Company will distribute cash dividend which is gross 91,8190%, net 78,0461% of the distributable profit by the end of 2013. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

General Assembly is authorized for distribution of dividend advance in accordance with relevant legislations.

Dividend is paid by fixed or variable installments in accordance with the legislation by giving authority to the Board of Directors at the General Meeting, where dividend distribution is decided, until 15 December of the relevant calendar year."

At March 31, 2014 dated Ordinary General Assembly, it has been decided to distribute TRY 820 million cash dividend based on 2013 financial results and as of May 26, 2014 dividend distribution has started.

## **2.6. Transfer of Shares**

There is no restriction regarding the transfer of our Company's shares in the Articles of Association, and the provisions of the Turkish Commercial Code shall be applicable on this matter.

## **SECTION III – THE PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1. Corporate Website and Its Contents**

Erdemir's corporate website ([www.erdemir.com.tr](http://www.erdemir.com.tr)) is actively in use both in Turkish and English. The website includes the following issues under the Investor Relations heading:

- Corporate Governance
- Corporate Governance Principles Compliance Report
- Board of Directors
- Management
- Capital Structure
- Trade Registry Information
- Articles of Association
- Information About the Share which has Usufructuary Right
- Safe Harbour Statement
- Code of Ethics and Business Conduct
- Policies and Regulations
- Internal Directive on the Operation Principles and Procedures of the General Assembly
- Independent Auditor
- Management's Annual Overview
- Interim Reports
- Financial Statements
- Summary Information for Investors
- Presentations
- Financial and Operational Highlights
- Annual Reports
- Disclosures and Announcements
- General Assembly Announcement
- Minutes of General Assembly
- General Assembly Meeting Information Document
- General Assembly List of Attendants
- The Proxy Statement
- Dividend Payments and Capital Increases
- Credit Ratings
- Stock Price Information
- Analyst Information
- Frequently Asked Questions
- Contacts

Complete information required by the CMB Corporate Governance Principles is available on our company website.

### **3.2. Annual Report**

The Ereğli Demir ve Çelik Fabrikaları T.A.Ş. annual report is prepared in detail and according to CMB Corporate Governance Principles to ensure that complete and accurate information about the Company's operations reaches the public.

### **3.3. Disclosure Policy**

Disclosure activities are carried out in compliance with our Company's "Disclosure Policy", the Capital Markets Legislation, the Capital Markets Board decisions and other related legislations. The issues which require explanation or announcement are disclosed to the public explicitly, accurately and promptly.

In line with this objective, it is essential that the Company establish a continuous, efficient and transparent communication with all its stakeholders including native/foreign shareholders, potential investors, employees, customers and relevant authorized institutions by informing them about Company's past performance and future expectations other than trade secrets, in a complete, fair, correct, timely, comprehensible and easily accessible manner.

Our Company's Disclosure Policy is established and implemented under the authority of the Board of Directors. Our Company's Disclosure Policy is announced to the public on our web site which is actively in use. In accordance with the relevant regulations, Board of Directors reserves the right to revise and make changes in this policy from time to time. Disclosure Policy and the amendments to be made thereon are published on the Company's website upon the approval of the Board of Directors. Investor Relations Department, which details such name and title given in Article 2.1., is responsible for supervision and monitoring of the Disclosure Policy.

Considering the fact that the Company is publicly-held and is expected to act accordingly in view of this arising responsibility, the necessary announcements in relation to all the developments under the scope of a Communiqué regarding Material Disclosures are undertaken promptly both to the investors and to the public. All changes and developments that may arise are constantly updated and shared with the public. A total of 53 material disclosures were made by the Company in 2014.

Forward-looking evaluations are based on reasonable assumptions and estimations. In cases, where there is a significant deviation between the matters previously disclosed and the actual realizations, due to unforeseeable risks and developments, the Company makes a public disclosure on the causes of such deviations.

In addition, the investors are provided with an email account with which they can address all sorts of queries and requests. The Investors Relations Department is in charge of responding to the questions addressed by the shareholders in compliance with our Company's disclosure policy whose principles of integrity require accurate, complete and fair responses.

## **SECTION IV – STAKEHOLDERS**

### **4.1. Informing Stakeholders**

Stakeholders such as the company employees, the customers, the suppliers, the trade unions, the non-governmental organizations, the state and the prospective investors are provided, upon request, with written or verbal information on the issues concerning them besides the information included in the financial statements and the reports disclosed to the public as per the legislations of the Capital Markets Board.

The Company employees are informed regarding the company practices through news bulletins and intranet announcements.

The demands and expectations of our customers are received through customer visits, and activities for developing new qualities are carried out depending on the changing demands that may emerge in

the market. The customer complaints are delved into in the field and the required corrective actions are taken accordingly.

The tender system is practiced for procurement of the domestic goods and services. The tenders are disclosed through fax and e-mail messages. The specifications are also published on the Company website. On the other hand, cooperative actions are carried out to assist the manufacturer suppliers in our region to expand their business in turn.

Additionally, our Company exchanges ideas with the potential customers and suppliers during the exhibitions and fairs.

The recommendations and ideas of our employees are received through the ERDEMİR Recommendation System (ERÖS) and the Performance Management System. The required upgrading and improvement actions are practiced accordingly.

The Company has set up a mechanism which allows the stakeholders to convey transactions against the company legislation and non-ethical behaviours to the Code of Ethics Advisors and/or the Ethics Committee. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Ethics and Business Conduct.

#### **4.2. Participation of Stakeholders in Management**

No particular regulation exists for the stakeholders' participation in the management. However, our affiliates, employees and the other stakeholders are informed through meetings. All of the Board Members are elected by voting in General Assembly with the attendance of stakeholders.

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

Operating in an industry where competitive market conditions prevail, ERDEMİR Group has established its human resources policies and practices on forming, improving and retaining qualified labour force equipped with skills of producing knowledge, identifying solutions to problems, taking initiative by assuming responsibility, being open to improvement and suitable for teamwork.

For this main objective, the Group is attentive to employing staff members who are appropriate for the Group's strategies and objectives. The Group also pays due notice to offering training opportunities to the current employees so that they can have the means of enriching their professional experience.

ERDEMİR Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Personal Performance Management System. Moreover, the Group carries out processes of assignments and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there is no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within the Group in order to carry out relations with our employees. The Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2014 or the previous years.

The company has created written procedures and regulations regarding all human resources processes and all these documents are made available to all employees at an easily-accessible corporate portal. Furthermore, employees are also informed via e-mail.

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

The fundamental principles of the business conduct have been determined by the Code of Ethics and Business Conduct, which are disclosed to the public through the Company's website ([www.erdemir.com.tr](http://www.erdemir.com.tr)). Code of Ethics and Business Conduct constitute the common values and creeds of our company along with the changes occurring in legal, societal and economic conditions.

Our Company fulfills its responsibilities towards the society. While creating value for the economy of the region and the country, the Group operates through its goods and services. Furthermore, ERDEMİR Group subsidiaries maintain their contributory activities for the societal development in a broad range, which is considered an integral part of the business processes.

For the Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, the Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2014. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions, philanthropic undertakings, supporting arts and sports activities, supporting scientific studies of universities, offering opportunities of internship to the university and vocational school students can be listed all pursuant to the Group's adherence to the principle of social responsibility.

### SECTION V – BOARD OF DIRECTORS

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

Within the scope of Articles of Association, Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law. Members of Board of Directors are appointed for three years and the independent members are appointed for 1 year; the members with expired tenure may be re-elected.

9 members, 3 of whom would be independent members, were elected at the Ordinary General Assembly Meeting dated March 31, 2014. Our Chairman, Vice/Deputy Chairman of the Board and one Board Member were appointed as the Managing Directors. Although there is no executive board in the Company, Mr Ali Aydın Pandır, Mr Dinç Kızıldemir and Mr Nihat Karadağ serve as the Managing Directors. Sedat Orhan was appointed as Chief Executive Officer of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. in 16.08.2013.

The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board of Directors are subject to provisions of Turkish Commercial Code and related legislation.

Board of Directors	Title	Effective from
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ali Aydın PANDIR)	Chairman – Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman– Executive Director	12.09.2012
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı (Represented by: Ali KABAN)	Board Member	20.09.2012

OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director	11.09.2012
OYKA Kağıt Ambalaj San. ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Tur. A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Nazmi DEMİR	Independent Board Member	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	29.06.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014

Depending on the resolution of Board of Directors, dated 7 March 2014 and numbered 9301, it has been resolved to register and notice the assignment of Ali Kaban as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

According to the 363rd article of Turkish Commercial Code and depending on the resolution of Board of Directors, dated 04 March 2014 and numbered 9287, Emin Hakan Eminsoy has been elected to the independent board membership which had been vacant because of the resignation of Ali Aydın Pandır on 14 November 2013.

Three applications to our Company were evaluated in 2014 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee reports, prepared by the Committee on February 03, 2014, pertaining to the candidacy of Mr Nazmi Demir, Mr Atilla Tamer Alptekin and Mr Emin Hakan Eminsoy as the independent board members were submitted to the Board of Directors on February 03, 2014. Due to being a member of the Group 1 within the scope of Corporate Governance Principles, the application was submitted to the Capital Markets Board in line with the required process pertaining to the independent board members. No opposing or dissenting view was received for this. The independence declarations of the Independent Board Members are included in the Appendix of the Board of Directors' Activity Report. In 2014, no situation has occurred for violation of the independency.

The members of the Board of Directors are not prevented from assuming other duties outside the company. The Board Members' résumés and duties outside of the Company, are published on the Company website, under the scope of the Corporate Governance Principles No: 1.3.1.

Except the Independent Board Members, Board of Directors consists of legal persons and Company has a woman member who is the proxy of a legal person.

## 5.2. Principles of Activity of the Board of Directors

The Board of Directors meets at the Company headquarters or at a different location, determined by the Board, at least six times a year or as often as business requires. The Board of Directors elects a chairman among its members during the first meeting of the year. In the absence of the chairman, a deputy chairman is also elected by the Board of Directors to act on behalf of the chairman. The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and voting as well as the task, rights and powers of the Board of Directors are subject to the Turkish Commercial Code and the provisions of relevant legislation. The decisions of the Board of Directors are written down on the decision book and signed by the Chairman and the members. Reserving the Article 22 of the Articles of Association, the rights and powers assigned to the Group A, the Board of

Directors can delegate all or a number of the representative and administrative powers of the Company to one member of the Board of Directors or to several managing directors, other than the independent board members.

No resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares.

The requests of the members of the Board and the managers are taken into consideration concerning the items on agenda, whereas the meeting agenda of the Board of Directors is formed by the Chairman of the Board. 7 meetings were held by the Board of Directors in 2014. The attendance rate was 95% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via e-mail messages. The secretariat, set up in accordance with the Corporate Governance Principles under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

It shall be observed the Corporate Management Principles, the implementation of which is made obligatory by Capital Markets Board. The transactions made and the resolutions passed without observing the obligatory principles are held invalid and deemed contrary to the articles of association.

With regard to the implementation of the Corporate Management Principles, the regulations of Capital Market Board on corporate management are observed in the transactions deemed to have an important nature and any related party transactions of the company, which are of important nature as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

There was no dissenting vote related with the Board Members' different opinions in the relevant period.

The questions, addressed by a Board Member during the meeting are written on the decision record upon the relevant Board Member request.

Board members have not been granted weighted voting rights and/or negative vetoing rights.

The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is USD 75 million. The insurance compensates for the legal expense and indemnity.

### **5.3. Number, Structure and Independence of the Committees Established Under the Board of Directors**

The Audit Committee, The Early Detection of Risk Committee and The Corporate Governance Committee were set up so that the Board of Directors is able to perform their tasks and responsibilities more effectively. By considering the structure of the Board of Directors, the fulfilling of the power, the duty and the responsibility foreseen for The Candidate Nomination Committee and the Remuneration Committee was delegated to and passed onto the Corporate Governance Committee upon the Board of Directors' decision Numbered 9148, dated June 29, 2012. The frequency of gathering for the committees, their activities and procedures to be followed while carrying out the activities are stated in

the regulations published on our website. The decisions made as a result of work carried out independently by the committees are submitted to the Board of Directors as proposals and the ultimate decision is reached conclusively by the Board of Directors.

Our Company has ensured the structuring of the management within the framework of the Communiqué regarding the Corporate Governance Principles. One member is assigned for more than one committee due to the condition that requires the Auditing Committee to be made up of completely independent board members and the chairmen of the other committees to be comprised of the independent board members.

Ali Aydın Pandır who was one of the Independent Board Members had resigned on 14 November 2013. Due to the resignation, Emin Hakan Eminsoy was appointed as an independent board member on March 04, 2014.

#### **Audit Committee**

<b>Name-Surname</b>	<b>Title</b>	<b>Relation with the Company</b>	<b>Details</b>
Atilla Tamer Alptekin	Chairman	Board Member	Independent / Not Executive
Nazmi Demir	Member	Board Member	Independent / Not Executive

**Frequency of Meetings:** Once every three months and at least four times a year.

#### **Early Detection of Risk Committee**

<b>Name-Surname</b>	<b>Title</b>	<b>Relation with the Company</b>	<b>Details</b>
Nazmi Demir	Chairman	Board Member	Independent / Not Executive
Emin Hakan Eminsoy	Member	Board Member	Independent / Not Executive

**Frequency of Meetings:** Once every two months and at least six times a year.

#### **Corporate Governance Committee**

<b>Name-Surname</b>	<b>Title</b>	<b>Relation with the Company</b>	<b>Details</b>
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Atilla Tamer Alptekin	Member	Board Member	Independent / Not Executive
İdil Önay	Member	Investor Relations Manager	Non-independent / Not Executive

**Frequency of Meetings:** Once every three months and at least four times a year.

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

Under the body of the Board of Directors, The Early Detection of Risk Committee was set up and the working directives of the Committee were published on the company website.

Risks are monitored and managed in compliance with the regulation and procedures related with management of the market and customer risks which are directed towards measuring the risks Erdemir Group is exposed to and developing hedging methods to keep these risks within risk tolerances.

Almost all of our receivables are guaranteed with the Direct Debit System, the Credited Direct Collection System and the Trade Credit Insurance. Risk positions of our customers are monitored regularly and when exceeding the limits, a margin call is issued.

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis.

Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

Similarly, with regards to liquidity risk management, credit usage and paybacks and cash flow projections are monitored and necessary actions are taken.

The feasibility reports, including all types of technical and financial evaluations, related to all planned investments in the Erdemir Group's mid/long term strategic road map are prepared by the System Development Department under the Deputy General Manager of the relevant Group Companies and are submitted to Business Development Directorate. The Business Development Department examines the feasibility reports from their consistency and accuracy perspectives, then prepares the financial evaluation reports by analyzing "Internal Rate of Return, Net Present Value, Return on Investment period and ratio, then submits these reports to the Group Financial Affairs Coordinator. No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Affairs Coordinator.

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of Erdemir Group companies and it reports directly to the Chairman and Executive Director of the Board. In accordance with Capital Markets Board regulations, the effectiveness of internal control system is evaluated by the Board of Directors at least once in a year. In this context, Internal Audit Department reports to the Audit Committee, which comprises of independent board members, about internal audit activities regularly as requested.

## **5.5. Strategic Targets of the Company**

Company's vision, medium and long term targets and strategies are determined within the scope of Company's Strategic Planning Process. In accordance with Company's strategic approach, next year's targets and activities are detailed and set Company's budget within the context of budget process. Annual budgets are approved by the Board of Directors and monitored during the year.

Targets in Company's budget, which is approved by the Board of Directors, are deployed towards individual targets by all the units utilizing the target deployment systematic.

Company's current situation is reviewed and Company's activities are compared with the previous period and budget targets in the regular meetings of Board of Directors.

## **5.6. Financial Rights**

All types of rights, benefits and fees vested upon the board members and executives with administrative responsibilities, and the criteria deemed to determine such rights, benefits and fees as well as the compensation basics are published under the Compensation Policy heading of our Company website. The Board Members are paid in accordance with the decision of General Assembly which is also disclosed to the public through the general assembly minutes published on the Company website. The fees remitted to the executives with administrative responsibilities are determined by the Board of Directors. The payments effected to the executives are disclosed to the public and included in the footnotes of the financial statements.

According to the decisions made by the General Assembly Meeting held on March 31, 2014, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid 2,360 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 5,000 TRY per month (at the beginning of the relevant month, paid in advance, net).

No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favour.