



Corporate Governance Compliance Rating Report



Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

29 July 2016

Validity Period 29.07.2016-29.07.2017

LIMITATIONS

This Corporate Governance Compliance Rating Report, issued by Kobirate International Credit Rating and Corporate Governance Services Inc for Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi is compiled;

in accordance with the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as the CMB's board decision taken at the Board meeting on 01.02.2013, no 4 / 105.

The criteria, established for the companies whose shares are traded at BIST, are organized separately as First Group, Second Group and Third Group companies and investment partnerships, taking into consideration the group distinctions stated by CMB's Corporate Governance Principles in Item 2 - Article 5 of communiqué no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014.

The Corporate Governance Compliance Rating Report issued by Kobirate International Credit Rating and Corporate Governance Services Inc. is based on 70 copies of documents, data and files transmitted by the concerned firm electronically, including data open to general public and examinations made by our rating experts on site.

Kobirate International Credit Rating and Corporate Governance Services Inc. has formulated its Ethical Rules according to the Banking Act, the CMB and BRSA Directives on the Operations of Rating Companies, generally accepted ethical rules of the IOSCO and OECD including generally accepted ethical customs, which is shared with the public through its Internet website (www.kobirate.com.tr).

Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate International Credit Rating and Corporate Governance Services Inc. formed accordingly to the methodology disclosed.

The rating grade does not constitute a recommendation to purchase, to hold or to dispose any kind of borrowing instrument. KOBIRATE Inc. may not be held liable for any losses incurred or investments made to the company referring to this report.

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TABLE OF CONTENTS

1.	Second Period Revised Rating Result	3
2.	Company Profile and Changes Within Last Year	7
3.	Rating Methodology	14
4.	Corporate Governance Compliance Rating Grades and Their Descriptions	16





EREĞLİ DEMİR VE ÇELİK FABRİKALARI TÜRK ANONİM ŞİRKETİ (ERDEMİR)

CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

BIST FIRST GROUP

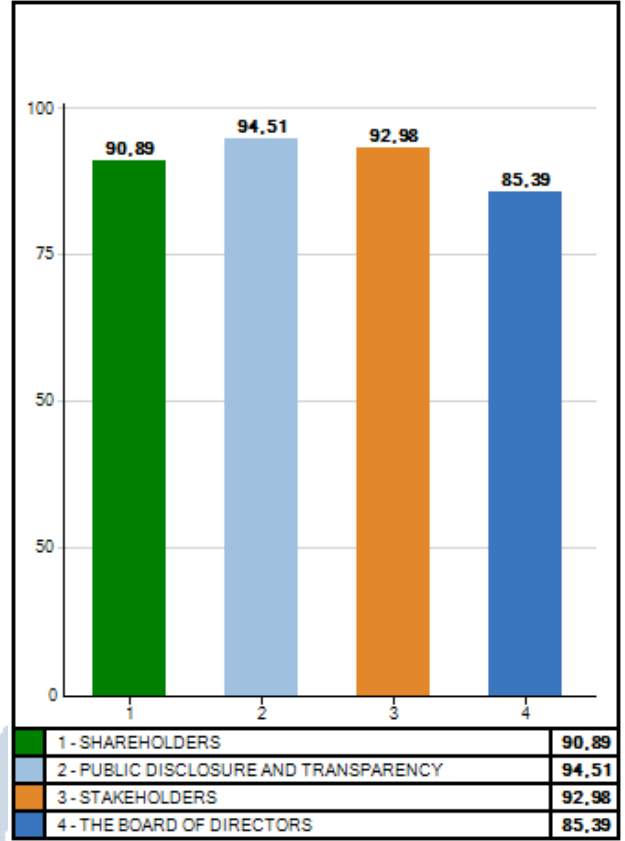
9.02

Kobirate Uluslararası Kredi Derecelendirme
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1. SECOND PERIOD REVISED RATING RESULT

The process of rating of compliance of **Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi (ERDEMİR)** with the Corporate Governance Principles has been concluded in accordance with the Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.S., through onsite examinations of the documents, interviews held with executives and persons involved, examination of information disclosed to public and of other comprehensive reviews and observation. The methodology and the rating process are based on Capital Markets Board's (CMB) Corporate Governance Principles Communiqué no II-17.1 published by the Official Gazette edition 28871 on 03.01.2014.

According to CMB decision dated 13.01.2015 and numbered 1/23, Erdemir is on the list of **BIST 1st Group Companies**. At the end of examination of 408 criteria under the main headings of Shareholders, Public Disclosure and Transparency, the Stakeholders and the Board of Directors, as specified in the CMB's Corporate Governance Principles, and according to the methodology of Kobirate A.S. for "BIST First Group Companies", the Corporate Governance Compliance Rating Grade of Erdemir is determined as **9.02**.

This result signifies that the company has achieved significant compliance with CMB's Corporate Governance Principles. Possible risks for the company have been determined and they can be controlled. Public disclosure

activities and transparency are at the highest level. Rights of shareholders and stakeholders are being treated fairly. The structure and working conditions of board of directors are generally compliant with corporate governance principles. Internal control systems have been formed and running, although there is room for a little improvement. Shareholders' rights Stakeholders' rights are being treated fairly. As a result, this grade shows that Erdemir highly deserves to be included in the BIST Corporate Governance Index.

▪ At the section of Shareholders, it is seen that Erdemir has achieved a grade of **90.89**. Developments that made it possible for the Company to reach this grade are listed below:

- The questions asked by shareholders at the general assembly and answers given to them – or the information that no question was asked – have been disclosed to public on the corporate website within 30 days after the date of general assembly.

Relations with shareholders are conducted through Investor Relations Department, which reports to Erdemir Group Chief Corporate Affairs Officer Banu KALAY ERTON. İdil ÖNAY (Manager) and Ahmet GÖRPEOĞLU (Specialist) work in the department. Both employees have Licenses of Capital Market Activities Advanced Level and Corporate Governance Rating Specialist.

In accordance with CMB Corporate Governance Directive no II.17-1, Investor Relations Department Manager İdil ÖNAY has also been appointed as member of Corporate Governance Committee and it was disclosed to public with Material Events Disclosure, dated 04.09.2014.

It has been determined that Investor Relations Department reports to the Board of Directors and makes a presentation about its operations regularly once a year. A presentation about operations of 2015 was made at Board of Directors meeting on February 15, 2016.

There is no regulation or practice of cancelling or restricting shareholders' right to obtain and review information imposed by the Articles of Association and/or a decision by any corporate department. Company disclosures for shareholders and public are made in accordance with "Disclosure Policy". The policy is published on Company's corporate website.

The ordinary general assembly meeting to discuss company's 2015 operations took place on 31.03.2016. The invitation for the meeting was published on Turkish Trade Registry Gazette dated 08.03.2016, No 9027, Public Disclosure Platform, Central Registration Office e – general assembly system and two national papers on the same day. The invitation was made properly, 3 (three) weeks before the date of meeting.

General Assembly document includes detailed information on distribution of company shares, voting rights and privileged votes. It also contains much information that corporate governance principles require disclosure to shareholders and public.

According to CMB, the Company earned TRY 1,077,601,169 net distributable profit through its activities in 2015. The usage of the profit is explained at "ii. Dividend Distribution" section of our report.

▪ In the section of Public Disclosure and Transparency, the Company has achieved the grade of **94.51**. Developments that brought this grade to Erdemir are below:

- CV's of senior managers referred to in the "Investor Relations / Corporate Governance" Section are put on Company's corporate website.

- Annual report includes responsibility declarations of members of Audit Committee and Group's Chief Financial Affairs Officer that the annual report and financial statements completely reflect Company's financial situation and that the Company is in full compliance with regulations.

- Annual report includes Board of Directors decision on acceptance of balance sheet and income statements of the Company by Board of Directors and its presentation to the general assembly for approval.

- Annual Report includes Board of Directors assessment about Board of Directors sub committees' working principles and their efficiency (including committees' activities).

Responsible and authorized signatures for company's public statements are Bülent BEYDÜZ (ERDEMİR Group Chief Financial Affairs Officer) and Avni SÖNMEZYILDIZ (Financial Controlling and Reporting Director). These officials are charged with managing and monitoring all issues concerning public disclosures.

It is seen that Company's corporate website and annual report are used efficiently and in line with criteria referred by the principles as a means of disclosure for public.

▪ The Company has achieved a grade of **92.98** in the section of Stakeholders.

Compensation Policy for employees has been developed and disclosed to public via corporate website.

Procedures on recruitment, remuneration, health, leave rights, promotion, appointments, discipline, dismissal, death, resignation and retirement have been determined. It is our impression that the company sticks to these policies in practice. Both during development and the implementation of the policies we have got the impression that the principle of equal opportunities for individuals under equal conditions has been respected.

Sustainability policies of Erdemir have been prepared and corporate social responsibility policies have also been determined as part

of sustainability policies and disclosed to public.

- Code of Ethics and Business Conduct have been updated.

- Within the scope of Work Health and Safety activities, a WHS Leader has been assigned to conduct and lead these activities. It is seen as a move towards improvement to ensure safer work environment and conditions for employees.

- The Company prepared its Anti Corruption Policy and disclosed it to public through its corporate website. These developments are among the most important reasons that ensured the increase of grade.

▪ Erdemir has reached **85.39** in the section of Board of Directors.

Upon examination of Board of Directors Decision Book and interviews with Company officials, it has been determined that the Board continues to work regularly.

Board of Directors has described corporate strategic objectives of the Company and determined required human and financial resources. Posts of Chairman of Board and General Manager are held by two different individuals and their powers are described. Board of Directors comprises 9 (nine) members. 1 (one) of them is executive and 8 (eight) are non – executive. 3 (three) of the non – executive members are also independent members.

Audit, Corporate Governance and Early Detection of Risk Committees, which are referred to by the principles are established. A Separate Candidate Nomination Committee and Remuneration Committee have not been formed because of the Board's structure. Duties of these committees are carried out by Corporate Governance Committee. Mandates, working rules and membership composition for all three committees have been determined, approved by the Board of Directors as written documents and disclosed to public

on the corporate website. All members of three Committees are independent members of Board of Directors. Additionally Manager of Investor Relations Department has been appointed to membership of Corporate Governance Committee In accordance with CMB Corporate Governance Communiqué number II.17-1. General Manager has not been assigned to any committees within this structure.

Board of Directors convened 7 (seven) times in 2015 and three (3) times as of May 2016.

Audit Department convened 4 (four) times in 2015 and 1 (once) as of May 2016.

Corporate Governance Committee convened 4 (four) times in 2015 and 1 (once) as of May 2016.

Early Detection of Risk Committee convened 6 (six) times in 2015 and 3 (three) times as of May 2016.

Results of Committee meetings and suggestions about agenda items have been sent to the Board of Directors in writing.

Guidelines on compensation of the Directors and top executives have determined and disclosed to public on Company's corporate website.

The fact that Board of Directors has internalized corporate governance principles and showed an approach, which is open to improvement and development and efficiency in meetings of committees are most important reasons of grade increase in this section.

2. COMPANY PROFILE AND CHANGES WITHIN LAST YEAR

A. Company's Profile:



Company Name	: EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş
Company Address	: Head Office Barbaros Mahallesi Ardiç Sok. No:6 Ataşehir / İstanbul Ereğli Plant Uzunkum Caddesi No: 7 67330 Kdz. Ereğli/ZONGULDAK
Company Phone	: (0216) 578 8000
Company Facsimile	: (0216) 469 4810
Company's Web Address	: www.erdemir.com.tr www.erdemirgrubu.com.tr
E-Mail Address	: iletisim@erdemir.com.tr investorrelations@erdemir.com.tr
Date of Incorporation	: 11 May 1960
Registered Number	: 863637
Paid in Capital	: TRY 3.500.000.000
Line of Business	: Iron and steel roll products of all types, sizes and qualities, alloyed or pure iron, steel and iron casts, cast and pressed products and businesses stated in the Articles of Association.
Company's Sector	: Production industry / Metal Main Industry / Iron Steel Main Industry.

Company's Representative in Charge of Rating:

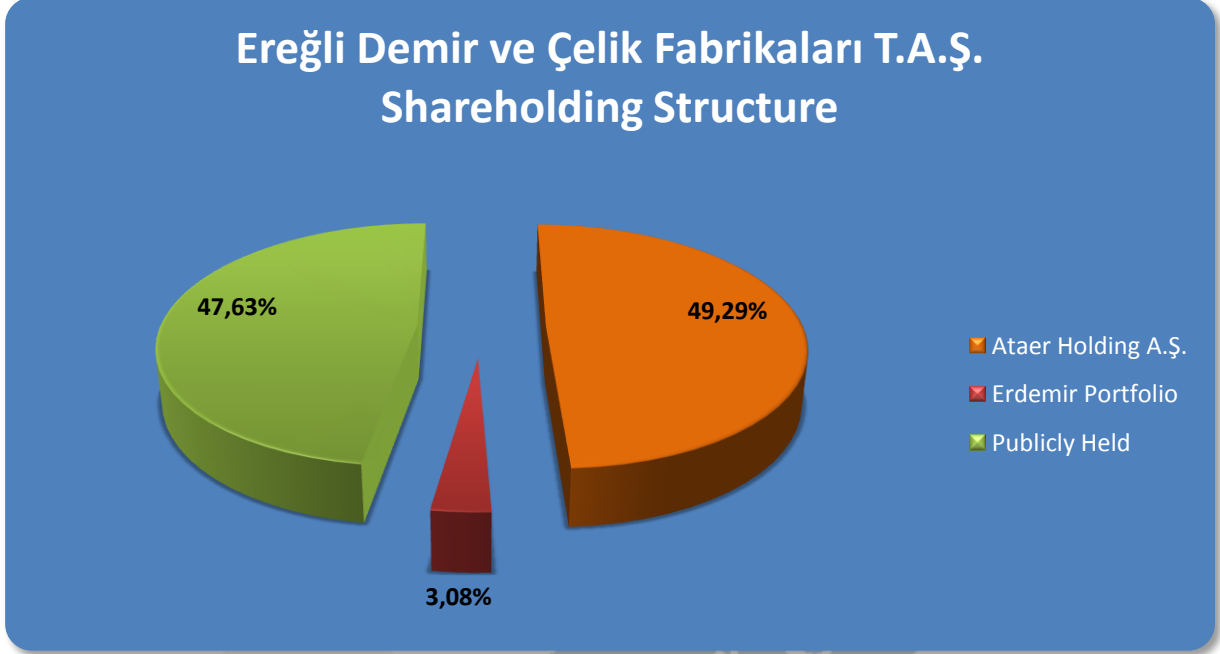
İdil ÖNAY

Investor Relations Manager

ionay@erdemir.com.tr

(0216) 578 8061

Company's Shareholding Structure (as of the report date)



Source: Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Name of Shareholder	Share (000 TL)	Share (%)
ATAER Holding A.Ş.*	1.724.982.-	49,29
Publicly Held	1.667.181.-	47,63
Erdemir Portfolio	107.837.-	3,08
Total	3.500.000.-	100,00

Source: Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

* The main shareholder of the company is ATAER Holding A.Ş, ultimate main shareholder is Turkish Armed Forces Assistance (and Pension) Fund (OYAK).

Company Board of Directors

Name / Surname	Title	Executive/ Non - Executive
OYTAŞ İç ve Dış Ticaret A.Ş. (Representative: Ali Aydın PANDIR)	Chairman of Board of Directors and Executive Director	Executive
OYKA Kâğıt Ambalaj San ve Tic A.Ş. (Representative: Ertuğrul AYDIN)	Deputy Chairman of Board of Directors	Non - Executive
Republic of Turkey P.M.P.A. (Representative: H. Abdullah KAYA)	Member of Board of Directors	Non - Executive
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: Fatma CANLI)	Member of Board of Directors	Non - Executive
OYAK Girişim Danışmanlığı A.Ş. (Representative: Güliz KAYA)	Member of Board of Directors	Non - Executive
OMSAN Lojistik A.Ş. (Representative: Ahmet Türker ANAYURT)	Member of Board of Directors	Non - Executive
Emin Hakan EMİNSOY	Independent Member of Board of Directors & Chairman of Early Detection of Risk Committee, Member of Audit Committee	Non - Executive
Hakkı Cemal ERERDİ	Independent Member of Board of Directors & Chairman of Audit Committee, Member of Corporate Governance Committee and Early Detection of Risk Committee	Non - Executive
Yunus ARINCI	Independent Member of Board of Directors & Chairman of Corporate Governance Committee	Non - Executive

Committees of Board of Directors:

Corporate Governance Committee

Name Surname	Title	Position
Yunus ARINCI	Independent Member of Board of Directors	Committee Chairman
Hakkı Cemal ERERDİ	Independent Member of Board of Directors	Committee Member
İdil ÖNAY	Investor Relations Manager	Committee Member

Audit Committee

Name Surname	Title	Position
Hakkı Cemal ERERDİ	Independent Member of Board of Directors	Committee Chairman
Emin Hakan EMİNSOY	Independent Member of Board of Directors	Committee Member

Early Detection of Risk Committee

Name Surname	Title	Position
Emin Hakan EMİNSOY	Independent Member of Board of Directors	Committee Chairman
Hakkı Cemal ERERDİ	Independent Member of Board of Directors	Committee Member

Company Top Management

Name / Surname	Title
Sedat ORHAN	ERDEMİR General Manager
Oğuz Nuri ÖZGEN	ERDEMİR Group Chief Production Officer
Başak TURGUT	ERDEMİR Group Chief Marketing and Sales Officer
Şevkinaz ALEMDAR	ERDEMİR Group Chief Purchasing Officer
Bülent BEYDÜZ	ERDEMİR Group Chief Financial Affairs Officer
Eric VITSE	ERDEMİR Group Chief Technology Officer
Tunç NOYAN	ERDEMİR Group Chief Information Technologies Officer
Özgür ÖZEL	ERDEMİR Group Chief Strategy Officer
Banu KALAY ERTON	ERDEMİR Group Chief Corporate Affairs Officer
Oya ŞEHİRLİOĞLU	ERDEMİR Group Chief Legal Officer
Esat GÜNDAY	Executive Vice President of ERDEMİR - Operations
---	Executive Vice President of ERDEMİR - Human Resources
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President of ERDEMİR - Financial Affairs
Berk ONAY	ERDEMİR Purchasing Director

Balance-Sheet Comparison of Company's Certain Selected Items for yearends of last two years (Consolidated)

	2014/12 (000 TL)	2014/12 (000 USD)	2015/12 (000 TL)	2015/12 (000 USD)	Change % (Over TL)
Current Assets	7.371.353	3.178.814	7.999.975	2.751.401	8,53
Trade Receivables	1.756.860	757.626	1.632.629	561.504	-7,07
Inventories	3.258.389	1.405.144	3.237.890	1.113.595	-0,63
Non-Current Assets	8.562.321	3.692.406	10.634.515	3.657.490	24,20
Total Assets	15.933.674	6.871.220	18.634.490	6.408.891	16,95
Current Liabilities	3.105.422	1.339.179	2.615.423	899.513	-15,78
Non-Current Liabilities	2.517.945	1.085.836	3.480.875	1.197.164	38,24
Share Capital	3.500.000	1.818.371	3.500.000	1.818.371	-
Equity	10.310.307	4.446.205	12.538.192	4.312.214	21,61

Source: Erdemir Group Annual Report 2015

Income Comparison of Company's Certain Selected Items for yearends of last two years (Consolidated)

	2014/12 (000 TL)	2014/12 (000 USD)	2015/12 (000 TL)	2015/12 (000 USD)	Change % (Over TL)
Revenue	11.484.137	5.251.572	11.914.581	4.382.455	3,75
Cost of Sales (-)	(9.045.652)	(4.136.479)	(9.854.290)	(3.624.633)	8,94
Operational Profit/Loss	2.094.412	957.752	1.590.803	585.133	-24,05
Finance Expense (-)	(358.346)	(170.798)	(576.343)	(223.280)	60,83
Before Tax Profit/Loss	1.965.571	891.904	1.436.167	516.966	-26,93
Net Profit/Loss for the Period	1.660.791	759.462	1.162.309	427.524	-30,01

Source: Erdemir Group Annual Report 2015

Subsidiaries within the Scope of Consolidation

COMPANY NAME	LINE OF BUSINESS	SHARE %
İskenderun Demir ve Çelik A.Ş. (*)	Integrated Steel Production	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Iron Ore, Pelet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Steel Service Center	100,00
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Management and Consultancy	100,00
Erdemir Romania S.R.L. (**)	Silicon Steel Production	100,00
Erdemir Asia Pacific Private Limited (***)	Trading	100,00

Source : Ereğli Demir ve Çelik Fabrikaları T.A.Ş

(*) Since its number of shareholders exceeded 500, İsdemir became a Company whose shares are offered to public in accordance with Capital Market Act, Item One of Article One. Therefore İsdemir Articles of Association has been made compliant with Capital Market regulations. With its decision dated 12.01.2015, No 333, İsdemir Board of Directors has also decided to apply CMB in order to have İsdemir shares traded on BIST A.Ş. Free Trade Platform (Pre Market Trading Platform). Draft explanation, prepared on 11.06.2015, was approved by CMB on 02.10.2015. OYAK Yatırım Menkul Değerler A.Ş. started dematerialization process of shares that represent İsdemir capital on 09.11.2015; transfer of dematerialized shares to accounts of shareholders in return for physical share warrants sent by shareholders have been completed by OYAK Yatırım Menkul Değerler A.Ş. (OYAK Yatırım). Dematerialization of shares worth TRY 138,644,889.52, which represent 4.78 % of total capital that belongs to Company's shareholders, was disclosed on the Public Disclosure Platform on 24.03.2016. Within this scope, Company's shares that dematerialized at Central Registration Office (MKK) started to be traded at PÖİP with the trading code "ISDMR", starting from 28.03.2016.

(**)The Company operates in Romania.

(***)The Company operates in Singapore.

- Group's financial data can be found in the section above.
- The Group employs a total of 12,659 employees (4,122 white collar and 8,537 blue collar) as of 31.12.2015.

The Market where the Capital Market Instrument is Traded and the Indexes that the Company is Included

- STAR MARKET
- BIST 50 / BIST DIVIDEND 25 / BIST 100 / BIST METAL MAIN / BIST SUSTAINABILITY INDEX (*) / BIST INDUSTRIAL / BIST 30 / BIST CORPORATE GOVERNANCE / BIST DIVIDEND / BIST ALL / BIST STAR

(*) Ereğli Demir ve Çelik Fabrikaları T.A.Ş. joined Sustainability Index, where high performance companies are listed, in 2015 after measurement of companies' - whose shares are traded in BIST - corporate sustainability performances.

**The Bottom and Peak Closing Values of Company's Shares traded on the BIST within last year
(01.07.2015-01.07.2016)**

<i>Bottom (TL)</i>	<i>Peak (TL)</i>
2,89 (21.01.2016)	5,00 (21.04.2016)

Source: Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

B. Changes within last year:

i. Changes in Capital and Articles of Association:

There have been no changes in Company's capital and Articles of Association within the period of rating.

ii. Dividend Distribution:

Company's Board of Directors took the following decision about the distribution of 2015 net period profit at its meeting dated 08.03.2016, No 9400 to be presented for the approval of General Assembly at its ordinary meeting on March 31, 2016;

1. In accordance with 519th article of the Turkish Trade Law and provisions of Capital Markets Board, to allocate general legal reserve fund of TRY 48.311.832 at a rate of 5% on net profit of the year originated in financial statements of the year 2015 issued in accordance with provisions of the Tax Procedure Law,
2. to allocate cash shareholder dividend of TRY 995.546.517 at a rate of 92,1949% on distributable net profit of the year in financial statements of 2015 which were prepared according to legislations of Capital Markets Board,
3. Due to the allocated cash dividend is more than %5 of the company's paid-in capital, in accordance with the second paragraph clause (c) of article 519th of the Turkish Trade Law, to allocate the 10% of this excess amount of TRY 82.054.652 as general legal reserve.
4. After the separation of the second appropriation of legal reserves amounting to TRY 5.445.348 from the total TRY 59.898.831, which is obtained by using anticipated distribution of other resources which will be compensated from extraordinary reserves, TRY 54.453.483 additional cash dividend to be paid,
5. To distribute the dividend to the shareholders amounting to TRY 1.050.000.000 in total from the first dividend of TRY 995.546.517; from the second dividend of TRY 54.453.483 obtained from other resources anticipated to be paid additionally,
6. To determine the dividend payment date, which will be as lump sum no later than December 15th 2016, to be determined by the Board of Directors after the General Assembly considering the cash projection of the Company.

Dividend distribution was approved at Ordinary General Assembly Meeting on 31.03.2016 and implemented on 25.05.2016 with Board of Directors Decision dated 01.04.2016, No 9410.

iii. Policies:

No changes have taken place in Company policies (Disclosure Policy, Dividend Policy, Remuneration Policy, Compensation Policy, Sustainability Policy, Human Resources Policy, Donations and Contribution Policy) within the period of rating. However, Erdemir Group Code of Ethics and Business Conduct were updated in 2015 and Erdemir Group Anti Corruption Policy was prepared in 2016. Revised Code of Ethics and Business Conduct and Anti Corruption Policy have been disclosed to public through Company's corporate website.

iv. Management and Organization:

It is learned that no changes took place in Company's management and organization within the period of rating.

v. Changes in Group Companies, Subsidiaries and Affiliated Companies:

Since its number of shareholders exceeded 500, İsdemir became a Company whose shares are offered to public in accordance with Capital Market Act, Item One of Article One. Therefore İsdemir Articles of Association has been made compliant with Capital Market regulations. With its decision dated 12.01.2015, No 333, İsdemir Board of Directors has also decided to apply CMB in order to have İsdemir shares traded on BIST A.Ş. Free Trade Platform (Pre Market Trading Platform). Draft explanation, prepared on 11.06.2015, was approved by CMB on 02.10.2015. OYAK Yatırım Menkul Değerler A.Ş. started dematerialization process of shares that represent İsdemir capital on 09.11.2015; transfer of dematerialized shares to accounts of shareholders in return for physical share warrants sent by shareholders have been completed by OYAK Yatırım Menkul Değerler A.Ş. (OYAK Yatırım). Dematerialization of shares worth TRY 138,644,889.52, which represent 4.78 % of total capital that belongs to Company's shareholders, was disclosed on the Public Disclosure Platform on 24.03.2016. Within this scope, Company's shares that dematerialized at Central Registration Office (MKK) started to be traded at PÖİP with the trading code "ISDMR", starting from 28.03.2016.

3. RATING METHODOLOGY

The Corporate Governance Compliance Rating is a system which audits whether or not the firm's management structures and management styles, the arrangements for shareholders and stakeholders and the process of informing in transparency and accuracy are performed in accordance with the modern corporate governance principles and which assigns a grade corresponding to the existing situation.

Organization for Economic Co-operation and Development (OECD) established a working group in 1998 in order to assess member countries' opinions on corporate governance and to prepare some non – binding principles.

The fact that principles are open to change in time was also accepted at this work. Although at first these principles were focused on the companies whose shares were quoted in stock exchange, it was emphasized by OECD that it would be also useful to implement these principles in public enterprises and companies whose shares were not quoted in stock exchange.

In 1999, OECD Corporate Governance Principles were approved at the OECD Meeting of Ministers. Since then, these principles have been regarded as international references for decision – makers, investors, shareholders, companies and other stakeholders throughout the world.

Since their approval, these principles kept the concept of corporate governance on the agenda and became guidelines for the laws and regulations in OECD members, as well as other countries.

There are four basic principles of corporate governance in OECD Corporate Governance Principles. These are: fairness, transparency, accountability and responsibility.

Turkey has been closely monitoring these developments. A working group, established

within TUSIAD in 2001, prepared the guide, titled, "Corporate governance: The best implementation code". Then CMB issued "Capital Market Board Corporate Governance Principles" in 2003 and updated it in 2005, 2010, 2012, 2013 and 2014, according to international developments in this field.

Obligation to comply with CMB's Corporate Governance Principles, based on the principle of "implement or disclose", and to declare it became part of companies' lives in 2004. Putting the Declaration of Compliance to Corporate Governance in the annual reports became obligatory the following year.

The principles are grouped under four main headings, namely: the Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors.

The Corporate Governance Compliance Rating Methodology has been prepared by Kobirate A.Ş. for companies whose shares are traded on BIST, banks, investment partnerships and non – quoted companies.

The methodology takes into consideration the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as CMB's board decisions taken at Board meeting dated 01.02.2013, no 4 / 105.

In a rating process, the full compliance of work flow and analysis technique with Kobirate A.Ş.'s Ethical Rules is taken into consideration.

In order to measure compliance of companies to corporate government principles, **408** criteria are used in the rating process of BIST First Group companies.

These criteria are translated into "Corporate Governance Rating Question Sets" through Kobirate A.S.'s unique software.

The weighting scheme for the four main sections in the new Corporate Governance Compliance Rating, determined by CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99 (KBRT)-267/3854, is as below:

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

CMB decision dated 01.02.2013 and numbered 4/105 states that in case the minimum requirements of corporate governance principles are met, 85 % of full points can be given at most for that principle and it is required to add new questions / methods into the methodology in order to ensure that good corporate governance principles, which go beyond meeting the minimum requirements are included in the rating grade. Our company has been informed about this requirement by CMB notification dated 19.07.2013 and numbered 36231672-410.99 (KBRT) 452.

In the 2014/2 revised corporate governance compliance rating methodology, created by our company, the grade that can be given to a related criterion in that subsection for meeting minimum requirements of corporate governance principles, stated by CMB Communiqué of Corporate Governance published on 03.01.2014, numbered II-17.1, is restricted to 85 % of the full points. Remaining 15 % is reached by measuring company's efficiency in applying CMB's Corporate Governance Principles, degree to which the company is internalized these practices and the value that these internalized practices create for the company. The existence of those practices that are not included in CMB's Corporate Governance Principles, but determined as good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also considered as part of the remaining 15 % and affect the company's grade.

The grade to be assigned by the Corporate Governance Rating Committee to the firm ranges between 0-10. In this scale of grade, "10" points mean excellent, full compliance with CMB's Corporate Governance Principles while grade "0" means that there is no compliance with CMB's Corporate Governance Principles, in any sense, in the existing weak structure.

**4. KOBİRATE ULUSLARARASI KREDİ DERECELENDİRME VE KURUMSAL YÖNETİM HİZMETLERİ
A. Ş. CORPORATE GOVERNANCE RATING GRADES AND DESCRIPTIONS**

GRADE	DEFINITIONS
9-10	<p>The Company achieved a substantial compliance with to the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are established and are operational. Any risks to which the Company might be exposed are recognised and controlled effectively. The rights of the shareholders are impartially taken care of. The level of public disclosure and transparency are high. Interests of the stakeholders are fairly considered. The structure and the working conditions of the Board of Directors are in full compliance with the Corporate Governance Principles. The Company is eligible for inclusion in the BIST corporate governance index.</p>
7-8,9	<p>The Company complied considerably with the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are in place, and operational, although some improvements are required. Potential risks, which the Company may be exposed are identified and can be managed. Benefits of the shareholders are fairly taken care of. Public Disclosure and transparency are at high levels. Interests of the stakeholders are equitably considered. Composition and operational conditions of the Board comply with the Corporate Governance Principles. Some improvements are needed in compliance with the Corporate Governance Principles even though they do not constitute serious risks. The company is eligible for inclusion in the BIST Corporate Governance Index.</p>
6-6,9	<p>The Company has moderately complied with the Corporate Governance Principles issued by the Capital Market Board. Internal Control systems at moderate level have been established and operated, however, improvement is required. Potential risks that the Company may be exposed are identified and can be managed. The interests of the shareholders are taken care of although improvement is needed. Although public disclosure and transparency are taken care of, there is need for improvement. Benefits of the stakeholders are taken care of but improvement is needed. Some improvement is required in the structure and working conditions of the Board. Under these conditions, the Company is not eligible for inclusion in the BIST Corporate Governance Index.</p>

GRADE	DEFINITIONS
4-5,9	<p>The Company has minimum compliance with the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are in place at a minimum level, but are not full and efficient. Potential risks that the company is exposed to are not properly identified and are not under control. Substantial improvements are required to comply with the Corporate Governance Principles in terms of the benefits of both the shareholders and stakeholders, public disclosure, transparency, the structure and working conditions of the Board. Under the current conditions, the Company is not eligible to be listed in the BIST Corporate Governance Index.</p>
< 4	<p>The Company has failed to comply with the Corporate Governance Principles issued by the Capital Market Board. It also failed to establish its internal control systems. Potential risks that the company might be exposed are not identified and cannot be managed. The company is not responsive to the Corporate Governance Principles at all levels. There are major weaknesses in the interest of the shareholders and the stakeholders, public disclosure, transparency. Structure and working conditions of the Board appear to be at a level that might cause the investor to incur material losses.</p>