



## ***Corporate Governance Compliance Rating Report***



***Ereğli Demir ve Çelik Fabrikaları T.A.Ş.***

29 July 2015

Validity Period 29.07.2015-29.07.2016

## LIMITATIONS

This Corporate Governance Rating Report, issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. 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 Rating Report issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. is based on 63 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 Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. 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](http://www.kobirate.com.tr)).

Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. 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 A.Ş. may not be held liable for any losses incurred or investments made to the company referring to this report.

© All rights in this report belong to Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. This report cannot be printed in writing and electronically, reproduced and distributed without our permission.

## TABLE OF CONTENTS

1. Rating Result and Summary of Rating Process	3
2. Rating Methodology	6
3. Company Profile	8
4. Sections of Rating Process	
A. Shareholders	16
a. Facilitating the Exercise of Shareholders' Rights	16
b. Right to Obtain Information and to Examine	17
c. General Assembly	18
d. Voting Right	19
e. Minority Rights	19
f. Dividend Right	20
g. Transfer of Shares	20
B. Public Disclosure and Transparency	21
a. Corporate Website	22
b. Annual Report	22
C. Stakeholders	24
a. Corporation's Policy on Stakeholders	24
b. Supporting the Participation of the Stakeholders in Corporation's Management	25
c. Human Resources Policy of the Corporation	25
d. Relations with Customers and Suppliers	26
e. Ethical Rules and Social Responsibility	26
D. Board of Directors	28
a. Function of the Board of Directors	28
b. Principles of Activity of the Board of Directors	29
c. Structure of the Board of Directors	29
d. Procedure of Board of Directors Meetings	30
e. Committees Formed within the Structure of the Board of Directors	30
f. Financial Rights Provided for Members of the Board of Directors and Executives	32
5. Corporate Governance Compliance Grades and Definitions	33



## EREĞLİ DEMİR VE ÇELİK FABRİKALARI TÜRK ANONİM ŞİRKETİ (ERDEMİR)

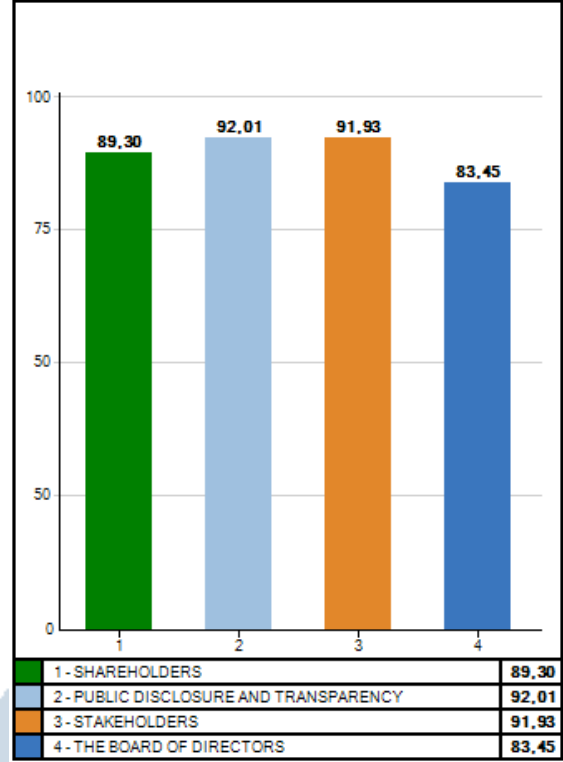
CMB CORPORATE GOVERNANCE  
PRINCIPLES COMPLIANCE GRADE

**8.83**

Kobirate A.Ş. Contact :

Serap Çembertaş (216) 3305620 Pbx  
[serapcembertas@kobirate.com.tr](mailto:serapcembertas@kobirate.com.tr)

[www.kobirate.com.tr](http://www.kobirate.com.tr)



### RATING SUMMARY

The process of rating of compliance of **Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi (ERDEMİR)** with the Corporate Governance Principles is concluded in accordance with the Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.Ş., through onsite examinations of the documents, interviews held with executives and persons involved, and of other reviews, according to the 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 1/3, Erdemir is on the list of **BIST 1<sup>st</sup> 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.Ş. for "BIST First Group Companies", the Corporate Governance Compliance Rating Grade of Erdemir is determined as **8.83**. This result signifies that the company has achieved significant compliance with CMB's Corporate Governance Principles. Internal control systems have been formed and running, although there is room for a little improvement. Possible risks for the company have determined to significant degree and they can be controlled. Shareholders' rights are being treated fairly. Public disclosure activities and transparency are at the highest level. Stakeholders' rights are being treated fairly. The structure and working conditions of

board of directors are compliant with corporate governance principles; but although they don't pose great risks, there is need for some improvement within the framework of corporate governance principles.

With this result, the Erdemir deserves to be included in the BIST Corporate Governance Index.

In view of rating process under main headings in brief;

It is observed that the company has achieved a rather good level of compliance in the section of shareholders where it has obtained a grade of **89.30**. Healthy relations with shareholders are kept. The existence of Investor Relations Department, timely and duly convention of general assemblies and their proper invitations, having prepared a dividend policy and having disclosed it to public and having no restrictions on transfer of shares are salient positive achievements. The Manager of Investor Relations Department has also been appointed as member of Corporate Governance Committee, in accordance with CMB's Corporate Governance Principles Communiqué no II-17.1.

The fact that Erdemir, who has received a grade of **92.01** for the section of Public Disclosure and Transparency, has prepared disclosure policy, presented it to the general assembly and published on its corporate website is in compliance with principles. It has been deemed positive that the company provides access to a great majority of updated information on its corporate website, which might be needed by the investors. It has been found that the annual report is sufficient in terms of content and information is supported with graphic. With its efforts, the Company has achieved a significant level of compliance with the principles.

In the section for Stakeholders the Company has achieved a grade of **91.93**.

In this section the Company has achieved significant compliance with CMB's Corporate

Governance Principles. A human resources policy has been established; regulations are made and disclosed to the employees including recruitment, job descriptions, performance appraisal, promotion, awarding, leave and social benefits. Education policies have been determined, annual training programs have been prepared and employees are informed about them.

It has been observed that business processes and standards are set forth and that the customers and suppliers are informed of such processes.

Procedures for outsourcing in terms of products and services are laid down in written documents.

Code of Ethics and Business Conduct have been set forth and introduced to employees to act pursuant to such rules.

The Company has disclosed its sustainability approach with the public. Corporate social responsibility projects are disclosed to public through its corporate website and annual reports.

As for the Board of Directors Section, the Company's grade is **83.45**, representing a general compliance with the CMB's Corporate Governance Principles.

It has been confirmed that the Board has set company's strategic goals, audits performance of company management, pays further attention to the company affairs to be in compliance with the legislation, the Articles and internal regulations.

The posts of Chairman of the Board and Chief Executive Officer are held by separate individuals. There is no one top manager in the Company who is solely authorized to decide.

The Board convenes regularly and procedures for meetings are incorporated in both the Articles and internal directives.

It has been observed that the Audit, Corporate Governance and Early Detection of Risk Committees referred to in the Principles have been formed and their working principles have been determined. These principles appear in written documents.

On the other hand, there are other important indications of compliance with the Principles such as the fact that Board comprises non-executive members, except one, and adequate number of independent members and that guidelines for remuneration of top executives are set forth and have been disclosed to partners in a separate item at the general assembly.



## 2. 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.

In this report the following legends have the following meanings:

- ✓ Due / Correct Application of CMB's Corporate Governance Principles
- \* Improper / Erroneous Application of CMB's Corporate Governance principles
- ✓/\* Practices required to be improved in compliance with CMB's Corporate Governance Principles.



### 3. COMPANY PROFILE



<b>Company Name</b>	: EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş
<b>Company Address</b>	: <b>Head Office</b> Barbaros Mahallesi Ardıç Sok. No:6 Ataşehir / İstanbul <b>Ereğli Plant</b> Uzunkum Caddesi No: 7 67330 Kdz. Ereğli/ZONGULDAK
<b>Company Phone</b>	: (0216) 578 8329
<b>Company Facsimile</b>	: (0216) 469 4810
<b>Company's Web Address</b>	: <a href="http://www.erdemir.com.tr">www.erdemir.com.tr</a> <a href="http://www.erdemirgrubu.com.tr">www.erdemirgrubu.com.tr</a>
<b>Company's E-Mail Address</b>	: erdemir_ir@erdemir.com.tr
<b>Date of Incorporation</b>	: 11 May 1960
<b>Registered Number</b>	: 863637
<b>Paid in Capital</b>	: 3.500.000.000-TL
<b>Line of Business</b>	: Production of 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.
<b>Company's Sector</b>	: Production industry / Metal Main Industry / Iron Steel Main Industry.

**Company's Representative in Charge of Rating:**

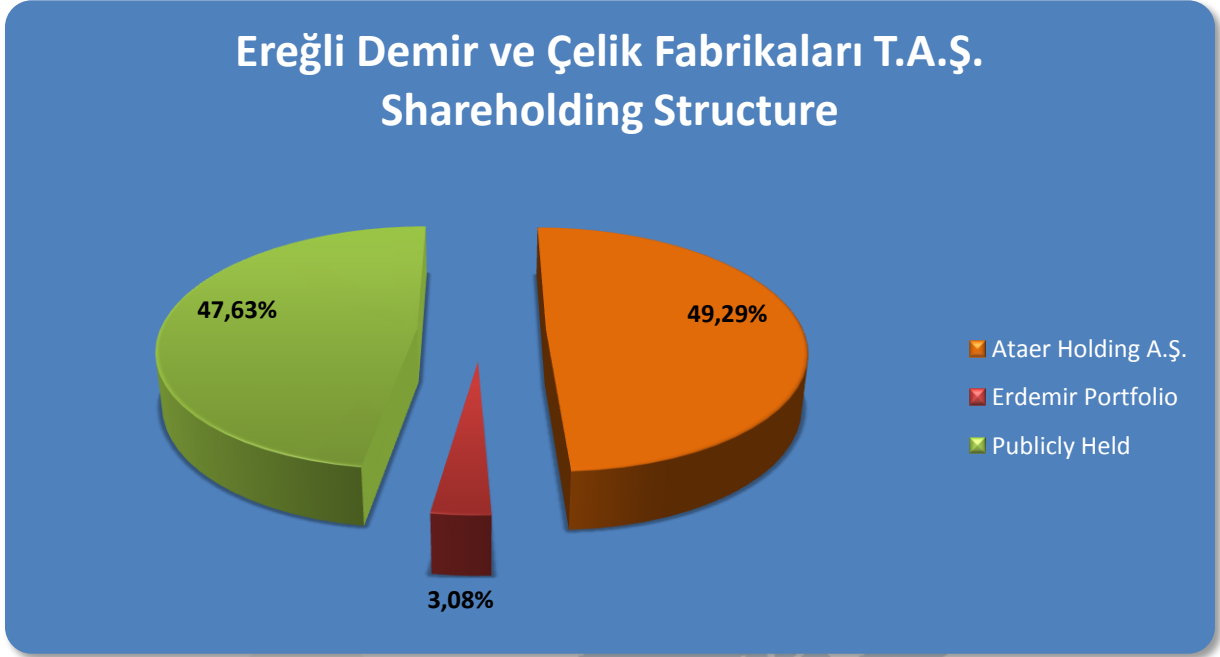
**İdil ÖNAY**

**Investor Relations Manager**

[ionay@erdemir.com.tr](mailto:ionay@erdemir.com.tr)

**(0216) 578 8061**

*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
<b>Total</b>	<b>3.500.000.-</b>	<b>100,00</b>

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
OYAK Girişim Danışmanlığı A.Ş. (Representative: Nihat KARADAĞ)	Deputy Chairman of Board of Directors	Non - Executive
OMSAN Lojistik A.Ş. (Representative: Dinç KIZILDEMİR)	Member of Board of Directors	Non - Executive
Republic of Turkey P.M.P.A. (Representative: Ali KABAN)	Member of Board of Directors	Non - Executive
OYKA Kâğıt Ambalaj San ve Tic A.Ş. (Representative: Ertuğrul AYDIN)	Member of Board of Directors	Non - Executive
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: Fatma CANLI)	Member of Board of Directors	Non - Executive
Emin Hakan EMİNSOY	Independent Member of Board of Directors & Chairman of Corporate Governance and Early Detection of Risk Committees	Non - Executive
Hakkı Cemal ERERDİ	Independent Member of Board of Directors & Chairman of Audit Committee and Member of Early Detection of Risk Committee	Non - Executive
Ali Tuğrul ALPACAR	Independent Member of Board of Directors & Member of Audit and Corporate Governance Committees	Non - Executive

#### **Committees of the Board of Directors:**

##### **Corporate Governance Committee**

Name / Surname	Title	
Emin Hakan EMİNSOY	Independent Member of Board of Directors	Committee Chairman
Ali Tuğrul ALPACAR	Independent Member of Board of Directors	Committee Member
İdil ÖNAY	Investor Relations Manager	Committee Member

##### **Audit Committee**

Name / Surname	Title	
Hakkı Cemal ERERDİ	Independent Member of Board of Directors	Committee Chairman
Ali Tuğrul ALPACAR	Independent Member of Board of Directors	Committee Member

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

Nme / Surname	Title	
Emin Hakan EMİNSOY	Independent Member of Board of Directors	Committee Chairman
Hakkı Cemal ERERDİ	Independent Member of Board of Directors	Committee Member

### Senior Management

Name / Surname	Title
Sedat ORHAN	General Manager of ERDEMİR
Oğuz Nuri ÖZGEN	Erdemir Group Chief Production Officer
Başak TURGUT	Erdemir Group Chief Marketing and Sales Officer
Şevkinaz ALEMDAR	Erdemir Group Chief Purchasing Officer
Bülent BEYDÜZ	Erdemir Group Chief Financial Affairs Officer
Burak BÜYÜKFIRAT	Erdemir Group Chief Technology Officer (Acting)
Tunç NOYAN	Erdemir Group Chief Information Technology Officer
Özgür ÖZEL	Erdemir Group Chief Strategy Officer
Banu KALAY ERTON	Erdemir Group Chief Corporate Affairs Officer
Oya ŞEHİRLİOĞLU	Erdemir Group Chief Legal Officer
Esat GÜNDAY	Executive Vice President of ERDEMİR -Operations
Kaan BÖKE	Executive Vice President of ERDEMİR -Human Resources
Sami Nezh TUNALITOSUNOĞLU	Executive Vice President-Chief Financial Officer of ERDEMİR

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

	2013/12 (000 TL)	2013/12 (000USD)	2014/12 (000TL)	2014/12 (000USD)	Change % (over TL)
<b>Current Assets</b>	6.008.498	2.815.209	7.371.353	3.178.814	22,68
<b>Trade Receivables</b>	1.708.538	800.515	1.756.860	757.626	2,83
<b>Inventories</b>	3.383.087	1.585.104	3.258.389	1.405.144	(3,69)
<b>Non-Current Assets</b>	8.025.986	3.760.478	8.562.321	3.692.406	6,68
<b>Total Assets</b>	14.034.984	6.575.687	15.933.674	6.871.220	13,53
<b>Current Liabilities</b>	2.475.406	1.159.820	3.105.422	1.339.179	25,45
<b>Non-Current Liabilities</b>	2.852.258	1.336.389	2.517.945	1.085.836	(11,72)
<b>Share Capital</b>	3.500.000	1.818.371	3.500.000	1.818.371	-
<b>Equity</b>	8.706.820	4.079.478	10.310.307	4.446.205	18,42

Source: www.kap.gov.tr

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

	2013/12 (000TL)	2013/12 (000USD)	2014/12 (000TL)	2014/12 (000USD)	Change % (over TL)
<b>Revenue</b>	9.780.751	5.141.810	11.484.137	5.251.572	17,42
<b>Cost of Sales (-)</b>	(7.921.852)	(4.164.574)	(9.045.652)	(4.136.479)	14,19
<b>Operational Profit/Loss</b>	1.537.802	808.434	2.094.412	957.752	36,20
<b>Finance Expense (-)</b>	(394.970)	(218.844)	(217.729)	(106.496)	(44,87)
<b>Before Tax Profit/Loss</b>	1.248.162	644.963	1.965.571	891.904	57,48
<b>Net Profit/Loss for the Period</b>	960.408	504.893	1.660.791	759.462	72,93

Source : www.kap.gov.tr

### **Subsidiaries within the Scope of Consolidation**

<b>COMPANY</b>	<b>LINE OF BUSINESS</b>	<b>SHARE %</b>
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

(\*) With Board of Directors Decision dated 12.01.2015 and numbered 333 of Iskenderun Demir ve Çelik A.Ş. (İsdemir), one of Company's subsidiaries;

Within the frame of Turkish Commercial Code's provisions related "becoming a shareholder", according to the decision of The Board of Directors of our subsidiary Iskenderun Demir ve Çelik A.Ş. (İsdemir), dated 24 March 2014 and numbered 314, it is decided to record the 7.120 people to İsdemir's shareholders' stock register. By reason of the fact that number of the shareholders becomes more than 500 as of register date 24.03.2014, the Company applied to the Capital Markets Board (CMB) for approval of becoming a public company. The approval of the Capital Markets Board was announced to the public on the Board's Bulletin dated 27.06.2014 by CMB. In accordance with the 2nd paragraph of article 16 of Capital Markets Law and CMB's "II-16.1 Communiqué on Principles Pertaining to Removal of Corporations From The Scope of Law and Obligation of Trading of Shares on Exchange"; General Management is authorized for applying to Borsa İstanbul A.Ş. and CMB and fulfilling the requirements to make its own shares tradable on Borsa İstanbul A.Ş. Free Trade Platform in a certain period of time.

(\*\*) The Company operates in Romania.

(\*\*\*)The Company operates in Singapore.

Financial data of Group can be seen above.

As of 31.12.2014, a total of 12,872 employees work in the Group; 4,059 white collar and 8,813 blue collar.

#### ***The Market where the Capital Market Instrument is Transacted and the Indexes that the Company is Included***

- NATIONAL MARKET

- BIST METAL MAIN / -BIST INDUSTRIAL / -BIST DIVIDEND / -BIST DIVIDEND 25 / -BIST ALL / -BIST NATIONAL - BIST 100 / -BIST 30 / -BIST 50

#### **The Bottom and Peak Closing Values of Company's Shares traded on the BIST for last year (01.07.2014-01.07.2015)**

<b>Bottom (TL)</b>	<b>Peak (TL)</b>
<b>3,72 (01.07.2014)</b>	<b>4,92 (20.05.2015)</b>

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

### ***Brief History of the Company***

An agreement was signed between Koppers Associates SA, İş Bank A.Ş., General Directorate Iron and Steel Enterprises and Ankara Chamber of Commerce and Industry on February 12, 1960 in order to found Turkey's first domestic producer of flat steel. With the Act 7462, which passed the Parliament on 28.02.1960, the Cabinet was authorized to establish corporate company called Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir). The establishment of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. was completed on 11.05.1960 and it was officially registered.

Construction and assembling started in 1961 and completed within 42 months. The Company started production on 15.05.1965 with a flat steel production capacity of 0.4 million tons and raw steel production capacity of about 0.5 million tons.

Ş 1.5 billion worth of Capacity Expansion and Modernization Projects (KAM I and KAM II) – one of Turkey's largest industrial investments – were completed in 1996. New Port Facilities – one of Black Sea's and Turkey's largest ports – was commissioned in 1998 and tin/chromium coating plant opened in 1999. Ayşe, new Blast Furnace No.1 which was completely designed and manufactured by Erdemir engineers and workers started production in 2008.

Alongside capacity expansion investments, the enterprise turned into a group of companies through organic growth and acquisitions of domestic and international companies, in accordance with its growth strategies. Erdemir Group includes Ereğli Demir ve Çelik Fabrikaları T.A.Ş. - its flagship company - and İskenderun Demir ve Çelik A.Ş (İsdemir), Erdemir Madencilik San. ve Tic. A.Ş (Ermaden), ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. (Erenco), Erdemir Çelik Servis Merkezi (Ersem), Erdemir Romania S.R.L. and Erdemir Asia Pacific Pte. Ltd.

With the opening of BIST (İMKB) in 1986 Erdemir shares were started to be quoted in the stock exchange.

Tender for privatization of Erdemir started on 30.05.2005 and the process was completed on 27.02.2007, with public shares being transferred to OYAK Group.

Erdemir's head office moved to Istanbul from Ankara in 2013.

### ***Chronologic Summary of Erdemir***

1960- Special Law was enacted for the establishment of Ereğli Demir ve Çelik Fabrikaları T.A.Ş (Erdemir) and Erdemir was founded.

1965-Erdemir started production with an annual capacity of 0.5 million tons crude steel.

1972-Crude steel production capacity rose to 0.8 million tons with investments.

1978- 1.5 million crude steel production capacity was achieved with Phase 1 Plant Extension.

1983-1.7 million crude steel production capacity was achieved with Phase 2 Plant Extension.

1986-Trading of Erdemir stocks started after the establishment of Istanbul Stock Exchange.

1987- 2 million crude steel production capacity was achieved following Finalization Investments.

1996-As KAM I and KAM II Projects completed, crude steel production capacity reached 3 million tons.

1997- Cold Rolling Plant II and Turkey's biggest port on the shores Black Sea were commissioned.

1999- The Tin and Chrome Coating Plant was commissioned. (Capacity: 250,000 tons/year)

2000-Flat steel production exceeded 3 million tons.

2001-Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. (Erenco) was founded. Erdemir Çelik Servis Merkezi San ve Tic. A.Ş. (Ersem) started its operations in Gebze with an annual production capacity of 150,000 tons/year. Erdemir broke export record by exporting 1.1 million tons steel products in a year.

2002-İsdemir was acquired. LBE steel plant with a capacity of 108,000 tons / year was acquired in Romania.

2004-Divriği-Hekimhan Madenleri San. ve Tic. A.Ş. (DİVHAN) was acquired and renamed as "Erdemir Madencilik San. ve Tic. A.Ş." (Ermaden).

Erdemir was awarded with the European Quality Award for Competency in Excellence and National Quality Achievement Award among large scale companies.

2005-Privatization of Erdemir started with a tender on May 30, 2005.

2006-Privatization of Erdemir was completed upon transfer of public shares of Erdemir to OYAK Group on February 27, 2006.

Erdemir received the First Award in Management Category of the EU Environment Awards, Turkey Program.

2008- Ayşe, new Blast Furnace No.1 which was completely designed and manufactured by Erdemir engineers and workers was commissioned.

2012 Erdemir Environment Management Process – Environmental Performance Index and Sustainability Activities were selected among the best practices in "Selection of Best Practices in Turkey in Sustainable Development and Green Economy" to represent Turkey in 2012 UN Sustainable Development Conference (Rio + 20). A presentation was made at Rio + 20 UN Sustainable Development Conference held in Rio de Janeiro, Brazil between 20 and 22 June 2012.

2013-Erdemir's head office moved to Istanbul from Ankara.

2014-Erdemir Asia Pacific Pte Ltd., % 100 owned subsidiary of was founded to conduct purchasing, marketing and sales activities in Asia – Pacific.

Erdemir opened the first Ministry approved Steel R&D Center.



### ***Information on Company's Operations***

Erdemir, largest integrated flat steel producer of Turkey, produces plates, hot and cold rolled, tin, chromium and zinc coated flat steel at international quality standards. Erdemir supplies basic inputs to automotive, white goods, energy, construction, pipes and tubes, shipbuilding, home appliances, mechanical engineering, heat and pressurized containers, heavy industry, food and packaging and pioneering development of the national industry.

Undersigning largest investment projects in the history of our Republic, Erdemir increased its crude steel production capacity to 4 million tons a year, which was only half a million tons at the time of its establishment and its final product capacity exceeded 5 million tons, thanks to continuous investments to enrich its product portfolio and increase its capacity.

Turkey's production of crude steel was 34 million tons in 2014. Last year Erdemir Group produced 8.5 million tons of crude steel and Erdemir itself produced 3.7 million tons. Erdemir Group's total production is 25 % of Turkey's crude steel production.

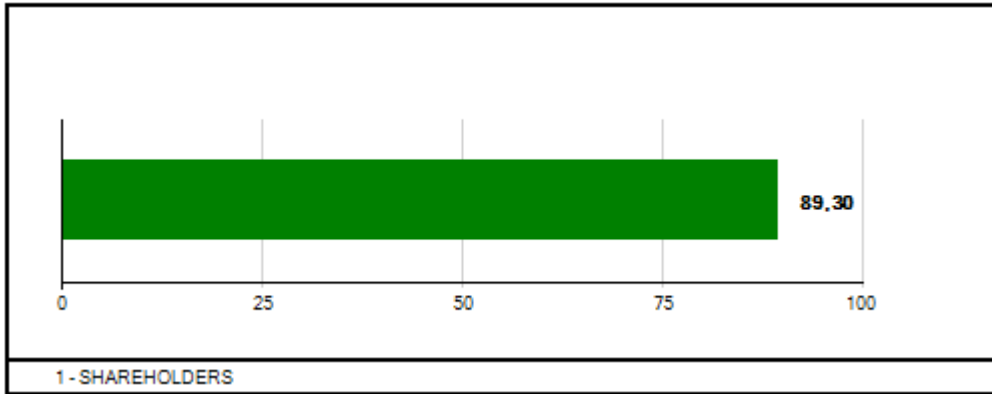
The Group exported a total of 905,000 tons of finished products - 678,000 ton flat and 227,000 ton long products - in 2014. It amounts to 11 % of total sales. Erdemir Group exports flat products to 38 and long products to 8 countries. In 2014, in order to increase its presence in markets abroad, the Group established sales representations in Canada and Singapore. Erdemir Group exports its product to a large geographical region ranging from Senegal to Peru. The Group made \$ 627 million worth of exports in 2014. In the same year its total investments became \$ 162 million.

The Upper Limit for Company's Authorized Capital is TRY 7,000,000,000; Paid-in Capital of the Company is TRY 3,500,000,000.

On the list of "500 Largest Industrial Enterprises of Turkey", prepared by Istanbul Chamber of Industry by taking sales from production figures, Erdemir took 8<sup>th</sup> and Isdemir 7<sup>th</sup> places. 4 Companies of Erdemir Group took their places among first 500 in 2014.

## 4. RATING SECTIONS

### A. SHAREHOLDERS



#### Overview

- ✓ Investor Relations Department has been established to continue healthy relations with shareholders.
- ✓ General Assemblies are held in accordance with laws, regulations and the Articles of Association.
- ✓ Donations and Aid policies of the company are prepared, presented for the approval of the General Assembly and disclosed to public.
- ✓ Shareholders have been informed about the amount and beneficiaries of donations and aids at the general assembly meeting.
- ✓ There are no regulations that make the use of voting right difficult.
- ✓ Dividend policy has been prepared, presented for the approval of the General Assembly and disclosed to public.
- ✓ Dividend advance has been regulated in the Articles of Association.
- ✓ There is no restriction on transfer of shares.
- ✗ **General assembly meetings are not open to public.**
- ✓/✗ **There is a privilege of nominating candidates in the voting right in favor of Prime Ministry Privatization Administration.**

- ✓/✗ **It would be appropriate to add an article to the Articles of Associations stating that general assembly meetings will be held open to public.**
- ✓/✗ **Extending minority rights in the Articles of Association would strengthen compliance with Corporate Governance Principles.**

In this section, as stated CMB's Corporate Governance Principles, the Company was evaluated on **115** different criteria, including **Facilitating the Exercise of Shareholders' Rights**, shareholders' right to **Obtain Information and to Examine**, shareholders' right to **Attend the General Assembly**, shareholders' **Right to Vote**, **Rights of Minority Shareholders**, shareholders' **Right for Dividend** and shareholders' right to **Transfer Their Shares** to whomever they want, whenever they want. The company's grade for this section is **89,30** points.

#### ***a. Facilitating the Exercise of Shareholders' Rights***

Relations with shareholders are conducted by Investor Relations Department. İdil ÖNAY (Manager) and Ahmet GÖRPEOĞLU (Specialist) work at the Investor Relations Department. The Department reports to Banu Kalay ERTON, Erdemir Group Chief Corporate Affairs Officer.

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

It has been found that the staff working at Investor Relations Department has adequate qualifications in terms of knowledge and experience required for the task, that they play an effective role in protection and facilitation of shareholders' rights, starting with the right to obtain and review information in particular. Both employees of the Department have Advanced Level License and Corporate Governance Rating Specialist License.

It has been determined that Investor Relations Department reports to the Board of Directors and makes a presentation about its operations regularly annually. A presentation about operations of 2014 was made at Board of Directors meeting on February 10, 2015.

Any data that might affect the exercise of shareholders' rights are currently at disposal of shareholders on the corporate Internet website.

In this subsection the company has achieved a rather good level compliance with the principles.

***b. Right to Obtain Information and to Examine***

The information required for the proper exercise of shareholders' rights are presented to the shareholders and the company's website [www.erdemir.com.tr](http://www.erdemir.com.tr) and group's website [www.erdemirgrubu.com.tr](http://www.erdemirgrubu.com.tr) are used efficiently to this end.

All information concerning the company has been given on time, truthfully and completely. There have been no warnings or penalties on this subject given by Regulatory authorities.

It has been learned that all applications and questions by shareholders were answered through phone and e - mail. An average of 300 questions per month, coming from shareholders, corporate investors and investment institutions' analysts were answered in 2014. In this period company representatives attended 35 meetings with investors, talked to 426 analysts and investors over phone, conducted 4 teleconferences about financial data and 3 analyst meetings were organized. It has been learned that as of June 2015, on average 105 questions were answered every month and 10 investors meetings, 2 road show / conferences, 2 teleconferences about financial data and 2 analyst meetings were organized.

The "Public Disclosure Policy", prepared by the Board of Directors and presented for the approval of general assembly appears on the website. Shareholders' right to get and review information is explained in detail in the aforementioned policy. It has been understood that in accordance with the company's information policy, all shareholders, potential investors and analysts are treated equally in terms of their right to obtain and examine information and the company takes care to send its statements to everyone simultaneously and with the same content. Within the framework of information sharing, all information that would be of interest to shareholders and market players are disclosed to public through special occasion statements and these statements are published on company's corporate website.

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 organ.

Although there are no regulations and practices to make difficult for shareholders to use their right to demand assignment of a special auditor in the general assembly, there is no provision in the Articles of Association on this subject either.

### **c. General Assembly**

Due to the practices at the process of meeting, the company has achieved rather good compliance with many of the principles in this subsection.

The routine general assembly meeting to discuss company's 2014 operations took place on 31.03.2015. The announcement of the meeting was made 3 weeks before the meeting on 09.03.2015.

It has also been found that financial statements, annual report, audit reports and Board of Directors' dividend distribution proposal, all of which should be ready for the review of shareholders according to the article 437 of the Turkish Commercial Law no 6102 and other statements and announcements that corporation should make in accordance with regulations and Corporate Governance Principles, have been presented to shareholders 3 weeks before the General Assembly.

In order to increase participation of shareholders, general assembly meetings are held in a certain fashion to avoid inequalities among shareholders and enable them to participate with minimum costs. The meetings are mostly held in Istanbul where the company has its head office.

Informing documents that explain General Assembly agenda items have also been put on the corporate website, simultaneously with the announcement of meeting. Information about total number of shares reflecting company's shareholders structure as of the date of announcement and voting rights, as well as privileged shares within the company's capital, scope and quality of privileges and biographies of candidates for Board of Directors have also been disclosed to shareholders. Information about management and operations of the company and its subsidiaries, transactions that might cause conflict of interest, transactions with concerned parties, guarantees and mortgages are also included in the briefing document.

When the agenda was being prepared, special care was given to express the items clearly in order not to cause different interpretations and to avoid using expressions like "other" or "various".

Upon examination of general assembly minutes and interviews with officials, it has been learned that the chairman of board of directors and board members, officials responsible for financial and administrative affairs, company auditor and officers responsible for preparing financial statements, as well persons related to specific issues participated to the general assembly meeting. It has also been learned that the items on the agenda were separately voted and the results were shared with shareholders before the closure of the meeting. Shareholders or their trustees who physically attend the meeting – not in the electronic environment – can vote by raising their hands. It has also been determined that the chairman of the meeting has taken care to have the issues of the agenda expressed objectively, comprehensively, clearly and simply. Shareholders were able to express their opinions and ask questions under equal conditions.

It has been told us that the chairman of the meeting let all the questions of shareholders to be answered directly at the general assembly meeting, except those that were considered as commercial secret.

Allowing majority shareholders, board members, managers with administrative responsibilities, their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the company or its subsidiaries or to engage in commercial activities in the same line of business with the company or its subsidiaries in their own name or on behalf of someone else or joining another company, who operates in the same line of business, as unlimited partners was included in the general assembly agenda as a subject.

Shareholders were informed that company did not give guarantees, pledges, mortgages and bails or provided revenue or interest in favor of third persons, in accordance with the articles of CMB's Corporate Governance Communiqué numbered II-17.1. Shareholders were also informed on amount of all aids and donations given in the period, as well as their beneficiaries.

The briefing document and Corporate Governance Principles Compliance Report contain information on whether the shareholders made written requests to Investor Relations Department in order to add items on the agenda or not. It is seen consistent with the principles.

There is no provision in the Articles of Association stating that general assembly meetings are open to public including stakeholders and media, without the right to address the meeting. It is deemed as a deficiency. Although General Assembly meeting minutes and list of attendees are disclosed to public through corporate website and electronic general assembly system (EGKS) in accordance with relevant regulations, having stakeholders and media invited to general assembly would carry the compliance with principles to higher level.

#### **d. Voting Right**

Neither the Articles of Association nor the internal procedures contain any difficulties to exercise the voting right and opportunity to exercise the voting right in the easiest and most convenient manner is provided for every shareholder.

According to the Articles of Association of the company each share brings right to cast one (1) vote.

It is possible for the shareholders' to exercise their voting right in person or by proxies - shareholder or not - at the general assemblies, the shareholders are provided with the specimen proxies to be used for this purpose

at Company's head office, on corporate website and advertisement supplement.

Erdemir went into the tender process on 30.05.2005 for privatization and the process was completed on 27.02.2006 by the transfer of public shares to Oyak Group. As of the date of this report – starting from the date of privatization – Prime Ministry Privatization Administration (P.M.P.A.) has usufructuary right over 1 (one) registered share (A Group), worth 1 (one) kr capital. The right is valid until a decision of Privatization Board. All voting rights of A Group shares are used the owner of usufructuary right (P.M.P.A.). Within the framework of this privilege one member of Board of Directors is elected by General Assembly from among candidates, nominated by P.M.P.A. Also because of this privilege, certain decisions can only be made with the supporting vote A Group shareholder representative.

General Assembly briefing document contains detailed information on distribution of company shares, voting rights that come with the shares and privileges in voting rights.

The company doesn't have a subsidiary with mutual relationship which brings domination.

Erdemir's practices are compatible with principles, except for the privilege in the voting right.

#### **e. Minority Rights**

There has not been any violation of exercise on minority shareholders' rights as attendance to the general assembly, representation by proxy, imposition of no upper limit for voting rights. In this manner it is found that care is given to the exercise of minority rights.

However, there is no regulation to extend the scope of minority rights with the Articles of Association or to give these rights to those who own an amount lower than 1/20 of the capital.



**f. Dividend Right**

Distribution of dividend is regulated in Article 34 of Articles of Association.

The Article says:

“General Assembly is entitled to take resolutions regarding non-distribution of the profit or distribution of the profit partially or completely in line with the profit distribution policies.

General legal reserves and the applications regarding dividend account are carried out in accordance with the provisions of TCC, CMB and the relevant legislation.

Unless the reserves required to be set aside legally and the dividend determined for the shareholders are set aside, it may not be resolved for setting aside any other reserve, transferring profit to the next year, and distributing dividend to the dividend share owners, board members and employees of the partnership and unless the determined dividend is paid, it may not be distributed dividend to those people.

Also General Assembly is entitled for the distribution of Dividend Advance within the frame of the relevant provisions of TCC, Capital Market Board and relevant legislation.

The dividend distributed in accordance with the provisions of this Articles of Association may not be claimed back. In case of distribution of dividend advance, reclaiming dividend is exception.”

Pursuant to the criteria laid down by CMB directives, by the Turkish Commercial Law and by relevant articles of Articles of Association, the Company has prepared its Dividend Policy and disclosed it to public in the electronic environment.

Dividend policy was updated within the scope of CMB’s Dividend Communiqué No II-19.1, accepted at the Board of Directors meeting on

05.03.2015, numbered 9340 and presented for the approval of shareholders at the general assembly on 31.03.2015. Dividend policy contains the minimum data enabling the investors to foresee the procedure and guidelines for distribution of profit to be generated by the company in future periods. There are no privileges in the distribution of dividend.

Board of Directors proposal for the distribution of dividend from the period between 01.01.2014 and 31.12.2014 was presented for the approval of shareholders at General Assembly meeting on 31.03.2015. According to the proposal, 91,3683 % of the net distributable profit on 2014 financial statements – prepared in accordance with CMB regulations – which was TL 1,396.904,732 was allocated as first dividend, TL 3,095.268 from additional sources was allocated as second dividend. Total dividend was TL 1,400,000,000. With another Board of Directors decision dividend distribution started on 26.05.2015.

The company distributed TL 820,000,000 in 2014; TL 120,000,000 and TL 405,000,000 in 2013 (TL 525,000,000 in total).

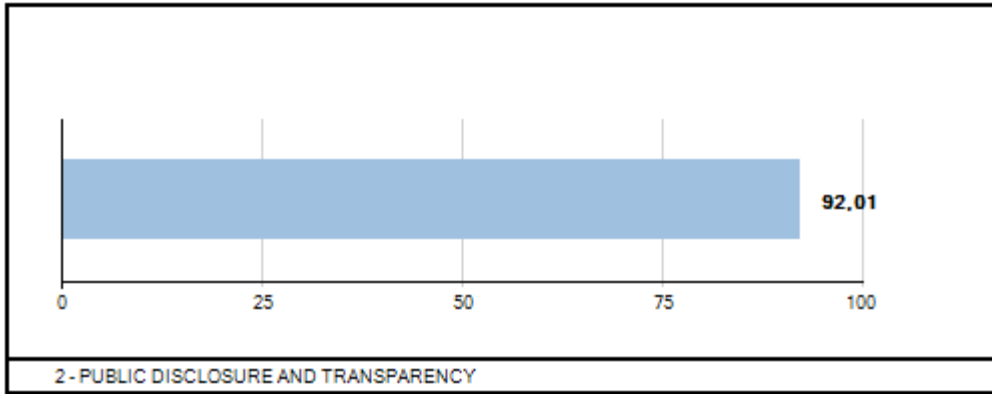
In this subsection, Erdemir has achieved a very good level compliance with the principles.

**g. Transfer of Shares**

There are no provisions in the Articles of Association that restrict transfer of shares. Transfer of company shares is subject to Turkish Commercial Law, CMB Law and relevant regulations.

Erdemir’s practices in this subsection meet the requirements of Corporate Governance Principles exactly.

## B. PUBLIC DISCLOSURE AND TRANSPARENCY



### Overview

- ✓ **Disclosure policies have been prepared, presented for the approval of general assembly and disclosed to public in electronic environment.**
- ✓ **The corporate website is being used effectively and in transparent manner as a tool to update the public within the context of the principles.**
- ✓ **Information in the website has also been prepared in English.**
- ✓ **Annual report contains tables showing the amounts of commercial and financial relations with indirect or direct subsidiaries within the period.**
- ✗ **Annual report should include responsibility statements of board members who are responsible for financial reporting.**
- ✓/✗ **It would be appropriate to give information in the annual report on whether or not there were significant purchases or sales of assets within the period.**

**Report** as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of **92.01**.

Erdemir fulfills its public announcements under its Information policy prepared by the Board of Directors and disclosed to public. The Information Policy contains information on what to be disclosed to public in addition to those required by the legislation, how, in what frequency and by which channels such data will be disclosed to public, as well as the method to be used to respond to questions directed to the company.

Principles about the disclosure of information intended for future is in the Information Policy. Information for future is disclosed to public through Public Disclosure Platform and it has been observed that assumptions and prognoses, as well as data they are based on, are also disclosed.

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

As for this section, the Company has been assessed by **88** different criteria under the headings of **Corporate Website** and **Annual**



### **a. Corporate Website**

The corporate website ([www.erdemir.com.tr](http://www.erdemir.com.tr)) and ([www.erdemirgrubu.com.tr](http://www.erdemirgrubu.com.tr)) serve as active and effective platforms for public disclosure and the content of corporate website is continuously updated. The information on the corporate website is consistent with announcements made pursuant to the relevant regulation and doesn't contain conflicting and missing information.

The corporate website covers commercial registry details, the shareholding and management structure as of the latest situation, dates and numbers of commercial registry newspapers where changes were published and final text of the company's Articles of Association, material event disclosures, financial reports, annual reports, agendas of the general assemblies, lists of attendees, proceedings of the assembly meetings, the specimen Proxy, dividend distribution policy, public disclosure policy, remuneration and compensation policies, donations and contribution policy, corporate social responsibility policies, sustainability, human resources policy, ethical rules developed by the Company and information requests, questions and notifications and answers given under frequently-asked questions title in addition to the coverage of mandatory disclosure pursuant to the legislation.

The information on the website is also being published in English for the use of international investors and shareholders.

In order to provide direct communication with customers, suppliers and other relevant parties on tenders, the company founded [www.erdemironline.com](http://www.erdemironline.com) website. Upon examination of this website, it has been determined that the site is very functional and prepared in a structure that can meet the needs of all relevant parties.

In accordance with the capital market regulations, financial statements and

disclosures are provided on the Public Disclosure Platform in both Turkish and English simultaneously. In order to help people to make decisions, English text is summarized in a brief, correct, complete, direct, comprehensible and sufficient manner and in consistency with the Turkish text.

It is explained on the corporate website that due to its shareholding structure, there is no real person ultimate majority shareholder in the company. The main shareholder of the Group is ATAER Holding A.Ş and ultimate main shareholder is Armed Forces Assistance (and Pension) Fund (OYAK).

It would be appropriate to have company's policy of repurchasing its shares and forms used in share purchase proposals or collecting proxies on the corporate website.

Erdemir has achieved very good level of compliance with Corporate Governance Principals in this subsection.

### **b. Annual Report**

Erdemir prepares two annual reports; one in reference to CMB's Communiqué No II.14.1 and one consolidated report covering all operations of Erdemir Group. It is clear that board of directors has prepared the annual report in such a detail that it gives public access to sufficient information about company's activities. Annual reports of the last five years are being shared with the shareholders and the public in electronic environment.

The annual report for the period that ended on 31.12.2014 was signed and approved by members of Board of Directors with the Board decision dated February 10, 2015 and numbered 9332.

The content of annual reports comprises;

- Résumés and tenures of board members and senior managers,
- Information about company's sector and its position within the sector,

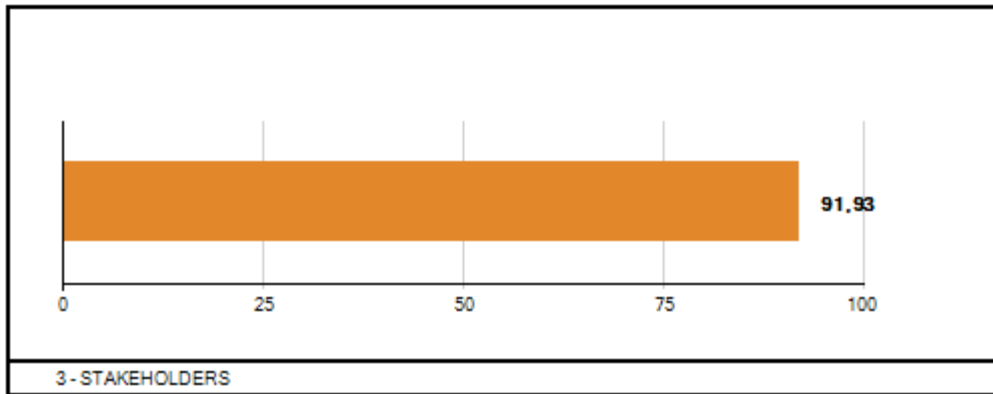
- Information about company's financial resources, qualifications and amounts of its issued capital market tools,
- Changes made on the articles of the Articles of Association during the period and their reasons,
- Corporate Governance Principles Compliance Report,
- Independent audit report on the annual report.

In addition to topics quoted in regulations and other parts of corporate governance principles, annual reports also include information on;

- Board members' and managers' ongoing jobs outside the company,
- Declarations of independent board members on their independence,
- Members of subcommittees within the board of directors and meeting frequencies of these subcommittees,
- Changes of regulations, which might significantly affect company operations,
- Important law suits against the company and their possible conclusions,
- Social rights and professional training of employees and corporate social responsibility activities,
- Sustainability policies,
- The need for permission by the general assembly for majority shareholders, board members, managers with administrative responsibilities their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the company or its subsidiaries or to engage in competitive commercial activities.
- Commercial activities.

However; having responsibility declaration of board of directors and information about whether or not there were asset purchases or sales within the period in the annual report would take compliance with Corporate Governance Principles to a higher level.

## C. STAKEHOLDERS



### Overview

- ✓ Ethical Principles and Rules have been prepared and published in the electronic environment
- ✓ There are no regulations that make it difficult for stakeholders to use their rights.
- ✓ Human resources policy has been prepared and many internal regulations concerning customers and stakeholders have been made.
- ✓ Remuneration and compensation policies have been formed for employees, presented for the approval of general assembly and published on company's corporate website.
- ✓ Training procedures have been prepared for employees.
- ✓ There are no complaints by employees about discrimination or being unable to use their rights.
- ✓ Blue collar workers are unionized.
- ✓ Corporate social responsibility policies are prepared and published on corporate website.
- ✓ Care is given to confidentiality of information about customers and suppliers on trade secret basis.

- ✓/\* Developing mechanisms and models to support employees' and

stakeholders' participation to company management and putting them in the Articles of Association and internal regulations would be appropriate.

As for this section, the Company has been assessed by 57 different criteria under the headings of **Corporation's Policy on Stakeholders, Supporting the Participation of Stakeholders' in Corporation's Management, Human Resources Policy of the Corporation, Relations with Customers and Suppliers, Ethical Rules and Social Responsibility** as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of 91,93.

#### a. Corporation's Policy on Stakeholders

The Corporate Governance Principles describe the Stakeholders as an individual, organization or interest group as employees, creditors, customers, suppliers, trade unions, various non-governmental organizations having an interest in attainment of company's objectives or in its operations. It has been determined that Erdemir has put stakeholders' rights, regulated by provisions and contracts, under protection in its transactions and operations.

It has been concluded that the company respects the stakeholders' rights, specified in regulations and mutual contracts. The impression is that in case of lack of any regulation, the company respects stakeholders' rights within goodwill rules, company's reputation and means. Many internal regulations were prepared to this end.

Compensation Policy towards employees has been developed, presented to the shareholders at the general assembly and disclosed to public via corporate website.

It has been understood that stakeholders are adequately informed on company policies and procedures to protect their rights. White collar employees are informed through regular periodical briefing meetings and intranet statements about company practices. Blue collar employees are informed through union representatives and Erdemir Group newspaper.

Ethical issues are solved by Erdemir Group Ethical Board. Necessary mechanisms have been formed for stakeholders to convey company's operations contrary to legislations and ethically improper to Corporate Governance or Audit Committees. The method to do this has been explained to all relevant parties and public within contact information for Ethical Board, Code of Ethics and Business Conduct.

In this subsection Erdemir has achieved a significant compliance to Principles.

#### ***b. Supporting the Participation of the Stakeholders in Corporation's Management***

Arrangements to support stakeholders' direct participation to company management are not included in The Articles of Association and/or internal regulations. However, on issues that have impacts on stakeholders, their opinions are taken.

It has been learned that employees' opinions are taken through Erdemir Suggestion System (ERÖS) and Performance Management System and necessary improvements are conducted accordingly.

The customers are contacted directly through [www.erdemironline.com](http://www.erdemironline.com) website. Customer complaints received through this website or through phone / facsimile are investigated on site and necessary actions are taken to solve the problem.

These models that support that support employees' and other stakeholders' participation to company management are currently operational. It would be appropriate to develop and add them in the Articles of Association and internal regulations.

#### ***c. Human Resources Policy of the Corporation***

Procedures on recruitment, working conditions, register files, disciplinary practices, performance measurement, power and commitment of employees, education, remuneration, health rights, leave rights, promotion, task alteration and dismissal, death, resignation and retirement has been developed and most part of them were updated in 2015. These documents are kept at a portal, accessible by all employees. It is our impression that the company sticks to these policies in practice. Both during development and the implementation of the policies we got the impression that equal opportunity is given to individuals under equal conditions.

Recruitment and career planning procedures have been developed and tradition to comply with these procedures has been developed.

We think that through the Individual Performance Management System that Erdemir Group runs, the company determines the added value created by employees within the scope of company targets, as well as their educational and developmental needs efficiently. The company aims to manage

appointment and assignment processes by taking objective criteria into consideration in order to maximize productivity.

The company has prepared education policies to increase knowledge, capability and experience of the employees and conducts education programs within the framework of these policies. Manager development trainings, talent group trainings, personal development and orientation programs are some of the educational programs. In 2014, 1,508 employees attended 13,610 hours of manager development and talent group trainings. On the other hand, it has also been learned that 6,344 Erdemir employees attended educational programs outside the company throughout the year.

As a result of examinations at the company and interviews with employees, we have reached the information that the employees are provided a safe working environment and conditions and that there exists no discrimination among employees in terms of race, religion, language and gender.

As of yearend 2014, a total of 6,454 employees worked at Ereğli facilities (1,861 white collars and 4,593 blue collars). Blue collar workers are unionized under Türk Metal Union. Union relations with employees are conducted by union representatives. There is no separate representative for relations with white collar employees.

Company's organization chart has been formed according to working conditions and units and number and qualification of employees for these units have been developed with written internal regulations.

Employee stock-options schemes are not developed.

There is no restriction on the freedom of founding an association or become a member of any associations, subject to company's permission.

In this subsection the company achieved compliance with Corporate Governance Principles.

#### ***d. Relations with Customers and Suppliers***

Information and documents obtained from customers and suppliers during the activities are kept confidential within the scope of trade secret security not to be reached by unrelated individuals.

Practices about customers, suppliers and outsourced services have been prepared and their standards have been determined.

Customer satisfaction poll is conducted to manage customer satisfaction. Corrections, as well as new arrangements are done according to the feedback received from the poll.

It is our opinion that Erdemir has achieved compliance with Corporate Governance Principles in this subsection.

#### ***e. Ethical Rules and Social Responsibility***

Ethical Rules required to be complied by all employees are laid down, approved and published on the company website. On close examination it is seen that the ethical rules are very comprehensive and compliant with the principles. The sanctions to be taken against employees who violate ethical principles are in this document and written on work contracts and Discipline Implementation Procedure.

The company management has informed us that during the rating period there was no law suit launched against the partnership for reasons like violation of shareholders' rights or reducing company's assets. On the other hand, the public is regularly informed about ongoing law suits through Public Disclosure Platform and annual reports. Within this scope, statements for PDP about Privatization Administration's law suit to cancel the dividend distribution decision taken by the General Assembly on 30.03.2006 were

released regularly. On company's PDP statement dated 29.06.2015, it was announced to the public that the law suit was rejected against the Privatization Administration by Ankara 3<sup>rd</sup> Commercial Court. Regular information on important law suits against the company is given on Public Disclosure Platform and in the annual reports.

Erdemir gives the impression that it is a company that sees itself as part of a whole together with employees, shareholders, customers, business partners and society and that it has the consciousness of being a corporate citizen. Within this framework, due to its responsibilities for aforementioned stakeholders and the common living environment, the company disclosed its corporate social responsibility activities and sustainability policies to public.

Erdemir Group states that it conducts activities all over the country – starting from nearby regions - in order to make contribution to social development, increase the quality of life and meet the expectations. These activities are planned through the assessment of survey results on social perceptions, data from surveys on corporate reputation and social needs. The Group conducted a "Corporate Reputation Survey" in 2014 in order to determine stakeholders' perceptions and improvement areas on the basis of administrative, communicational, relationship and social responsibility criteria. People of Ereğli and Iskenderun, employees, municipal authorities / bureaucrats, media, university students, academicians, NGO's / professional associations, bureaucrats / public institutions, business world and people from all over Turkey participated in the survey, which was designed to get opinions and expectations from 12 stakeholder groups.

Erdemir Group conducts social responsibility activities in many areas such as;

Training students of vocational high schools for work safety

Organizing children theatre in Ereğli for the last five years in order to make young children love theatre and to help young children's mental and emotional development through art,

Helping families in need in Ereğli,

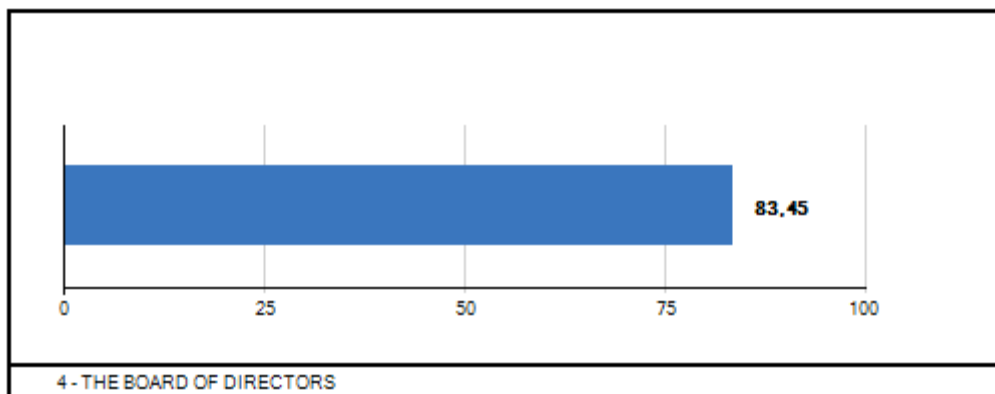
Purchasing electric wheelchair for Association of Physically Disabled Persons in Ereğli,

Supporting education.

Obirate®



## D. THE BOARD OF DIRECTORS



### Overview

- ✓ Company's strategic targets, human and financial sources it requires are determined by the Board of Directors.
  - ✓ The posts of Chairman Board of Directors and General Manager are carried out by separate individuals and there isn't any person with solely unlimited authority in the company.
  - ✓ The number of Board Members is adequate for them to work productively and constructively.
  - ✓ Majority of Board Members are non-executives.
  - ✓ 3 of non-executive Board Members are independent members.
  - ✓ Every Member has one vote in the Board of Directors.
  - ✓ There isn't any loan/credit involvement between Board Members and company.
  - ✓ Corporate Governance, Audit and Early Detection of Risk Committees have been formed and their work principles have been determined.
- ✗ **No targeted ratio and policy have been determined for women members of the board, for a ratio no less than 25 %.**

✗ **There is no practice of self-criticism and performance evaluation in the Board of Directors.**

✓/✗ (A) group shareholder representative (Privatization Administration) has negative veto right in some decisions.

✓/✗ Manager liability insurance of members of Board of Directors is less than 25 % of company capital.

✓/✗ It would be appropriate to disclose remuneration and other interests provided for board members and managers with administrative responsibilities in the annual report on personal basis.

In this section, the Company has been assessed by 148 different criteria under the headings of **Function of the Board of Directors, Principles of Activity of the Board of Directors, Structure of the Board of Directors, Procedure of Board of Directors Meetings, Committees formed within the Structure of the Board of Directors and Financial Rights Provided for the Members of the Board of Directors and Executives** as laid down by the Capital Market Board's Corporate Governance Principles, for which the company has gained the grade of **83.45**.

#### a. Function of the Board of Directors



By the strategic decisions it will take, the Board manages and represents the company keeping the risk, growth and return in balance while paying attention primarily to company's long term interests, under a reasonable and prudent risk management approach. In this sense, the Board of Directors has described the corporate strategic objectives and determined the required human and financial resources. The Board of Directors also monitors company activities to be compatible with regulations, Articles of Association, internal procedures and established policies and it audits management performance.

The Board of Directors is authorized to make decisions, to determine the strategy and represent the company at the highest level.

Erdemir has achieved compliance with Corporate Governance Principles in this subsection.

***b. Principles of Activity of the Board of Directors***

Board of Directors conducts its activities in an open, accountable, fair and responsible fashion.

The distribution of responsibilities among board members, as well as duties and powers of members are disclosed to public in the annual report.

The Board of Directors has developed internal control systems – including risk management and information systems – to minimize the impact of risks that might affect Bank's stakeholders, starting with shareholders and it has been learned that the Board of Directors reviews the effectiveness of risk management and internal control systems at least once a year.

None of company's staff has the authority to decide solely and unrestricted. Posts of Chairman of the Board and General Manager are held by different individuals.

Our impression is that the Board of Directors plays a leading role in the maintenance of effective communication and in easing and resolving disputes that might arise between the company and the shareholders. To this end, the Board of Directors is in close cooperation with the Investor Relations Department.

It's thought that the Board of Directors is in continuous and effective cooperation with managers while performing its duties and responsibilities and it has been learned that managers attend Board of Directors meetings whenever necessary.

Manager Liability Insurance against defects of Board Members duties have been made for USD 75.000.000. However, this amount is less than 25% of the company capital, which is TL 3,500,000,000.

It has been determined that the company has achieved compliance with Corporate Governance Principles.

***c. Structure of the Board of Directors***

Company's Board is formed with nine (9) individuals; one Chairman and eight (8) members. The requirement of at least 5 members, including general manager, to form the Board has been met and the number of Board Members is found sufficient to serve effectively and constructively and to form and organize committees.

The Board of Directors comprises executive and non-executive directors. The principle that majority of Directors should be non-executive members is respected. Only one (1) of the Directors is executive and eight (8) of them are non-executives. On the other hand, three (3) of non-executive directors are independent members satisfying the independence criteria laid down by Corporate Governance Principles. The independent Directors have presented their written representations that they are independent under the legislation, the Articles of Association and the criteria laid down by the

Principles to the Nomination Committee. The Committee has evaluated the nominations for independent candidates, according to whether the candidates have had the criteria for being independent and presented its evaluation report, dated 05.02.2015, for the approval Board of Directors. At its meeting on February 10, 2015 Board of Directors approved the candidates and decided to send the names to CMB for opinion. As CMB declared no negative opinions, the finalized independent member candidates list was disclosed to public simultaneously with the announcement of General Assembly meeting.

There is one (1) woman member of Board of Directors. It would be appropriate for the company to determine a target ratio – no less than 25 % - for the number of women members of the Board, a deadline and policies to reach these targets and for the Board of Directors to assess progress on these targets annually.

Company's practices in this subsection are in good compliance with Corporate Governance Principles.

#### ***d. Procedure of Board of Directors Meetings***

It is thought that the Board of Directors comes together frequent enough to implement its duties efficiently. Number of Board meetings, as well as required majority to convene and to take decisions are written in the Articles of Association.

Upon examination of Board of Directors Decision Book it has been seen that the Board of Directors convened seven (7) times in 2014 and three (3) times as of June 2015. Each member has one voting right in the Board of Directors. However, on decisions about rights given to A group (with usufructuary right in favor of Privatization Administration), positive vote of the Board Member who is owner of the usufructuary right is required. It has been found that Board of Directors meetings are held in accordance with the regulations and relevant articles of Articles of Association. The

meeting procedures are put into written documents with internal arrangements. "Ereğli Demir ve Çelik Fabrikaları T.A.Ş Board of Directors Internal Directive" was approved at the Board meeting dated 15.04.2015 and numbered 9351. The directive comprises the subjects below:

- Description and duties of Executive Director,
- Function, working principles, duties and powers of the Board of Directors,
- Description of transactions that depend on Board decision,
- Assignments that include limited power of representation and scope of representation power,
- Committees of Board of Directors and many other subjects that are mentioned in Principles. It has been determined that the company acts in accordance with this Directive in practice.

Meeting agenda of Board of Directors is prepared by the Chairman, taking the requests from board members and managers into consideration. Invitation for meetings is sent through e – mail. The Secretariat of the Board of Directors informs the members by sending them the agenda of meeting and documents about agenda items.

Two members of staff - one reporting to Department of Group Strategy and Business Development and one to the Board of Directors – work as secretariat of the Board of Directors.

In this subsection, Erdemir has achieved a rather good level compliance with the Corporate Governance Principles.

#### ***e. Committees formed within the Structure of the Board of Directors***

In order for the Board to fulfill its duties and responsibilities soundly, Audit Committee, Corporate Governance Committee and Early Detection of Risk Committees are formed. A separate Nomination Committee and Remuneration Committee have not been

formed because of the Board's structure. Duties of this committee are carried out by Corporate Governance Committee. Working Principles of the Corporate Governance Committee has been regulated in accordance with this organization.

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 in electronic environment.

All members of the Audit Committee and minimum the Chairman of other committees are appointed from independent members. The General Manager has no assignment in any committee.

All sources and support are provided by the Board to ensure that committees perform their obligations.

Committees invite appropriate executives to their meetings to benefit from their opinions.

**The Audit Committee** comprises two (2) independent members. The Committee monitors performance and effectiveness of company's accounting system, public disclosure of financial information, independent audit and internal control and audit system. The selection of independent audit company and supervision of its work at every stage is implemented by the audit committee. The committee reassesses company's system, processes and activities on subjects of accounting system, financial reporting, public disclosure, internal control and audit system, independent external audit, law, regulation and compliance with ethical principles.

Internal Audit Department audits the effectiveness and performance of internal control and risk management systems within the scope of annual audit plan according to risk assessments. On the other hand, it has been determined that internal control mechanisms had been established for all levels of personnel to implement and follow in

order to ensure that company activities are carried out in accordance with current legislation and within the framework determined by the Board of Directors and that the integrity and reliability of accounting and reporting systems are ensured.

Internal Audit Department conducted five (5) audits in 2014 and reported twice to the Board of Directors, once in each half of the year. It has been learned that it conducted five (5) audits as of June 2015.

Internal Audit Department convened four (4) times in 2014, twice (2) as of June 2015.

The Secretariat functions of the Audit Committee are undertaken by Avni SÖNMEZYILDIZ, Director of Financial Control and Reporting and Ulaş YİRMİBEŞ, Consolidation and Reporting Manager.

**Corporate Governance Committee;** establishes whether the corporate governance principles are implemented in the Company, as well as the grounds for non-implementation, if applicable; conflicts of interest, if any, arising from failure to fully comply with these principles, and discloses to public through Corporate Governance Compliance Report. The committee consists of three (3) members. The Chairman and one member are independent members of the Board of Directors. Another member is the Manager of Investor Relations Department and she has been appointed to membership of Corporate Governance Committee In accordance with CMB Corporate Governance Notification number II.17-1. This appointment in the Committee was disclosed to public with a special occasion statement dated 04.09.2014.

Its structure complies with the principle which requires that all of the members – if there are only two – or majority of members – if there are more than two – should consist of non-executive Board Directors.

Committee convened four (4) times in 2014 and twice (2) as of June 2015.

The Secretariat functions of the Audit Committee are undertaken by İdil ÖNAY, Manager of Investor Relations Department.

**Early Detection of Risk Committee** consists of two (2) members and both of them are independent members of the Board of Directors.

The Committee convened six (6) times in 2014 and three (3) times as of June 2015.

The Secretariat functions of the Committee are undertaken by Serdar ÖNGÜN, Corporate Risk Management Manager and Ahmet GÖRPEOĞLU, Investor Relations Specialist.

The committees comprises following members:

#### **Audit Committee**

Name Surname	
Hakkı Cemal ERERDİ	Chairman (Independent)
Ali Tuğrul ALPACAR	Member (Independent)

#### **Corporate Governance Committee**

Name Surname	
Emin Hakan EMİNSOY	Chairman (Independent)
Ali Tuğrul ALPACAR	Member (Independent)
İdil ÖNAY	Member (IR Manager)

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

Name Surname	
Emin Hakan EMİNSOY	Chairman (Independent)
Hakkı Cemal ERERDİ	Member (Independent)

Upon examination of documents, it has been understood that committees have been formed, their working principles prepared and they convene regularly. However if the committees can be more influential and more proactive; it would further increase the compliance with Corporate Governance Principles.

#### **f. Financial Rights Provided for Members of the Board of Directors and Executives**

Guidelines on compensation of the Board Members and top executives have been put on written documents, presented for the approval of general assembly and disclosed to public in the electronic environment.

Stock-options or payment plans based on the corporate performance are not used for remuneration of the independent board members. The emoluments of independent board members are thought to be sufficient to protect their independency.

It has been found that the Company has not lent and extended loan to any Board Member or top executive or made available any credit under personal loan through any third person or provided securities such as surety in favour of them.

The performance of Board Members is not measured.

Although not on individual basis, remuneration and other benefits that are provided for board members and top executives are explained in the annual report. However it would be appropriate to give this information on individual basis as required.

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

GRADE	DEFINITIONS
<p><b>9–10</b></p>	<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>
<p><b>7–8,9</b></p>	<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>
<p><b>6–6,9</b></p>	<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>