



Corporate Governance Compliance Rating Report



Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

28 July 2017

Validity Period 28.07.2017-28.07.2018

LIMITATIONS

This Corporate Governance Compliance 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 Corporate Governance Compliance Rating Report issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. 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 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).

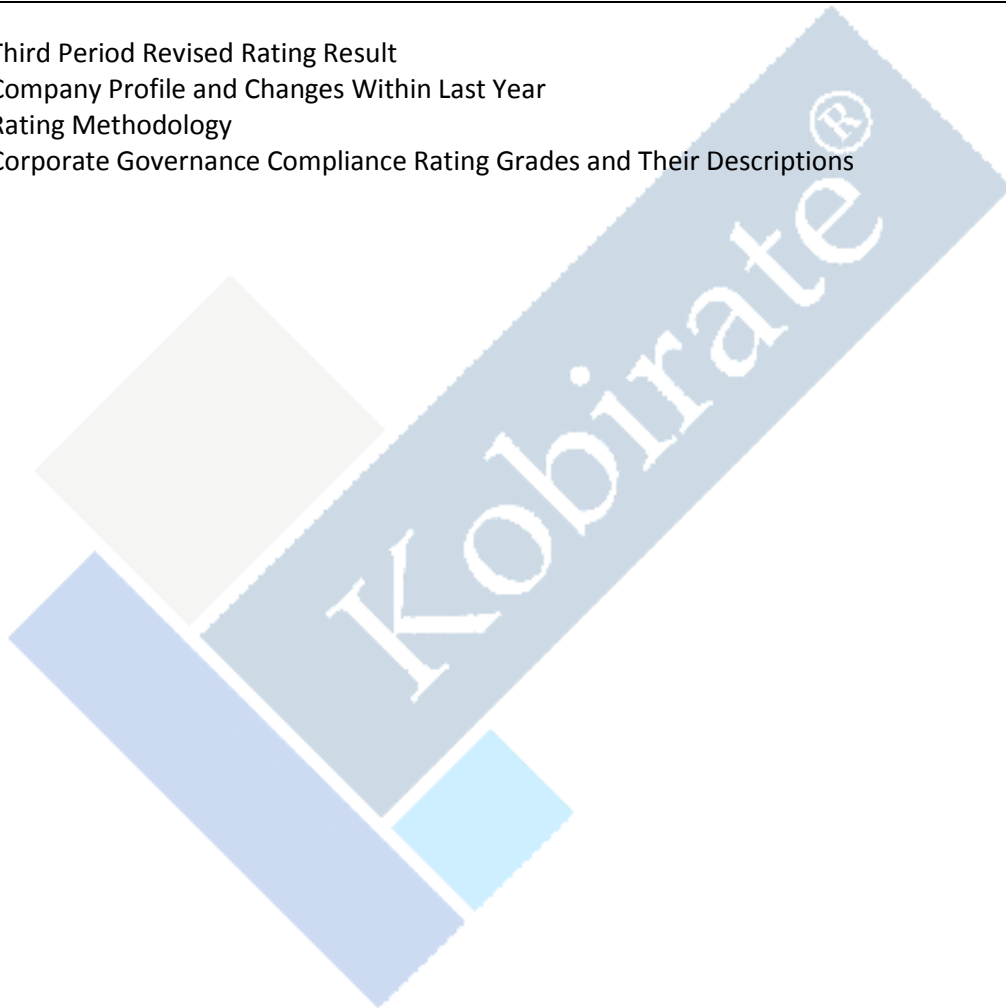
Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. formed accordingly to the methodology disclosed.

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.

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EREĞLİ DEMİR VE ÇELİK FABRİKALARI TÜRK ANONİM ŞİRKETİ (ERDEMİR)

CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

BIST FIRST GROUP

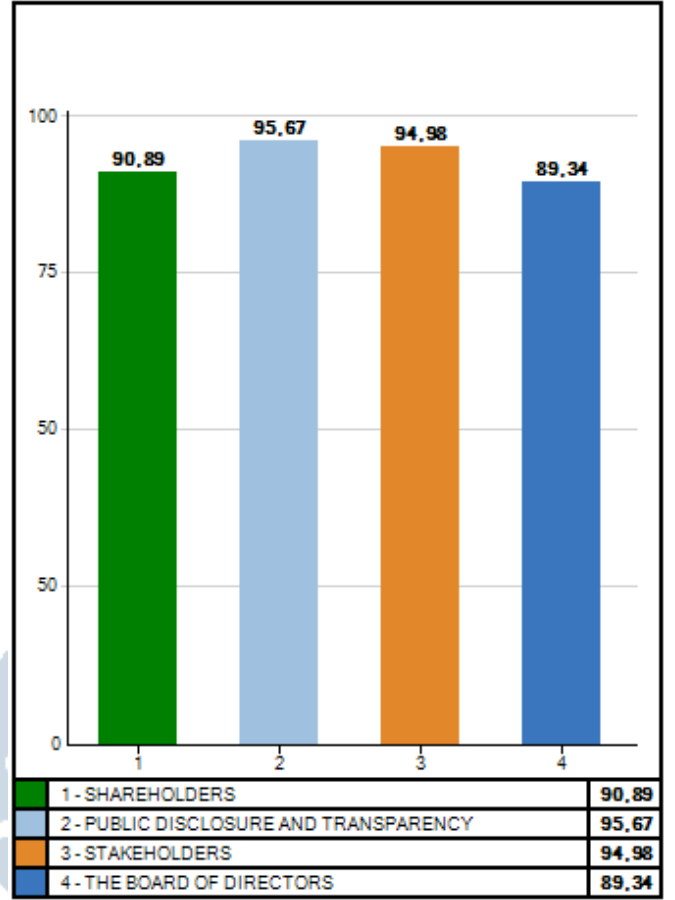
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Kobirate Uluslararası Kredi Derecelendirme ve
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1. THIRD PERIOD REVISED RATING RESULT

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 Kurumsal Yönetim Hizmetleri A.Ş., 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 06.01.2017 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 **9.22**.

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. 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**.

It has been observed that during the rating period the Company continued its activities to give information to shareholders and let them use basic rights of shareholders with the same sensitivity and effectiveness.

Relations with shareholders are conducted through Investor Relations Department, which reports to Erdemir Group Chief Corporate Affairs Officer Banu KALAY ERTON. İdil ÖNAY ERGİN (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 Communiqué no II.17-1, Investor Relations Department Manager İdil ÖNAY ERGİN 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 2016 was made to the Board of Directors on February 7, 2017.

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 the "Public Disclosure Policy". The policy is published on Company's corporate website.

The ordinary general assembly meeting to discuss company's 2016 operations took place on 31.03.2017. The invitation for the meeting was published on Turkish Trade Registry Gazette dated 09.03.2017, No 9280, 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 regulations, the Company earned TRY 1,446,759,879 net distributable profit through its activities in 2016. 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 **95.67**. Developments that brought this grade to Erdemir are below:

- There is information in the annual report about the precautions taken in order to prevent conflict of interest between the Company and other companies that it receives services in areas like investment consultancy and rating.

- The information that no conflict of interest has taken place during the year between the Company and other companies that it receives services in areas like investment consultancy and rating has been given in the annual report.

- Information has been given in the annual report about Company's methods of disclosing its expectations for future to public and about the fact that there has been no

unachieved target during the operational period.

- Information has been given in the annual report on whether or not there was any significant asset purchase or sale during the operational period.

Responsible and authorized signatures for company's public statements are Ömer M. BAKTIR (Chairman of Board – Executive Director), Emre Berk HACIGÜZELLER (Erdemir Group Chief Financial Management and Financial Affairs Officer) and Avni SÖNMEZYILDIZ (Financial Control and Reporting Director). These officials are assigned to manage and monitor all issues concerning public disclosures.

It has been 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 **94.98** in the section of Stakeholders. Developments that brought this grade to the Company are below:

- In 2016 a comprehensive Sustainability Report has been prepared and disclosed to public through Company's corporate website, just like it was done in 2014 and 2015.

- "Erdemir Group Sustainable Corporate Social Responsibility Policy", which was prepared during the rating period, has been put into effect as of 03.05.2017.

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.

Code of Ethics and Business Conduct have been prepared and are updated whenever necessary. Anti Corruption Policy has been prepared and disclosed to public through Company's corporate website.

Company's blue collar employees have been organized under the roof of Türk Metal Union. Agreement has been achieved in the negotiations between the Company and the union at 26th Period Labor Contract and it was signed on 13.12.2016. The labor contract was signed for two years and it is valid between 01.09.2016 and 31.08.2018.

▪ Erdemir has achieved the grade of **89.34** 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 meet 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 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 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 2016 and 2 (two) at the end of April 2017.

Audit Committee convened 5 (five) times in 2016 and 1 (one) at the end of April 2017. In the same period the Committee has made 6 (six) presentations to the Board of Directors in parallel to number of its meetings.

Corporate Governance Committee convened 5 (five) times in 2016 and 2 (two) at the end of April 2017. In 2016 the Committee has made 3 (three) presentations to the Board of Directors about its activities.

Early Detection of Risk Committee convened 6 (six) times in 2016 and made 2 (two) meetings at the end of April 2017. The Committee has made 5 (five) presentations to the Board of Directors in 2016 and 1 (one) at the end of April 2017.

Guidelines on compensation of the Directors and top executives have been 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 efficiency of committees are most important reasons of grade increase in this section.

2. COMPANY PROFILE AND CHANGES WITHIN LAST YEAR

A. Company 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:

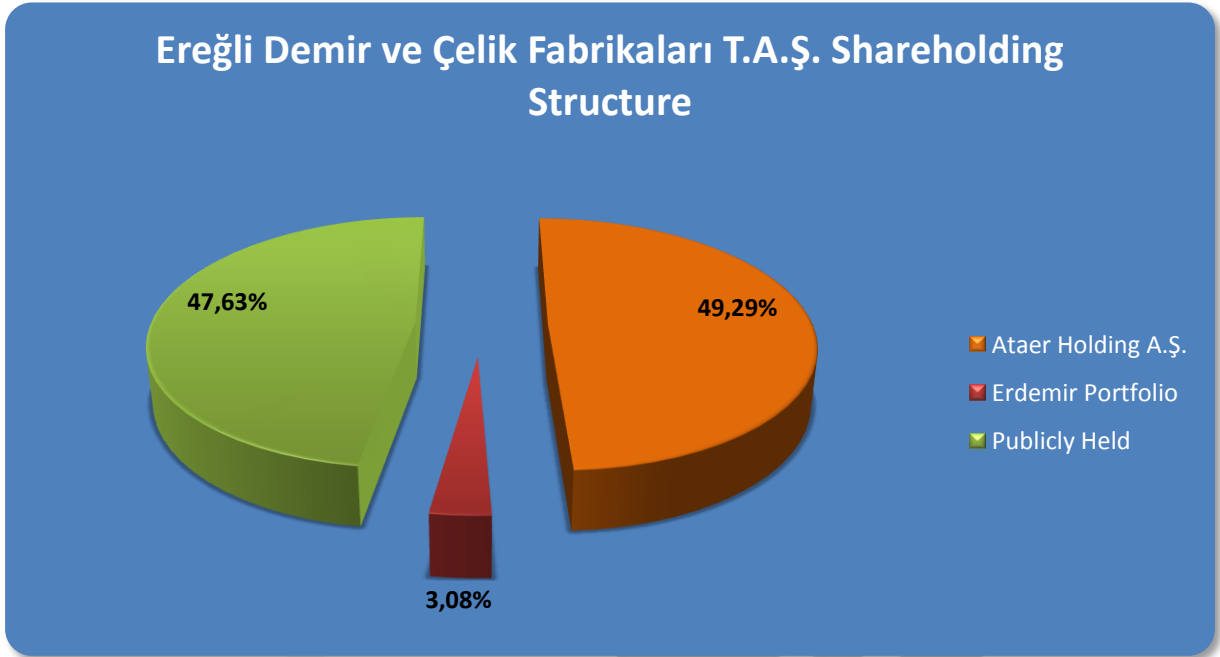
İdil ÖNAY ERGİN

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 and its ultimate main shareholder is Turkish Armed Forces Assistance (and Pension) Fund (OYAK).

Board of Directors

Name / Surname	Title	Executive/ Non - Executive
OYTAŞ İç ve Dış Ticaret A.Ş. (Representative: Ömer M. BAKTIR)	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 Denizcilik ve Liman İşletmeleri 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
Yunus ARINCI	Independent Member of Board of Directors & Chairman of Audit Committee, Member of Corporate Governance Committee	Non - Executive
Ali FİDAN	Independent Member of Board of Directors & Chairman of Early Detection of Risk Committee, Member of Audit Committee	Non - Executive
Kurtuluş Bedri VAROĞLU	Independent Member of Board of Directors & Chairman of Corporate Governance Committee, Member of Early Detection of Risk Committee	Non - Executive

(*) Commercial title of Erdemir Board Member OYAK Girişim Danışmanlığı A.Ş. was changed as OYAK Denizcilik ve Liman İşletmeleri A.Ş. with Company Board of Directors decision dated 08.11.2016, No 9435 and it was registered at trade registry.

Committees of Board of Directors:

Corporate Governance Committee

Name Surname	Title	Position
Kurtuluş Bedri VAROĞLU	Independent Member of Board of Directors	Committee Chairman
Yunus ARINCI	Independent Member of Board of Directors	Committee Member
İdil ÖNAY ERGİN	Investor Relations Manager	Committee Member

Audit Committee

Name Surname	Title	Position
Yunus ARINCI	Independent Member of Board of Directors	Committee Chairman
Ali FİDAN	Independent Member of Board of Directors	Committee Member

Early Detection of Risk Committee

Name Surname	Title	Position
Ali FİDAN	Independent Member of Board of Directors	Committee Chairman
Kurtuluş Bedri VAROĞLU	Independent Member of Board of Directors	Committee Member

Company Top Management

Name Surname	Title
Sedat ORHAN	ERDEMİR General Manager
Banu KALAY ERTON	ERDEMİR Group Chief Corporate Affairs Officer
Başak TURGUT	ERDEMİR Group Chief Marketing and Sales Officer
Emre Berk HACIGÜZELLER	ERDEMİR Group Chief Financial Management and Financial Affairs Officer
Can ÖRÜNG	ERDEMİR Group Chief Enterprise Architect and Human Resources Officer / ERDEMİR Group Chief Information Technologies Officer (Acting)
İsmail Kürşat KORKMAZ	ERDEMİR Group Chief Purchasing Officer
Oya ŞEHİRLİOĞLU	ERDEMİR Group Chief Legal Officer
Naci Özgür ÖZEL	ERDEMİR Group Chief Strategy Officer
Esat GÜNDAY	Vice President of ERDEMİR (Operations)
Aylin VELİOĞLU ÇELİK	Executive Vice President of ERDEMİR (Human Resources)
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President of ERDEMİR (Financial Affairs)

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

	2015/12 (000 TL)	2015/12 (000 USD)	2016/12 (000 TL)	2016/12 (000 USD)	Change % (Over TL)
Current Assets	7.999.975	2.751.401	11.063.224	3.143.675	38,29
Trade Receivables	1.632.629	561.504	2.016.901	573.114	23,54
Inventories	3.237.890	1.113.595	4.255.047	1.209.095	31,41
Non – Current Assets	10.634.515	3.657.490	12.588.053	3.576.965	18,37
Total Assets	18.634.490	6.408.891	23.651.277	6.720.640	26,92
Current Liabilities	2.615.423	899.513	4.226.720	1.201.046	61,61
Non-Current Liabilities	3.480.875	1.197.164	3.764.524	1.069.709	8,15
Share Capital	3.500.000	1.818.371	3.500.000	1.818.371	-
Equity	12.538.192	4.312.214	15.660.033	4.449.885	24,90

Source: Erdemir Group Annual Report 2016

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

	2015/12 (000 TL)	2015/12 (000 USD)	2016/12 (000 TL)	2016/12 (000 USD)	Change % (Over TL)
Revenue	11.914.581	4.382.455	11.636.504	3.855.062	(2,33)
Cost of Sales (-)	(9.854.290)	(3.624.633)	(9.166.325)	(3.036.715)	(6,98)
Operational Profit/Loss	1.590.803	585.133	2.102.671	696.595	32,18
Profit/Loss(Before Tax)	1.821.366	658.651	2.271.428	727.489	24,71
Profit /Loss for the Period	1.162.309	427.524	1.571.702	520.689	35,22

Source: Erdemir Group Annual Report 2016

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

(*)Company's shares have been dematerialized at Central Registry Office and they have been quoted at Pre – market Trading Platform under process code "ISDMR" 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 12,277 employees (3,996 white collars and 8,281 blue collars) as of 31.12.2016. Erdemir employs a total of 6,170 employees (1,746 white collars and 4,424 blue collars).

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

(*) After the measurement of the corporate sustainability, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. took place in Sustainability Index in 2015 and 2016 where companies whose shares are traded in BIST with high corporate sustainability performances are listed.

The Bottom and Peak Closing Values of Company's Shares traded on the BIST within last year (07.07.2016-07.07.2017)

Peak and Bottom Closing Values

Bottom (TL)	Peak (TL)
3,89- (04.11.2016)	7,15- (05.07.2017)

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

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 2016 net period profit at its meeting dated 09.03.2017, No 9461;

1. In accordance with Article 519 of the Turkish Trade Law and provisions of Capital Markets Board to allocate general legal reserve fund of TRY 69.677.911 at a rate of 5% on net profit of the year originated in financial statements of 2016, issued in accordance with provisions of the Tax Procedure Law,

2. TRY 1.331.145.345 at a rate of 91.7991% on distributable net profit of the year in financial statements of 2016, prepared according to legislations of Capital Markets Board, will be allocated as cash shareholder dividend.

3. Due to 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 115.614.534 as general legal reserve.

4. TRY 103.854.655 additional cash dividend will be paid after separation of the second appropriation of legal reserves amounting to TRY 10.385.466 from the total TRY 114.240.121 which is obtained by using anticipated distribution of other resources which will be compensated from extraordinary reserves.

5. To distribute the dividend of TRY 1.435.000.000 which is the 99,1872% of the net distributable profit to the shareholders from the first dividend of TRY 1.331.145.345 and from the second dividend of TRY 103.854.655 obtained from other resources anticipated to be distributed additionally.

6. Due to the fact that, the sum of the allocated cash dividend of TRY 1.435.000.000 and general legal reserve fund of TRY 126.000.000 which is calculated from cash dividend cannot be covered by the distributable net profit calculated on the financial statements for the year 2016 which is prepared in accordance with provisions of the Tax Procedure Law; TRY 237.119.694 which is the sum of the cash dividend of TRY 215.563.358 and general legal reserve fund of TRY 21.556.336 which is calculated from cash dividend will be covered by the other distributable funds calculated in accordance with provisions of the Tax Procedure Law.

7. The dividend payment – as lump sum – date will be no later than December 15th 2017 and it will be determined by the Board of Directors after the General Assembly, taking the cash projection of the Company into consideration. It will be presented for the approval of General Assembly at the Ordinary General Assembly meeting on 31.03.2017.

Dividend distribution was approved at the Ordinary General Assembly Meeting on 31.03.2017 and distribution started on 05.04.2017, with Board of Directors decision dated 03.04.2017, No 9469.

iii. Policies:

No changes have taken place in Company policies (Public Disclosure Policy, Dividend Policy, Remuneration Policy, Compensation Policy, Human Resources Policy, Donations and Aid Policy, Erdemir Group Code of Ethics and Business Conduct and Erdemir Group Anti – Corruption Policy) within the period of rating. These policies have been disclosed to public through Company's corporate website.

iv. Management and Organization:

There have been no changes in Company's organization during the rating period. Following changes took place in top management;

- Ali Aydın PANDIR, Chairman of Board of Directors and Executive Member, Representative of OYTAŞ İç ve Dış Ticaret A.Ş. has left his position on 06.01.2017 with Board decision dated 05.01.2017, No 9442. He was replaced by Ömer Muzaffer BAKTIR as of 16.01.2017.

- Yunus ARINCI, Ali FİDAN and Kurtuluş Bedri VAROĞLU were elected as Independent Board Members for 1 year at the Ordinary General Assembly meeting on 31.03.2017.

- Vice President (Human Resources) Kaan BÖKE has left his position as of 15.07.2016. He was replaced by Aylin VELİOĞLU ÇELİK on 15.08.2016.

- Erdemir Group Production Coordinator Oğuz Nuri ÖZGEN has left his position as of 18.01.2017.

- Erdemir Group Chief Purchasing Officer Şevkinaz ALEMDAR left his position as of 20.02.2017 and İsmail Kürşad KORKMAZ was assigned as Erdemir Group Chief Purchasing Officer on 21.02.2017.

- Erdemir Group Chief Financial Affairs Officer Bülent BEYDÜZ left his position as of 20.02.2017. Title of position has been changed as Erdemir Group Chief Financial Management and Financial Affairs Officer and Emre Berk HACİGÜZELLER was assigned to this position on 21.02.2017.

- Erdemir Group Chief Information Technology Officer Ahmet Tunç NOYAN left his position as of 20.02.2017. Can ÖRÜNG, who is Erdemir Group Chief Enterprise Architect and Human Resources Officer, was assigned to this position – as addition to his current position - on 21.02.2017 by procuracy.

- Erdemir Group Chief Technology Officer Eric VITSE left his position as of 14.04.2017. No appointment has been made in this position.

Changes in 2016 have been described in the annual report.

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

There have been no changes.

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>