



# **CORPORATE GOVERNANCE PRINCIPLES**

## **CAPITAL MARKETS BOARD OF TURKEY**

### **(CMB)**

**June 2003**

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## PREFACE



*Within the past decade, the concept of corporate governance has played an ever increasingly significant role in enhancing the competitive power of global financial markets. One of the most important underlying factors behind the cause of both the recent financial crises and recent company scandals that broke out across the world can be attributed to the inadequacy of sound corporate governance Principles by both the public and private sectors. As a result, the concept of corporate governance has gained increased attention from all around the world. Developed nations, international financial organizations and major financial institutions have all increased their focus towards improving corporate governance practices and have underlined the need to evaluate and observe the quality of corporate governance practices in developing nations before deciding whether to invest in or provide credit to developing nations and/or financial institutions within developing nations.*

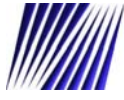
*Here at the Capital Markets Board (CMB) of Turkey, we are conscious of the fact that a country's capital market can positively contribute to the economic development of a country if the capital market of that particular country is able to compete within the global financial markets. Therefore, the CMB has defined corporate governance Principles, which can be used primarily by listed companies as well as by joint stock companies in both the private and public sector.*

*Moreover, the proper implementation of corporate governance Principles is essential for the restructuring process of the Turkish capital markets and for attracting capital inflow into Turkey.*

*I would like to thank all those who have shared their valuable opinions and thoughts in assisting us to establish these corporate governance Principles, and I strongly hope and believe that these Principles will serve as a useful benchmark to the capital markets.*

*(Signature to be inserted)*

**Dr. Doğan CANSIZLAR**  
**Chairman**



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## INTRODUCTION

Today's global financial market place sets the scene for outstanding and swift developments. In light of such developments and latest novelties, the competitive power of the markets is more important than ever. The global trends need to be clearly identified to ensure efficient functioning of capital markets for the purpose of the country's development.

Although national borders maintain their physical existence, they are becoming less significant in today's world which is becoming a smaller place to live in. Recent trends in globalisation and improvements in information technology have enabled funds to move from one market to another in just a few seconds. On the other hand, as governments across the world and international finance institutions have realised the need for closer cooperation, international standard setting is becoming a must in many areas.

Companies and even governments no longer feel restricted to limit their financial capacities with their own domestic markets, but rather seek to utilize their opportunities in the international financial arena. International competition is becoming a lot more essential in order to best utilize the flow of capital movements across the world. As new funds and new innovations enter the world financial markets, investor preferences are getting enhanced with each day. In parallel with these developments, regulation of the problems and standard issues being faced in today's financial markets is becoming more complex.

Due to the increase in competitive conditions within financial markets, countries are being required to harmonize their legislation with the international level and realize a set of regulations in order to attain and sustain development. Within this context, restructuring the Turkish capital markets is becoming highly significant especially for public companies in terms of providing global liquidity and expanding the fund provision capabilities of international financial markets.

It is widely accepted that bad management practices have triggered the financial crises and company scandals that broke out in the recent years. This has clarified the importance of the concept of sound corporate management practices. The importance of the issue has been

growing at an international level and the quality of corporate governance practices, which is deemed to be as important as financial performance in investment decisions, has become a subject of more serious consideration.

Empirical studies indicate that international investors now better realize the significance of corporate governance practices on the financial performance of companies than ever before and while adopting investment decisions, international investors believe that this issue bears more importance for countries that are in need of reforms, and that they are more ready to pay higher premiums for companies having sound corporate governance practices.

Sound corporate governance practices bring out advantages for companies and countries. With respect to companies, high quality status of corporate governance means low capital cost, increase in financial capabilities and liquidity, ability of overcoming crises more easily and prevention of the exclusion of soundly managed companies from the capital markets. On the other hand, with respect to the country, sound corporate governance means improvement of a country's image, prevention of outflow of domestic funds, increase in foreign capital investments, increase in the competitive power of the economy and capital markets, overcoming crises with less damage, more efficient allocation of resources attainment and maintenance of a higher level of prosperity.

There are several factors to define the corporate governance atmosphere of a country including, for instance, the general conditions of a particular country, the capital market's level of development and individual company practices. The factors of a country in general are economic status, financial conditions, level of competition, banking system, level of development of property rights and similar factors. Factors concerning the capital markets are: market regulations and infrastructure, market liquidity, existence of a sophisticated investment community and the level of implementation of international standards, primarily accounting standards. Mainly, issues bearing substantial importance in company practices are public disclosure of financial and non-financial information, equal treatment of shareholders, practices and independence of the board of directors and financial benefits provided thereto, capital structure, level of free float, liquidity of stocks, level of participation of stakeholders in the decision making process, sensitivity of the company to the environment and level of social responsibility.

Several studies have been and is still being realized in the area of corporate governance. These studies emphasize the fact that no single corporate governance model is valid for every country. Accordingly, the model to be established should be compatible with the conditions peculiar to each country. However, the concepts of equality, transparency, accountability and responsibility appear to be main (*sine qua non*) concepts in all international corporate governance approaches that are widely accepted.

Equality means the equal treatment of share and stakeholders by the management in all activities of the company and thus aims to prevent all possible conflicts of interest. Transparency, on the other hand, aims to disclose company related financial and non-financial information to the public in a timely, accurate, complete, clear, construable manner and easy to reach at low cost, excluding the trade secrets and undisclosed information. Accountability means the obligation of the board of directors to account to the company as a corporate body and to the shareholders. Finally, responsibility defines the conformity of all operations carried out on behalf of the company with the legislation, articles of association and in-house regulations together with the audit thereof.

Efforts to establish framework for corporate governance around the globe continue rapidly. The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector, lead the way in handling the issue.

Many countries, including those with developed economies, have reviewed their own legislation or are in the process of reviewing current legislation. For example, the United States of America has passed a new law (Sarbanes-Oxley) due to the company scandals of the previous year. Similarly Germany has adopted its corporate governance Principles as a law and the Principles became a legal obligation, furthermore Japan has also re-examined and improved its company law; and Russia has announced its new corporate governance regulations. Many countries have been re-structuring and publishing their current legislation within the framework of the best corporate governance Principles.



In parallel with the current practices worldwide, the CMB has established the corporate governance Principles (the Principles). Distinguished experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Regulations of many countries have been examined, and generally accepted and recommended Principles; primarily the “OECD Corporate Governance Principles” of 1999 together with the particular conditions of our country have been taken into consideration during the preparation of these Principles.

The Principles mainly address publicly held joint stock companies. However, it is considered that other joint stock companies and institutions, active in private and public sector, may also implement these Principles. The implementation of the Principles is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company’s governance practices in the future should all be included in the annual report and disclosed to public. Within the framework of the regulations to be enforced by the CMB, the rating institutions conducting rating of corporate governance will determine the implementation status of the Principles.

Within the Principles, “comply or explain” approach is valid. However, the (R) letters on the sides of some of the Principles indicating that those are recommendations only. With respect to non-conformity with these Principles, which are only recommendations, no disclosure is required. Additionally, the Principles, marked as recommendations, may be subject to of “comply or explain” approach in medium and long term.

The Principles do not provide exceptions to the current regulations. In other words, public companies’ obligations defined by the relevant legislation are still effective without any amendments. The Principles also include provisions beyond the current regulations, and they have been prepared in order to fill the gaps in corporate governance practices. Therefore, the

Principles also aim to play a guiding role for future regulations. The Principles will be periodically examined in order to ensure that they stay up-to-date.

The Principles consist of four main sections namely shareholders, disclosure and transparency, stakeholders and board of directors:

The first section discusses the Principles on shareholders' rights and their equal treatment. Issues such as shareholders right to obtain and evaluate information, right to participate in the general shareholders' meeting and right to vote, right to obtain dividend and minority rights are included in detail in this section. Matters such as keeping records of shareholders and the free transfer and sales of shares are also discussed hereunder.

The second section discusses the Principles regarding disclosure and transparency issues. Within this scope, Principles for establishment of information policies in companies with respect to shareholders and the adherence of companies to these policies are discussed. The conditions of today's global financial economy and conditions faced in our country have been taken into consideration while setting single standards for the procedures for providing information via periodic financial statements and reports and detailing such standards through consideration of functionality.

The third section is concerned mainly with stakeholders. A stakeholder is defined as an individual, institution or an interest group that is related with the objectives and operations of a company in any way. Stakeholders of a company include the company's shareholders and its workers; creditors, customers, suppliers, unions various non-governmental organizations, the government and potential investors who may consider to invest in the company. This section includes the Principles to regulate the relationship between the company and stakeholders.

The fourth section includes Principles concerning functions, duties, obligations, operations and structure of the board of directors; remuneration thereof, as well as the committees to be established to support the board operations and the executives.

Under the section concerning the board of directors, it is proposed that the board of directors be composed of two different types of members. These are executive and non-





executive members. In case a member bears its administrative duty as a managing member, then the mentioned board member is defined as the board member having an execution duty. A non-executive member is defined as an individual not having any administrative duties within the company. The chief executive officer (CEO) is the individual who is responsible for the implementation mentioned under the articles of association at the highest level. In case there is no CEO in corporate structure, same function will be fulfilled by the general director.

The company's chief executive officer/general director and the general coordinator, their assistants, staff directing the main units in the company organization chart and their assistants, and the personnel that are directly working with the board of directors, chairman or chief executive officer/general director and other personnel such as consultants have been collectively named as executives within the Principles.

## **SECTION I – SHAREHOLDERS**

Shareholders play a very crucial and significant role within the structure of corporations since each shareholder owns a particular portion of a company’s property in real economic terms. As a result, each shareholder is entitled to both pecuniary and managing rights.

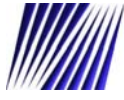
When corporate governance regulations (codes, reports, guides etc.) of various countries are examined, it becomes evident that the shareholders’ rights are included under the right to obtain accurate information, the right to participate actively in the general shareholders’ meeting, and the right for equal treatment among shareholders. In fact, regulations of various countries only include issues such as the Board of Directors’ structure, accountability and responsibility without mentioning the shareholders at all.

With respect to the previously applied corporate governance regulations of Turkey, it is generally accepted that shareholders are unable to exercise their rights effectively, and to communicate and interact effectively with management and that there exist various imperfections in the regulations pertaining to shareholders rights.

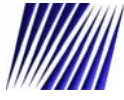
Above-mentioned circumstances lead to deviations between Turkey’s legislation and the OECD Corporate Governance Principles. Therefore, in order to ensure proper harmonization between these regulations, it has been proposed that provisions are adopted in the articles of association and in the internal regulations of a company in order to improve and protect shareholders rights.

In some countries, shareholders have the opportunity to vote without actually being present at the assemblies due to remote access which recent technological improvements have brought about (i.e. electronic voting). Such opportunities and facilities may also become available to shareholders in Turkey under the condition that new regulations are put into effect (i.e. Turkish Commercial Code).

The Principles included in this section emphasize the following issues:



- **T**he scope of the shareholders' right to obtain accurate information is extended by a recommendation on inserting a special provision in the articles of association, which would allow this right to be exercised more effectively. To that end, the right to obtain information may only be refused by the board of directors on the grounds that disclosure of this particular information would violate the company's interests and trade secrets; the right to pose questions at the general shareholders' meeting should clearly be defined and granted to shareholders; the right to request the appointment of a special auditor should be granted to shareholders; the agenda items of the general shareholders' meeting should be available in writing or in electronic form; the general shareholders' meeting should serve as a forum for communication between the board of directors and shareholders; the information regarding the use of voting procedures should be announced to the shareholders prior to the meeting,
- **C**ompanies should have in-house regulations consisting of provisions that would enable important decisions to be adopted at the general shareholders' meeting only,
- **T**he effectiveness of voting rights should be increased and Principles limiting voting privileges of shares should be included,
- **P**inciples should be adopted in order to remove any impediment to the free circulation of shares,
- **S**ound record keeping practices and the update of these records has strongly been advised.



## **1. Facilitating the Exercise of Shareholders' Statutory Rights**

### **1.1. In exercising shareholders' rights, legislation, articles of association and other in-house regulations should be applied and necessary precautions to ensure use of such rights should be adopted.**

1.1.1 A new department should be established to improve relations between shareholders and the company. This newly set-up department should consist of an adequate number of staff and an authorized staff who would be appointed as the head of such department and would be directly associated with the head of the Corporate Governance Committee. Main task of this department is to facilitate the exercise of shareholders' statutory rights. This department would be responsible for reporting to the board of directors and for the maintenance of communication between shareholders and board of directors.

1.1.2. Major responsibilities of "shareholders relations department" include the following:

- a- Keeping proper, secure and up-to-date records of shareholders,
- b- Responding to the shareholders' written queries for information regarding the company, excluding the undisclosed information that is confidential and trade secret,
- c- Ensuring that the general shareholders' meeting is conducted in accordance with the legislation, the corporate statute and other in-house regulations,
- d- Preparing the documents to be used by the shareholders in the general shareholders' meeting.
- e- Keeping the records of voting results and ensuring that all reports related to the resolutions of the general shareholders' meeting are sent to the shareholders,
- f- Supervision and surveillance of all issues concerning public disclosure, including the related legislation and information policy of the company.

## **2. Shareholders' Right to Obtain and Evaluate Information**

### **2.1 There should be no discrimination among shareholders when exercising their right to obtain and evaluate information.**

2.1.1. All information required to exercise shareholders' rights in a sound manner should be made available to all shareholders. The information should be submitted as complete, accurate and in a timely and diligent manner.

2.1.2 A shareholder who does not receive the information embracing the above mentioned qualities, will not be deemed as having approved the company's financial statements and released the board of directors from liability even though he/she may have voted

affirmatively at the general shareholders' meeting. That will not also hinder the shareholder from suing for cancellation or responsibility.

2.1.3 Obligation to inform shareholders includes legal or commercial relationships with other enterprises or individuals with whom there is a direct/indirect managerial, administrative, supervisory or ownership related relationship.

2.1.4 Shareholders' right to obtain information simultaneously refers to obligation of the board of directors and auditors to provide such information.

2.1.5. The general shareholders' meeting or the board of directors may refuse to disclose information, only based on protection of trade secrets and the company's interests.

2.1.6 The right to request appointment of a special auditor is part of the shareholder's right to obtain and evaluate information. Within this framework, a provision may be included in the articles of association to allow each shareholder to have the right to request from the general shareholders' meeting that a special auditor is appointed for the examination and clarification of a specific material situation (R).

- In case the general shareholders' meeting rejects the shareholder's request to appoint a special auditor, then minority shareholder/shareholders would have a special right to legally request the appointment of a special auditor from the court. Such right may be separately included in the articles of association.
- The company management should refrain from effecting regulations that would complicate the procedure for the appointment of a special auditor, since the appointment of a special auditor serves as an effective device to conduct audit against malpractice claims.

**2.2. In order to broaden the scope of shareholders right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, must be updated on a regular basis in an electronic form.**

### **3. The Right to Participate In the General Shareholders' Meeting**

**3.1 Within a reasonable period prior to the general shareholders' meeting, holders of registered shares should be recorded in the company's share ledger by also taking into consideration the records of institutions operating for the record keeping and safekeeping of shares in order to ensure attendance of real shareholders at the general shareholders' meeting.**

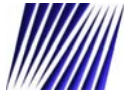
**3.2. The procedure, content and timing of invitation to the general shareholders' meeting, should allow shareholders to acquire adequate information about the agenda items to be discussed prior to the meeting and enables preparations thereto. The board of directors should prepare and disclose to public an informative document regarding the agenda items.**

3.2.1. In order to ensure attendance of maximum number of shareholders, announcement of invitation to the general shareholders' meeting should be performed through all means of communication including electronic means, at least three weeks in advance in addition to the methods of invitation in the legislation.

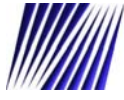
3.2.2. The following items must be clearly indicated in all announcements prior to the shareholder meeting: date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting together with all necessary informative documents; should an amendment on the articles of association be discussed within the agenda, the old and new versions of the related provision/provisions of the articles of association as approved by the relevant authorities; the body inviting the general shareholders' meeting in case the meeting is to be held upon postponement of the first meeting for any reason; the reasons for the postponement and required attendance quorum; the place where annual report, financial statements and other meeting documents can be examined.

3.2.3. Commencing from the date of announcement of invitation for the general shareholders' meeting, financial statements and reports including the annual report; proposal for dividends; informative documents prepared for the agenda items of the general shareholders' meeting, and all other related documents pertaining to the agenda items; final version of the articles of association; and in case an amendment in the articles of association is to be made amended version of the provision/provisions, together with the reasoning thereof should be made available to all shareholders for examination purposes in the most convenient places including at the headquarters or branches of the company and also in electronic form.

3.2.4. Prior to the general shareholders' meeting, the company should declare to the shareholders all changes which were realized in the previous accounting period, or future changes in the management and operations of the company together with reasoning thereof. Within this framework, the following information and documents should be made available to the shareholders for inspection:



- a- Statement and reasons for changes in the organizational structure of the company,
  - b- The report prepared by the consultants of the company on the matter, if any. In lieu of such report, related information and documents prepared by the company on the subject matter,
  - c- In case of an organizational change in the affiliates and the subsidiaries of the company, annual reports and annual financial statements together with pro forma financial statements for the past three accounting periods for all institutions involved in such organizational structure change.
- 3.2.5. Information submitted to the shareholders before the conduct of general shareholders' meeting should be easily associated with agenda items. Such information should consist of references and citations pertaining to the agenda items to be discussed.
- 3.2.6. During the preparation of the general shareholders' meeting agenda items, each proposal should be put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" in the agenda would be omitted as much as possible.
- 3.2.7. Prior to the meeting, form of proxies should be announced for those who will appoint a proxy for the meeting. These forms should also be open to use of shareholders in electronic media.
- 3.2.8. Voting procedure should be announced prior to the meeting and shareholders should be duly informed in electronic media.
- 3.2.9. While preparing the agenda, the board of directors should give considerable attention to the issues raised within the "shareholders relations department" and to the issues that shareholders wish to include in the agenda. The request of the minority shareholders should be reserved.
- 3.3. The general shareholders' meeting should be conducted in a manner to ensure the highest level of participation.**
- 3.3.1. Ordinary general shareholders' meeting should be held at the shortest possible time not exceeding three months following the end of each accounting period.
- 3.3.2. The meeting should not lead to any discrimination among the shareholders, and should take place with at least possible cost, and in the least complex manner.
- 3.3.3. The meeting must take place at the headquarters of the company. However, if stated in articles of association, the meeting may also take place where the majority of shareholders are located.



3.3.4. The location of the general shareholders' meeting should be easily accessible to all shareholders. With respect to companies, with great number of shareholders, the possible number of attendance should be predicted beforehand.

**3.4. Agenda items should be expressed in an unbiased and detailed manner with, clear and concise method in the general shareholders' meeting. Shareholders should be provided with equal opportunities to express their opinions, and raise any questions and a sound discussion environment should be created.**

3.4.1. The board of directors should ensure that the total number of votes and privileges to be enjoyed by shareholders during the meeting are determined and classified and the shareholders are informed at the start of general shareholders' meeting.

3.4.2. The general shareholders' meeting should serve as a forum of shareholders in which the annual report and company's performance indicators are discussed.

3.4.3. Should the board members have been permitted to enter into transactions with the company or to be involved in competition with the company then board members concerned should inform the general shareholders' meeting about the transactions and competitive activities.

3.4.4. Shareholders should be informed of controversial news and analysis regarding the company issues as exposed in the media.

3.4.5. The board of directors or auditors should answer questions raised by the shareholders provided that such information is essential for the exercise of shareholder rights and not within the scope of trade secrets.

3.4.6. The chairman of the meeting should conduct the meeting on fair grounds, and in an efficient manner that would enable shareholders to exercise their rights.

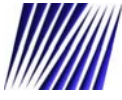
3.4.7. The chairman of the meeting should ensure that each question imposed by any of the shareholders is answered directly in the general shareholders' meeting. In case the question being asked is not related to the agenda or is too complicated to be answered during the meeting, then the answers thereto must be provided in writing within one week following the date of the meeting at the latest.

3.4.8. Board members, auditors and authorized persons who are responsible for preparing the financial statements and persons who are in a position to inform shareholders about peculiar agenda items should all participate in the meeting. The chairman of the meeting should announce the reasons for absence of the persons, who are advised to attend the shareholder meeting under the Principles, to the shareholders attention.





- 3.4.9. The chairman of the meeting should take all the necessary precautions with respect to the application of voting procedure in which would best reflect the intention of the majority of the shareholders. Each agenda item should be voted separately. In order to prevent any distrust on the voting results, the votes must be counted and results of voting be announced before the end of the meeting.
- 3.4.10. The minutes of the meeting should be made available to the shareholders in writing or in electronic media at all times.
- 3.4.11. A provision could be inserted in the articles of association to allow general shareholders' meeting open to public, including the stakeholders and the press, provided that they do not have the right to speak at the meeting (R).
- 3.4.12. All candidates should be present during the election of the members of the board of directors. Shareholders are provided with information concerning the candidates and also with the opportunity to pose questions to such candidates.
- Shareholders should be informed about the other companies on which each candidate fulfils a duty as a board member and exclusively on whether or not in-house regulations in that respect are observed.
  - Minimum requirements for disclosure of information about the candidates should be stated in the articles of association. Shareholders are informed about any information that the candidates refrain to disclose.
  - The information that candidates are required to disclose may be outlined as follows: identification information of the candidate; level of education; current and previously held positions within the past five years and reasons for departure from each position; the characteristics and level of relations with the company; board membership experience; official tasks; the characteristics and level of relations with the individuals related to the company; the characteristics and level of relations with main institutions with whom the company deals with; financial status and/or declaration of property; whether or not independence criteria is met and will be maintained at the time of general shareholders' meeting and other similar matters that may affect the company's operations in case of board membership.
- 3.4.13. If a person, who was previously employed in the public sector, is employed within the management, enforcement, and/or consultancy departments of the company, then the shareholders must be informed of the reasoning of such an appointment.
- 3.4.14. (Added by the resolution of the CMB dated 07.02.2005) Shareholders should be given the opportunity to express their views and suggestions in relation to the remuneration policy that is applicable to board members and key executives.



- 3.5. During the general shareholders' meeting, the audit firm must explain in writing whether or not the financial statements and other financial reports such as capital adequacy table comply with the current Principles and standards; the statements and reports truly and completely reflect the real status of the company; whether or not there are any issues hindering the independence of the external auditor company; and services provided to the company and to its subsidiaries/affiliates by the external auditor company and its subsidiaries (R).
- 3.6. Articles of association of the company includes a provision to maintain that decisions, regarding the division and allocation of shares which changes the capital and management structure of the company and the composition of the company's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favour of a third person are adopted in general shareholders' meeting and the shareholders are encouraged to participate in the decision-making process thereby.
4. **Voting rights**
- 4.1 The right to vote is an indispensable right, which cannot be abolished in any way by the articles of association and its essence can not be interfered with in any way.
- 4.2 **(Amended by the resolution of the CMB dated 07.02.2005)** Any actions that may complicate the use of voting rights must be avoided. Each shareholder should be given the opportunity to exercise his/her voting right, including cross border voting, in the most appropriate and convenient manner.
- 4.3. Ceilings should not be applied on the number of votes that a shareholder may exercise during the general shareholders' meeting.
- 4.4. The right to vote is automatically granted once the share is acquired. Hence, under no conditions, arrangements that would postpone the exercise

**of the right to vote a certain period following the acquisition of share should be adopted.**

**4.5. Privileges regarding voting rights should be avoided.**

4.5.1. Shareholders of preferred stock should not have the privilege to nominate in a way that would distort the fair representation of holders of publicly traded shares in the management of the company.

4.5.2. Privileges on voting rights should be simple and allow shareholders to easily understand their rights. In order to balance ordinary and preferred stock, a provision can be inserted in the articles of association stating that owners of preferred stock may be granted privileged rights only up to 50% of their capital share (R).

**4.6. Provisions that may prevent voting by use of a proxy who is not a shareholder should not be included in the articles of association of the company.**

4.6.1. A shareholder can vote either personally or by appointing a third person as his/her representative, regardless of whether this third person is a shareholder or not.

4.6.2. Each individual shareholder may only be represented by one person at the general shareholders' meeting. Should there be more than one representative of the legal entity shareholder at the general shareholders' meeting only one of such representatives may be entitled to vote. The certificate of authority should designate the representative who is entitled to exercise the right to vote.

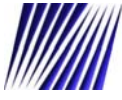
4.6.3. Legal representations, if any, should be documented in writing.

4.6.4. The company should attach great significance to the institutional representation of shareholders with respect to the exercise of voting rights and should take all precautionary measures that would increase the effectiveness of institutional representation (R).

- The board of directors should communicate with the institutional representatives and should stimulate great efforts in order to establish a continuous dialogue between institutional representatives and shareholders.

- The exercise of voting rights via an institutional representative would depend on the announcement of the representative capacity at the general shareholders' meeting. The actual identification details should be disclosed to the shareholders in the voting process.

4.6.5 Should beneficial interests of shares are mentioned in the articles of association of the company, a provision may be inserted there in order to clarify that the voting right



would belong to the shareholder whereas such shareholder would consider the interests of the beneficial owner when exercising his/her voting right (R).

- 4.7. **In case cross ownership is associated with a controlling relationship, the companies in such cross ownership should avoid exercising his/her voting right in the general shareholders' meeting and disclose the issue to the public, provided that there exist no compulsory cases, e.g. to form a quorum.**
- 4.8. **Save for the special provisions of the relevant legislation and articles of association, voting should be conducted through open ballot and by raising hands during the general shareholders' meeting. Upon request by shareholders, the voting procedure should be determined by the general shareholders' meeting.**
- 4.9. **Shareholders should be notified about the voting procedure prior to the start of the general shareholders' meeting.**

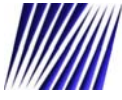
## **5. Minority rights**

**Utmost care should be given to the exercise of minority rights.**

- The cumulative voting procedure should be adopted so as to ascertain that minority shareholders send their representatives to the board of directors.
- Minority rights are defined in the articles of association for shareholders' holding less than one twentieth of the company's capital. An enlargement of the scope of minority rights can be attained through the regulations in the articles of association of the company (R).

## **6. Dividend Rights**

- 6.1 **The board of directors and executives of the company are prohibited from diminishing the profit through, collusive transactions, as defined in the related legislation.**
- 6.2 **The company should have a clearly defined and consistent dividend policy. This policy should be announced to the shareholders at the general shareholders' meeting and also included in the company's annual report, prospectus and circulars.**
  - 6.2.1. The following issues should be incorporated in the dividend policy of the company:



- a- Annual profit, amount and sources of distributable profit,
- b- The criteria according to which the board of directors' prepare dividend distribution proposal,
- c- Dividend to be paid for each share, while indicating different groups of shares,
- d- Amount of dividend to be distributed to the board of directors, founders' benefit shares, and employees of the company and the method for its calculation,
- e- Location, time and terms of payment for dividends,
- f- Should interim dividends are to be paid in the following accounting period, the Principles and provisions relating to interim dividend payments,
- g- By taking into consideration any indirect shareholder relationships, the amount of dividends due to be paid to real persons who own a significant portion of distributable profit (for the small investors the amounts may be summed up),
- h- Information regarding past and planned donations/contributions to be performed by the company during the accounting period or at the end of the accounting period.

**6.3 In case the board of directors proposes not to distribute any dividends at the general shareholders' meeting, the basis for such proposal and information on the method of use of the profit should be announced to the shareholders and published in the annual report, prospectus and circulars.**

**6.4. Distribution of dividends should be performed within the period prescribed by the legislation and as soon as possible after each general shareholders' meeting.**

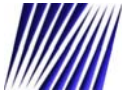
**6.5 Decision-making and implementation procedures for the interim dividend payments should be carried out with due diligence.**

**6.6 A consistent dividend distribution policy is constituted to balance the interests of the shareholders and the company (R).**

## **7. Transfer of Shares**

**Practices that would hinder shareholders to freely transfer their shares should be avoided. The articles of association should not contain provisions to impede the transfer of shares.**

## **8. Equal Treatment of Shareholders**



- 8.1. All shareholders, including minority shareholders and foreign shareholders should be treated equally.**
- 8.2 The board of directors, executives, shareholders who are controlling the management, or other person, who would have the privilege to retrieve various kinds of information, should disclose the activities performed on their own behalf but which coincide with the activities of the company.**
- 8.3. Unless aimed at protecting his/her own justified interest, no shareholder may act with the intention of harming other shareholders and the company (R).**

## **PART II – PUBLIC DISCLOSURE AND TRANSPARENCY**

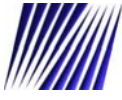
Shareholders and investors of a company need to have regular access to reliable and accurate information about the management and legal and financial status of the company.

The aim of the principle on public disclosure and transparency is to provide shareholders and investors accurate, complete, comprehensible and easy-to-analyse information which is also accessible at a low cost and in a timely manner.

While disclosing information, the company is recommended to use most basic concepts and terminology and avoid using vague or indefinite expressions that would result in confusion. In cases when it may become absolutely essential to use technical terms, relevant explanations are to be provided in order to make such information comprehensible to everyone.

Disclosed information should be unbiased. Any information disclosed to benefit the information needs of a particular group of shareholders as opposed to others is unacceptable. Under no circumstances should a company refuse to disclose information, which is required to be publicly disclosed, even if such information may be detrimental to the company. However, in any case, the company information to be disclosed should not be in the nature of a trade secret and not result in any harm to the company through interruption of the company's competitive power.

Within the context of the Principles, the expression of “periodical financial statements and reports” refers to the company's annual report, semi-annual reports, annual and quarterly periodical financial statements, audit reports, capital adequacy tables and other reports to be prepared annually and during interim periods. Information to be disclosed may be included in the periodical financial statements and reports of the company or be presented as a separate report that would be used independently and would include commentaries and analysis by the board of directors.



## **1. Principles and Means for Public Disclosure**

### **1.1. Disclosed information should be accurate, complete, comprehensible, interpretable and easily accessible at low cost and be prepared to aid the individuals and institutions in their decision-making and presented equally<sup>1</sup>.**

1.1.1. There should be two executives responsible for public disclosures who are bestowed with the authority to sign official documents. These executives should fulfill their responsibilities by working in close cooperation with the audit committee and the corporate governance committee.

1.1.2. A member of personnel employed at the company's "shareholders relations department" should be assigned solely to monitor and supervise all issues pertaining to public disclosure. Additionally, investors, financial analysts, press members and similar groups should be guided to contact this department.

1.1.3. Information to be disclosed to the public should not be announced to specific investors or concerned parties prior to the public disclosure. Audit firms, persons and institutions providing consultancy services, rating institutions and trade unions, all of which are capable of accessing confidential company information due to their operations, are exempted from such rule. Accordingly, the persons who gain access to information before the public disclosure must keep the information confidential under the principle of trade secrets and the ethical rules.

1.1.4. Appropriate to the transparency Principle, the company must accurately disclose its accounting policy and operational financial results to the public.

### **1.2. The company should establish its information policy and disclose it to the public.**

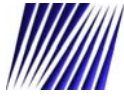
1.2.1. The board of directors should prepare collective Principles to be used in the information policy of the company, present them to the shareholders at the general shareholders' meeting and disclose to the public.

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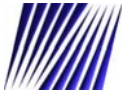
<sup>1</sup> In addition to the provisions in legal regulations, public disclosure methods such as press bulletins, electronic data distribution channels, electronic mail posts, communication over cellular phones (wap and similar technologies), meetings held with shareholders and potential investors, public announcements made via media, brochures and internet can also be used.



- 1.2.2. The company's information policy should cover category of information to be disclosed to the public in addition to the requirements of the relevant legislation; form, frequency and methods of disclosure; the frequency at which the board of directors and the executives would confront the press/media; the frequency at which meetings for public disclosure would be conducted; the method to be adopted in order to answer the questions submitted to the company and other relevant issues.
- 1.2.3. The company's information policy should define the type of information to be discussed at the general shareholders' meeting in addition to the requirements of the relevant legislation.
- 1.2.4. Any amendments in the information policy of a company and corresponding reasoning should be presented at the general shareholders' meeting and disclosed to the public upon approval by the board of directors.
- 1.3. Any developments that may affect the value of the company's capital market instruments should be disclosed to the public without any delay and within the time period required by the current legislation.**
- 1.4. Should there be a significant change in the financial status and/or operations of the company, or in case of an expectation of such a significant change in the financial status and/or operations in the future, the information should be disclosed to the public, save for the relevant provisions of legislation.**
- 1.5 Any changes or new developments in the already disclosed information should be regularly updated and disclosed to the public.**
- 1.6 Unilateral declaration of the board of directors, which covers information about whether or not the Principles are being properly applied, if the Principles are not being applied, the reasons for such non-application and all possible conflicts of interest due to the improper adoption of the Principles, should be included in the annual report and disclosed to public, together with pertinent harmonization report, if any.**
- 1.7 The dividend policy of a company should also be included in the annual report of the company and be publicly announced within the framework of the public information policy.**
- 1.8. The company should disclose its ethical rules within the scope of its public information policy.**



- 1.9. A company, whose capital market instruments are listed in a foreign securities exchange, is required to simultaneously disclose the information in its home country that is disclosed abroad, together with any additional notes that would make the information disclosed easier to understand, even if such information does not need to be disclosed in its home country.**
- 1.10. Forward looking information to be disclosed, e.g. pro forma financial statements and reports should be disclosed together with underlying statistical data and evidence. This information should not consist of any exaggerated provisions or misleading information that would lead to false interpretations about the company's financial status and operational results.**
- 1.10.1. In case the predictions and their assumptions regarding the company's performance as provided in the publicly disclosed information or within the context of periodical financial statement and reports are not realized or clearly understood to be impossible to be realized, the company is obliged to review the predictions and their assumptions as soon as possible and disclose the revised information, tables or reports immediately.
- 1.10.2. Save for the provisions of the legislation, the preparation or revision of pro forma financial statements should be subject to a compliance audit by the external auditor. The audit and public disclosure thereof, and the method to be adopted for disclosing forward looking information should be in compliance with the international standards.
- 1.10.3. The Principles applicable to disclose forward looking information should be included in the information policy of the company.
- 1.11. The company's website should be actively used as a means of public disclosure.**
- 1.11.1. The company's website should be easily accessible.
- 1.11.2. The company's website should also be made available in English for foreign investors.
- 1.11.3. Explanations displayed on the company's website should not be considered as a substitute for disclosure of special events mandatory under the legislation.
- 1.11.4. The company should ensure that the information disclosed to the public is also available on its website which is configured and designed accordingly. The company should take all the necessary precautions in order to prevent any modifications on the information displayed on its website.
- 1.11.5. Significant information to be published on the company's website mainly include trade register information; detailed information about the shareholder and management



structure; detailed information about preferred shares; the final version of the company's articles of association together with date and numbers of the trade register gazettes in which amendments are published; publicly disclosed material information; annual reports, periodical financial statements, prospectuses and circulars; agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting; form for proxy voting at the general shareholders' meeting and mandatory information forms prepared for proxy solicitation or tender offers and similar forms; minutes of the important board of directors' meetings which may affect value of capital market instruments and frequently asked questions including requests for information, queries and notifications and responses thereof.

1.11.6. The company's website should emphasize the announcement of the planned general shareholders' meeting, agenda items and informative documents thereof, other information, documents and reports on the agenda items and information on methods of participation in the general shareholders' meeting.

1.11.7. The company's web address should to be printed in the company's letterhead.

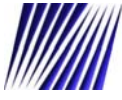
1.11.8. The criteria regarding the use of the company's website should be included in the company's information policy.

**1.12. In addition to disclosing information as required by the legislation, the company should also publicly disclose any information that may affect decisions of shareholders and investors (R).**

## **2. Public Disclosure of Relations between the Company and Its Shareholders, the Board of Directors and Executives.**

**2.1. In case shareholding or voting right percentage of an individual or group reaches, exceeds or falls below the thresholds of 5%, 10%, 25%, 33%, 50% and 66,67% of total share capital or voting rights, the company is required to disclose such information immediately upon being informed thereof, except otherwise required under relevant legislation.**

**2.2. The company's ultimate controlling individual shareholder or shareholders should be disclosed to the public, as identified after being released from indirect or cross ownership relationships between co-owners. The company's capital structure should be presented in a table format that would include the names of the ultimate controlling individual shareholder/s (names of the real personalities), amount and proportion of**



their shares and their share class and such table should also be incorporated into the annual report and financial statement footnotes<sup>2</sup>.

**2.3. Board members, executives and shareholders, who directly or indirectly own 5% of the company's capital, should disclose all transactions performed on the company's capital market instruments.**

2.3.1. In the event that board members, executives and shareholders who directly or indirectly own 5% of the company's capital, buys or sells capital market instruments of the company, information corresponding to such sale and purchase of transactions performed during the preceding year should be published on the company's website, except otherwise required by the relevant legislation.

2.3.2. Board members, executives and shareholders, who directly or indirectly own at least 5% of the company's capital, should disclose their net positions of derivative products if their share either directly or indirectly exceeds 1% of the company's capital.

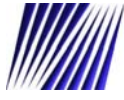
**2.4. Board members, executives and shareholders, who directly or indirectly own at least 5% of the company's capital, should immediately disclose information about the purchase and sales of capital market instruments of other group companies or any other company with whom the company maintains a material commercial relationship.**

**2.5. Commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding or having the control of the latter are disclosed to public.**

**2.6. Shareholders can engage in voting agreements in order to be effective within the company's management. The company should disclose information about the voting agreement to the public once being informed of such agreement.**

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<sup>2</sup> Real personalities who possess 5% and more of the company's capital; In case the minority rights are defined to be a ratio lower than 5% of capital, this ratio will be taken as basis.



### **3. Periodical Financial Statements and Reports in Public Disclosure**

#### **3.1. The company's periodical financial statements and their footnotes should be prepared in order to reflect actual financial situation of the company and disclosed to public.**

3.1.1. Periodical financial statements and footnotes should be prepared in accordance with the current legislation and international accounting standards and applied accounting policies should also be included in the footnotes of the financial statements.

3.1.2. Periodical financial statements should be amended in accordance with the comments mentioned in the audit report, and within the framework of the current legislation and international accounting standards.

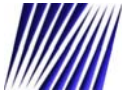
3.1.3. The footnotes of the periodical financial statements should include all off-balance sheet transactions including contingent claims, all liabilities and operational results that would affect future financial status, liquidity of the company, investment expenditures, investment sources, all factors that would affect the future relations of the company with other natural persons and legal entities which are not within the scope of consolidation.

3.1.4. Periodical financial statements should comprise all forms of incentives that is designed to grant shares to employees, i.e. employee stock ownership plans based on shares and/or other capital market instruments.

3.1.5. Brokerage houses and banks which are publicly held, should be required to make both a standard explanation as required by the related legislation and also a brief comment about the capital adequacy obligations of the company in the footnotes of the periodical financial statements which should be subject to external audit. Brokerage houses and banks should also display annual and interim capital adequacy tables accompanied by the opinion of the audit firm on the company's own website.

#### **3.2. The annual report should be prepared in a manner to ensure public access to all kinds of information regarding the company's activities.**

3.2.1. The annual report should be signed by the board chairman, chief executive officer/general director and department manager responsible for the preparation of periodical financial statements and reports or by the company official who was appointed to fulfil such responsibility, as well as board member(s) responsible for the preparation of the financial statement and reports if a distribution of duties is performed among the members of the board of directors and a statement indicating that the current periodical financial statements completely reflects the true financial status of the



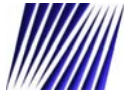
company and that the company acts in accordance with the related legislation should be provided. In case any of the above-mentioned persons disagree with the information included in the annual report, the matters disagreed should be included in the annual report in writing.

3.2.2 The below listed issues should be incorporated in the company's annual report;

- a- Scope of activities of the company,
- b- Information about the sector in which the company operates and the company's status within this sector,
- c- Board of directors' evaluation and analysis of financial status and operation results; level of achievement of the planned operations; the company's position with respect to the defined strategic objectives,
- d- Board of directors' statement about the status of internal control system,
- e- Audit firm's opinion about the internal control system,
- f- Rating agency's opinion about the company,
- g- Detailed explanation about the foreseeable risk factors regarding future operations,
- h- Analysis of significant transactions carried out during the preceding year with the group companies and other related persons and institutions,
- i- Commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding or having the control of the latter,
- j- The curriculum vitae of the company's board members and executives; their duties and responsibilities within the company; positions held outside the company and compliance with the internally established company rules in that respect; independence statements by the independent board members; remuneration, bonuses and other benefits<sup>3</sup> offered and performance evaluation of the corporate governance committee; proportion of shares and amounts invested in the company's capital; transactions made between the mentioned persons and the company, possessions in the company's capital market instruments; lawsuit filed against them on company operations,
- k- Changes in the organization, capital, ownership and management structure of the company,

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<sup>3</sup> *Payments affected include payments in cash such as salary, bonuses, other regular and irregular payments; payments not made in cash are shares, derivative products originating from shares, share buying options provided within the scope of plans for making the employees shareholders, house or car whose proprietorship bestowed and/or allocated for use, and all the salaries and all the stakes provided. This information is disclosed to public as a table showing the name/title, position of the executive and the total value of the payment affected.*



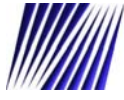
- l- Ownership structure table showing the controlling shareholder(s), as released from any indirect and cross ownership relations,
  - m- Fines levied as a result of practices acting against the legislative provisions and the reasons thereof,
  - n- Changes in the legislation that may affect the company operations at a significant level,
  - o- Important lawsuits filed against the company and possible consequences thereof; warnings, notifications or administrative fines and similar information submitted by public authorities,
  - p- Dividend policy; the reason/s for not distributing dividends, if applicable,
  - q- Future forecasts for sales, company's level of efficiency, company's market share, income yielding capacity of the company, company profitability and the company's debt/equity ratios and similar issues,
  - r- Access to transcripts of information about the function of general shareholders' meeting, shareholders rights and the Principles that refer to the exercise of these rights.
  - s- **(Added by the resolution of the CMB dated 07.02.2005) Precautionary measures that may be taken in order to prevent any possible conflicts of interest arising between the company and the related organisations which offer investment advice, investment analysis, and rating activity etc.**
- 3.2.3. Statistical data and graphics should also be incorporated in the annual report.
- 3.2.4. Additional explanations may be provided in order to ease the understanding of the periodical financial statements and reports (R).
- 3.2.5. Employees' social rights, professional training and environment protection rights may also be incorporated in the annual report (R).

## **4. Functions of External Audit**

**4.1 The audit firm and auditors employed by such audit firm must be independent. Independence principle indicates that the independent audit activities should be conducted without being influenced by any relationship, benefit or other factors that may impede the auditor's professional discretion and impartiality.**

### **4.2. Audit firms should be subject to regular rotation.**

- 4.2.1. The board of directors should appoint an audit firm for continuous and/or exclusive audits for a maximum period of 5 years.



4.2.2. Only after 2 accounting periods following the termination of audit contract should the company appoint the same audit firm.

**4.3. Audit and consultancy services should be clearly separated.**

4.3.1. Audit firms, auditors and other related staff working for such institutions are not permitted to provide consultancy services to the companies to which they provide external auditing services within the same period, either in return for a fee or free of charge.

4.3.2. The consultancy firm and its members of staff, where there is a parent audit firm which has a direct and indirect controlling relationship with respect to the management and capital to the consultancy firm, shall not provide consultancy services to the company that the parent audit firm provides external audit services to, within the same period. Consultancy services provided by the real personality shareholders and executives of the audit firm are also within this scope.

**5. The Concept of Trade Secret and Insider Trading**

**5.1. When identifying information within the scope of trade secret, a balance should be maintained between providing transparency and protecting the interests of the company (R).**

5.1.1. Information either currently or potentially bearing commercial value, not known to third parties, impossible to learn under normal conditions and that its possessor aims it to remain confidential when acquired, should be classified as information in the nature of trade secret.

5.1.2. Security and protection of trade secrets of the company are essential. However, in cases where the stakeholders seek to exercise his/her right to obtain information, the company is obliged to act in accordance with the rules of accuracy, reliability and good faith.

**5.2. In order to prevent insider trading all the necessary measures and precautions should be taken. A list of the names of executives and other persons/institutions who provide services to the company, and who can potentially possess price-sensitive information should be prepared and disclosed to public in accordance with the information policy.**

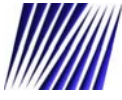
**6. Significant Developments That Must Be Disclosed To the Public**





**The conditions listed below and their possible implications on the financial status and operational results of the company should be disclosed immediately to the public.**

- a- A lawsuit brought against or filed by the company at significant amounts, or conclusion thereof,
- b- Any agreement signed between the company and individuals or institutions who are authorized for either a partial completion or full completion of a certain task (outsourcing),
- c- Uncertainty about the repayment of significant amounts of credit,
- d- Any significant change in the management and capital structure of the parent company, subsidiaries/affiliated companies and companies under joint management,
- e- Any change in the disclosed information that took place before the issuance of capital market instruments following their registration,
- f- Any increase or decrease of more than 25% in the share price of the company within the last 5 days,
- g- Any change in the company's major operations,
- h- Any changes in or resignation of the company's audit firm or termination of independent audit agreement,
- i- Changes in the articles of association or internal regulations that were previously not announced, documented or reported in the material information disclosure forms,
- j- Any increase/decrease or termination in the relations between the company and its major customer who plays a major role in the formation of revenues, and any increase/decrease or termination in the relations between the company and its major supplier who has an important stake in its operations in comparison to the previous accounting period,
- k- Any events that would hinder a liability from being settled, or that would create an increase in the number of liabilities to be settled. Also, any direct or indirect conditions that the settlement of these liabilities may impose upon the company,
- l- Any kind of information that may incur significant amounts of losses or any type of information that would affect the profitability of the company,
- m- The rating agency's grade assigned to the company's creditability and issuance of shares, any changes that may take place thereafter,
- n- Changes in the listing criteria of the stock exchange where the company's shares are traded; cases where the company is unable to meet one of the listing criteria; cases where the company's securities get de-listed or suspended,



- o- When the company cannot fulfil its financial obligations, show evidence of insolvency, cases loan repayments are postponed or demand for loan restructuring,
- p- When the company demands deeds of arrangement, when there is a request for bankruptcy or a verdict for the company's bankruptcy, and when the company enters into a liquidation process,
- q- When the company decides to make a tender offer or proxy solicitation by making an announcement or when an obligation to make a tender offer arises and transactions are to be made for this purpose.

## **SECTION III– STAKEHOLDERS**

A stakeholder of a company is defined as any person, entity or party, who have an interest in the operations and reaching the targets of the company. These parties may be persons/groups who have a binding contractual agreement with the company; or it may be persons/groups who have no binding contractual agreement with the company. Stakeholders of the company can comprise shareholders as well as employees, creditors, customers, suppliers, trade unions, various non-governmental organizations, governmental organizations and potential investors. However, since the shareholders are governed in a separate section within the scope of the Principles, the stakeholders are limited to third persons who are in direct relationship with the company for the purposes of this section.

The stakeholders benefit from sound management and protection of the capital of the company. Disclosure of the company’s operations to the public in an honest, reliable and transparent manner therefore enables the stakeholders to be informed about the status of the company. Within this context, the strict adherence to the corporate governance principles is both vital and essential from the stakeholders’ point of view.

Taking into consideration the fact that effective communication and cooperation between the company and its stakeholders is advantageous for the company in the long term, the company should respect the rights of its stakeholders that is protected by law and mutual arrangements and contracts and secure stakeholders’ rights. To be able to minimize any possible conflicts of interest that may arise between the company and its stakeholders and within the stakeholders, well-balanced approaches should be adopted and these rights should be considered as independent.

Empirical evidence shows that based on a study of a cross sample of countries including Turkey, issues pertaining to stakeholders rights are generally covered by the relevant country’s own legislation (law of obligations, law of execution and bankruptcy, law of labour, etc.). Moreover, it was generally observed that no separate division was devoted to stakeholders’ rights within the principles of corporate governance. However in some other cases it was observed that stakeholders’ rights were dealt with under a separate heading within the principles of corporate governance. For instance, examining the European Union reveals

that, some regulations aim to increase the employee participation in the governance of companies and there is a gradual shift within companies to incorporate this issue within their principles of corporate governance.

This section mainly focuses on the company's basic policies towards stakeholders. In this section, the participation of stakeholders in the company's management and the protection of the company's capital are stressed, and possible recommendations about providing information to employees in related issues, and the relations between the company and stakeholders are also discussed.

## 1. Company Policy Regarding Stakeholders

### 1.1. (Amended by the resolution of the CMB dated 07.02.2005) The corporate governance framework should recognise the rights of stakeholders established by law or through any other mutual agreement.

1.1.1. Effective and swift compensation should be offered in case the stakeholders' rights, that are governed under the relevant legislation and protected by contracts are violated. The company should ensure that all the necessary facilities, such as compensation applicable under the legislation, are utilized in order to help the stakeholders benefit from mechanisms.

1.1.2. In case the rights of the stakeholders are not regulated by the relevant legislation, the company should preserve the interest of stakeholders under good faith principles and within the capabilities of the company, without permitting any damage to the brand image.

1.1.3. Stakeholders should be sufficiently informed about the company's policies and procedures, which aim to protect stakeholders' rights.

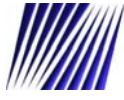
1.1.4. The company should act as a pioneer in overcoming and solving any possible conflicts and disputes that may arise between the company and its stakeholders.

1.1.5. (Added by the resolution of the CMB dated 07.02.2005) Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about any illegal or unethical practices to the board and their rights should not be compromised for doing this.

1.2. **When a conflict of interest arises among the stakeholders or when a stakeholder belongs to more than one interest group, the company should seek to adopt a well-balanced policy aimed at protecting the rights of stakeholders. Moreover, each particular right of the stakeholder should be protected independent from each other (R).**

## 2. Stakeholders' Participation in the Company Management

The company should establish mechanisms and models to encourage participation of the stakeholders in the management of the company while giving priority to employees and not hindering company operations (R).



- Any planned mechanism or model that the company will adopt should be acknowledged in the internal regulations or in the articles of association of the company as much as possible.
- In means of such mechanisms, representation of employees at the board of directors and obtaining opinions of stakeholders on company related material issues should be given priority.
- Should incentives regarding the review of the management and operations of the company be granted to a particular group of stakeholders, any information which is classified as trade secret and obtained as a result of this privilege, may not be used so as to violate the equal opportunity among different groups of stakeholders.

### **3. Protection of the Company Assets**

**Neither the board of directors nor any of the executives may take actions that would cause the company assets loose value and that would lead to the deliberate loss for stakeholders.**

### **4. Company Policy on Human Resources**

#### **4.1. When establishing employment policies and preparing career plans, the company should adopt employment policies that would provide equal opportunities to individuals who have similar specifications.**

4.1.1. The employment criteria should be in written form and be applied in applications.

4.1.2. Each employee should be treated on equal grounds in education and promotion and training plans and policies are designed to enhance knowledge, skills and manners of employees.

#### **4.2. In order to establish a collaborative working environment, the company should conduct regular informative meetings that would enable the company's personnel to be informed of and to discuss issues such as company's financial capabilities, remuneration, career planning, training and health.**

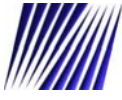
#### **4.3. Employees or their representatives should be acknowledged of any significant development or decision taken by the company that clearly affects them.**



- 4.4. Definitions of tasks and their distribution and performance related reward mechanisms and other issues that are vital to the productivity of the employees should be determined and disclosed by the executives to the employees. While determining compensation and other benefits, productivity and other factors that are deemed material should be prioritized.**
- 4.5. Working conditions of the company's personnel should be safe and secure and should be maintained and improved in time.**
- 4.6. The opinions of relevant trade unions regarding the rights of the employees and changes in the working conditions should be taken into careful consideration.**
- 4.7. Measures should be taken in order to prevent race, religion, language and sex discrimination among the employees and to protect the employees against any physical, spiritual and emotional mistreatments in the company.**

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

- 5.1. The company should take all measures in order to ensure that its customers are fully satisfied with its goods and/or services it offers.**
  - 5.1.1. The requests of customers should be handled in a quick and efficient manner, and any delay in handling customers' requests and the reasons thereof should be acknowledged.
  - 5.1.2. The company should adhere to the norms of quality standards in the production of its goods or in the offering of its services. This would ensure that the level of quality is preserved. The goods and services that fail to meet the quality standards should be compensated and indemnified.
- 5.2. Within the scope of trade secret, confidentiality of information relevant to customers and suppliers should be respected.**
- 5.3. The company should take all the necessary measures and precautions in order to establish good relations with its customers and suppliers free from any unfair advantage and to comply with the provisions of the agreements among the parties (R).**



**6. Ethical Rules**

The ethical rules of the company should be prepared by the board of directors, submitted to the general shareholders' meeting for information and disclosed to the public. The operations of the company should be carried out in accordance with the company's ethical rules.

**7. Social Responsibility**

The company should be considerate of its social responsibilities; should act in accordance with the company's ethical rules and rules with respect to the environment, the consumers and the public health .



## **PART IV – BOARD OF DIRECTORS**

The board of directors, which is the most senior executive body of a company and elected by the company’s shareholders, should fairly represent the company within the framework of the relevant legislation, the articles of association and the in-house regulations and policies.

The board of directors is the strategic decision-making, representation and highest management (executive) body of the company. In adopting and applying the decisions, the board of directors should aim to raise the company’s market value to the maximum extent possible. While managing the company, the board of directors should ensure that the shareholders acquire long-term and stable income. In conducting its business, the board should pay special attention to maintaining the balance between the interests of the shareholders and the company’s growth prospects.

The board of directors should perform its functions in a rational manner and act in accordance with the rules of good faith through maintaining the balance between interests of the company and the shareholders and stakeholders. Under no conditions, may the confidential information and information that is not revealed to public and/or that comprises trade secrets be used for the benefits of the board members, their spouses and third persons as per the relevant legislation.

The board of directors should be composed in a manner to enable utmost efficiency thereof and to perform its decision-making, management and representation duties independently, free of any conflicts of interest and influence. Level of skills, experience and degree of independence of the board members will serve as a useful tool in determining the performance level and success of the board of directors and therefore directly affects the success of the company.

The independent board members are assumed to be objective in decision making and have the natural advantage to praise the interests of the company, shareholders and stakeholders

equally. Within this framework, the presence of a clear majority of independent board directors is one of the important elements that ensure corporate governance practices are properly implemented. However, when country practices are examined, it can be observed that this issue is evaluated differently in each case based on the conditions of each country. Taking into consideration our country practices, special clauses have been incorporated to the Principles that emphasize the need for the independence of the board of directors. Moreover, it was recommended that the board of directors be constituted from at least two independent members, and that at least one third of the members fulfill the criteria for independence. Doubtlessly, as the conditions change in time, this ratio is to increase. On the other hand, since it is recommended that the chairmen of committees to be constituted by the board of directors in the Principles should also be independent, in case more than two committees are to be constituted, then the number of independent members in the board of directors must increase accordingly.

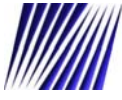
With respect to the company's mission and vision, the board of directors acts as the main responsible body for achieving the company's goals. Accordingly, the board of directors should be subject to a continuous self-performance evaluation that would be conducted in a transparent manner and incentive remuneration for or dismissals from duty should be carried out within this framework.

In order to prevent misconduct by the board of directors, board members and executives, whose actions lead to any loss for the company, should reimburse the loss that they have caused upon the company and its shareholders. In doing so, the loss of the company may be avoided and the persons under the duty would act as required.

If necessary, the board of directors may establish committees aimed at increasing its level of efficiency. These committees should be composed in a manner that would ensure that the board of directors work within a professional and healthy manner. The chairmen to these committees should be elected among the independent board members. On the other hand, in order to have a good governance practices, it is significant to point out that the majority of members constituting a committee should be elected in a sound and transparent manner among non-executive board members. It is observed that, in many countries, various committees are formed under the title of an audit committee, corporate governance committee, and strategic planning committee, committee of human resources and remuneration, conciliation committee and ethics committee.

## **1. Fundamental Functions of the Board of Directors**

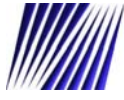
- 1.1. The board of directors is the strategic decision-making, executive (management) and representation body of the company. The board of directors should define the mission/vision of the company and should disclose this to the public.**
- 1.2. The board of directors should approve the strategic goals constituted by the executives.**
- 1.3. The board of directors should constantly and effectively revise the company's level of success in achieving its goals, operations and past performance. In doing so, the board of directors endeavors to abide by international standards in all respect. In case any difficulties or problems are encountered, the board of directors should take all the necessary means and measures without any delay or prior to occurrence thereof.**
  - 1.3.1. Effective revision shall mean revealing degree of achievement of the company's operations, approved annual financial and business plans; compliance with current legislation and international accounting standards in the accountancy of operational results of the company and identification of the degree of accuracy of the company related financial information.
  - 1.3.2. The board of directors should establish an internal control and risk management mechanisms that are appropriate for the company to minimize adverse effects of the company's risks, which would also negatively effect the shareholders and stakeholders. The board of directors also takes all necessary measures for sound functioning of such mechanisms implemented.
  - 1.3.3. The board of directors should form committees to perform tasks in a sound manner.
  - 1.3.4. The board of directors should assess whether the executives are well qualified to suit the demands of their positions. The board of directors should seek measures that would encourage the qualified employees to work for the company over a long period of time. As the board of directors deems appropriate, it may terminate the employment of executives and may without delay, appoint new executives to replace the former.
- 1.4. The board of directors should closely monitor and supervise whether or not the company's operations comply with the relevant legislation, articles of association, in-house regulations and policies.**
- 1.5. The board of directors should act as a pioneer in resolving and settling disputes that may arise between the company and shareholders.**



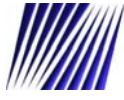
- 1.5.1. The board of directors should ensure that the shareholders exercise their rights in accordance with the legislation, provisions of the articles of association, in-house regulations and policies. The board of directors should work in close cooperation and liaison with members of the corporate governance committee and shareholder relations department, created there under.
- 1.5.2. The board of directors should take all necessary measures to avoid disputes arising between shareholders and company and/or employees. In case of disputes, the board of directors should offer solutions.

## **2. Principles of Activity and Duties and Responsibilities of the Board of Directors**

- 2.1. **The board of directors should conduct its activities in a fair, transparent, accountable and reliable manner.**
- 2.2. **The board of directors' duties and responsibilities should be clearly defined in the articles of association of the company in consistence with its functions and beyond any doubt so as to distinguish from the authorities and responsibilities of individual board members, executives and general assembly. Authority and responsibility for each board member and executive should also be clearly defined, included in the annual report of the company and disclosed to public thereby.**
- 2.3. **Each board member should perform his/her duty prudent and in good faith. Performance of duties in a prudent manner and in good faith requires demonstrating minimal care and diligence as will be required for similar events under similar conditions.**
- 2.4. **In order to ensure that the board members perform their duties fully, they should be provided with easy access to all kinds of information in a timely manner.**
  - 2.4.1. Mechanisms to enable timely and accurate information for the board members about significant developments that may impact the company should be adopted. The board of directors should work in continuous and effective cooperation with the executives while performing its duties and functions.
  - 2.4.2. If deemed necessary, all executives should attend the board of directors meetings.



- 2.4.3. Any behavior by the company employees that would obstruct flow of information to the board of directors should be subject to sanctions including warnings and termination of employment contracts. The principles in this respect should be clearly defined in internal regulations and/or articles of association of the company.
- 2.4.4. Non-executive directors of the board cannot escape from responsibility, claiming that they were not provided with sufficient information during the execution of such duties. Therefore, with no consideration to the insufficient information provided, non-executive directors should request further information if necessary.
- 2.5. Members of the board members will be jointly liable should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general shareholders' meeting.**
- 2.6. Members of the board should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains. Board of directors should include these matters in the ethical rules of the company and take measures to ensure that all employees abide thereby.**
- 2.7. Each member of the board should devote sufficient time for the company's business. Within this scope, any duty that the board member may accept outside the company should be subject to certain rules and be limited.**
- 2.8. As a rule, each member of the board should be strictly prohibited from engaging in transactions and from competing with the company.**
- Upon occurrence or being informed of such case, the board member should immediately notify the board of directors and the company's internal audit committee in writing. Moreover, this incident should be explained to the shareholders in the next prevailing general shareholders' meeting, be disclosed to public and included in the annual report. For a board member, in order to engage in transactions and compete with the company,  $\frac{3}{4}$  (three-fourths) of the company's shareholders should grant approval thereto. The issue should be regulated under the company's articles of association.
- 2.9. Members of the board can under no circumstances disclose company information that is confidential and/or trade secret. This matter of confidentiality should be incorporated in the ethical rules of the company. Board members should also adopt requisite measures in order to ensure that confidential information does not flow out of the company by other company employees as well.**



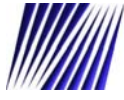
- 2.10. Members of the board are prohibited from exploiting confidential and publicly unavailable information in favor of himself/herself or others; providing information or extending news or making comments that are false, untrue, misleading, and unfounded information about the company.**
- 2.11. In case the company faces bankruptcy, executives should restore to the company any excessive portion of material benefits which they may have received as allowances and which may be significantly different from the imputed allowances within last three years before bankruptcy (R).**
- 2.12. Before commencing work, members of the board should declare in writing that they will comply with the legislation, articles of association, in-house regulations and policies, and in case of incompliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders (R).**
- 2.13. The board of directors shall be held responsible for the preparation and presentation of the company's periodical financial statements in accordance with the current legislation and international accounting standards and the reliability and accuracy thereof. The board of directors should adopt a separate decision to approve the periodical financial statements and annual report of the company.**
- 2.13.1. At the time of announcement and notification of periodical financial statements with the footnotes and annual report, the chief executive officer/general manager, the managing director or the head of the relevant department responsible for the preparation thereof or any official who has undertaken such duty to prepare such documents and member of the board of directors who was assigned the duty of preparation if any allocation of duties is realized within the board of directors, should be obliged to prepare and sign an official declaration in writing consisting of below-mentioned items as a minimum. The issue has to be included in public disclosures and consist of the following issues as a minimum:
- a- The periodical financial statements and footnotes thereto and annual report of the company have been carefully examined by the relevant parties,
  - b- In accordance with the authority and liabilities in the company and according to the information obtained, the financial statements and footnotes thereto and annual reports do not consist of any misleading statements that contradict the truth and that there is no lack of essential information,



- c- Within the scope of authority and liabilities in the company and the information in that respect, the financial statements and footnotes thereto and the annual reports correctly reflect the truth about the company's financial situation and operations.
- 2.13.2. The board of directors should take all measures to ensure that the persons<sup>4</sup>, who are responsible for signing the periodical financial statements with footnotes and the annual report, can access to information about the company, affiliates, subsidiaries and companies subject to concurrent management which are incorporated in the consolidated financial statements.
- 2.13.3. Authorized signatories should inform the board, the audit committee and the external auditor about any criticisms or suggestions they may have regarding the company's internal control system or their access to information.
- 2.14. Beyond basic functions of the board of directors and in accordance with opinions and suggestions of the committees, the board of directors should undertake the following responsibilities;**
- a- To approve the annual budget and business plans of the company,
  - b- To prepare the annual report and to finalize the same for presentation at the general shareholders' meeting;
  - c- To ensure that the general shareholders' meeting is conducted in accordance with the legislation and the company's articles of association; to fulfill the general shareholders' meeting decisions,
  - d- To control the company's material expenditures exceeding 10% of the total assets value in the most recent balance sheet of the company,
  - e- To approve the career plans and remuneration of executives,
  - f- To determine policies for shareholders, stakeholders and the public relations ,
  - g- To determine the information policy of the company,
  - h- To determine the ethical rules,
  - i- To determine the working principles of the committees; to ensure them to work effectively and efficiently;
  - j- To take all required measures to assure that the organization of the company meets environmental conditions,
  - k- To inspect operations of the preceding board of directors.

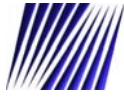
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<sup>4</sup> *If a separation of responsibility made by the chief executive officer/director general, chairman responsible for the preparation of periodic financial statements and footnotes thereof, annual activity report or the official who has undertaken this responsibility and the board of directors, the board of directors member responsible for the preparation of the annual activity report.*

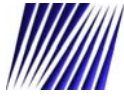


- 2.15. The chairman should consult other members of the board and chief executive officer/general director to determine the agenda of the board of directors' meetings.**
- 2.16. The agenda items should be discussed openly and thoroughly at the board meetings. Should a member of the board has a dissenting opinion, he/she should append the reasonable and detailed dissenting opinion to the records of the meeting and inform the company's auditors in writing.**
- 2.16.1. Under no condition can a member of the board submit deficient or biased information on the issues discussed at the meetings.
- 2.16.2. All questions raised by the members of the board during the meeting should, in principle, be answered immediately and incorporated in the minutes of the meeting. Questions that cannot be answered should be included in the agenda items of the subsequent meeting.
- 2.17. The meetings of the board of directors should be planned and conducted in an effective and efficient manner.**
- 2.17.1. First meeting of the board of directors should be held within one month following the election. Decisions regarding election of the chairman and the deputy chairman as well as distribution of duties and composition of committees should be adopted at such first meeting.
- 2.17.2. In principle each member of the board should attend all meetings.
- 2.17.3. Remote access should be made available in order to maximize the level of attendance at the board of directors meetings.
- 2.17.4. All members of the board are obliged to attend the meetings in person if important agenda items regarding the company's operations are to be discussed therein. The agenda items listed below can only be approved by the members of the board, who participate at the board meetings in person:
- a- Deciding the areas of business in which the company will operate and approving business and financial plans,
  - b- Inviting the ordinary/extraordinary general shareholders' meeting and organization thereof,
  - c- Finalizing the annual report to be submitted to the general shareholders' meeting,
  - d- Electing the board chairman and deputy chairman and new board members,
  - e- Establishing administrative divisions or terminating their operations,
  - f- Appointing or dismissing the chief executive officer/general director,
  - g- Establishing committees,





- h- Mergers, divestitures, reorganization; sale of the company or 10% of its fixed assets or investing in an amount exceeding 10% of total fixed assets; accruing expenses in an amount exceeding 10% of total assets,
  - i- Determining the dividend policy of the company and amounts to be distributed for the relevant term,
  - j- Increasing or decreasing of capital.
- 2.17.5. The board of directors should convene on regular basis at least once a month, as planned in advance, and if necessary more often without any delay.
- 2.17.6. Procedures for invitation of the members of the board to the meeting and organization thereto should be designed so as to allow the board members to be properly prepared for such meeting.
- 2.17.7. Documents and information about the agenda items of the meeting should be submitted to the members of the board for inspection at least seven days in advance. In case such timing cannot be complied with, utmost attention should be given in to providing equal information flow to each of the board members. Moreover, if a board member opposes the date of the meeting due to failure of submission of the required documents within the seven days in advance, such opposition should be evaluated by the board of directors. The means for delivering the documents for the board of directors meeting should be incorporated in the company's internal regulations in writing.
- 2.17.8. A member of the board is entitled to propose any amendments on the agenda to the board chairman prior to the start of the meeting. The opinions of members, who are unable to attend the meeting, should be presented to the other members of the board, provided that the opinions are delivered in writing to the board of directors.
- 2.17.9. Each member is entitled to a single vote at the board of directors meeting. Board members cannot be granted with weighted voting rights or positive/negative veto rights.
- 2.17.10. Provisions regarding the procedures for invitation of the members of the board for a meeting by shareholders and stakeholders should be incorporated in the articles of association. Members of the board should convene upon the request by institutional investors or minority shareholders and stakeholders defined under the articles of association. The request for the meeting should be delivered to the chairman of the board. In case the chairman deems conducting an immediate meeting unnecessary, the matter should be incorporated in the agenda of the subsequent board meeting.
- (R).



2.17.11. The manner in which the board of directors' meetings are to be conducted should be incorporated in the company's internal regulations.

**2.18. The board of directors meeting and decision quorum should be included in the articles of association.**

**2.19. A secretariat should be established under the responsibility of the board chairman in order to serve the board of directors and to keep documents related to the board meetings in order.**

2.19.1. The secretariat should basically engage in communication between members of the board; make preparations for the board meetings and committee meetings; keeps the minutes of the meetings; records and archives all communications made by the board of directors, including announcements.

2.19.2. Records kept by the secretariat should be made available for inspection by the board of directors.

**2.20. A members of the board is not permitted to attend the board meeting that may concern his/her own interests or the interests of his/her spouse and his/her blood or affinity relatives up to the third degree.**

**2.21. Should any opposition is raised by the independent board member on a particular issue at the board meeting such dissenting vote is disclosed to public together with a reasonable and detailed reasoning.**

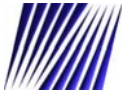
**2.22. The board of directors should have a budget to reimburse travel/meeting expenses, costs pertaining to special working requests and similar expenses.**

### **3. Formation and Election Of The Board Of Directors**

**3.1. The board of directors should be structured so as to optimize effect and efficiency thereof.**

3.1.1. In principle, candidates with high level of knowledge and skills and a qualified, specific experience and background should be considered as eligible and from among such candidates, members of the board should be appointed. General rules in this respect should be incorporated in the articles of association of the company.

3.1.2. Those, who have been convicted of non-conformity with the capital markets legislation, insurance legislation, banking legislation, legislation on prevention of money laundering and legislation on lending money; or sentenced with heavy imprisonment or imprisoned for more than five years, excluding negligent offences, even if they have enjoyed amnesty, or infamous crimes like embezzlement, qualified

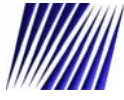


embezzlement, extortion, bribe, theft, swindling, forgery, abuse of trust, deceptive bankruptcy, and smuggling crimes other than employment and consumption smuggling; any fraudulent act to render official tenders; revealing state secrets; tax evasion; attempting or participating in tax evasion shall not be eligible to become a board member.

- 3.1.3. Members of the board should be elected from among qualified persons, who are proficient about the subject of activity and management of the company and who have acquired experience as a result of working in the private/public sector, and who preferably have obtained a university degree (R).
- 3.1.4. The number of the members for the board should be determined to facilitate producing efficient and constructive works by the board of directors, adopting rapid and rational decisions and effectively organizing formation and working of committees.
- 3.1.5. Within the general framework mentioned above, minimum requirements required for candidates for board membership positions are defined below:
  - a- To be capable of analyzing and interpreting financial statements and reports,
  - b- To have basic knowledge about the legal regulations applicable to the company for daily or long term business as well as dispositions,
  - c- To be able to participate in all board of directors' meetings in the relevant budget year.
- 3.1.6. Candidates who do not have the above-mentioned qualifications but elected to the board of the directors should be provided with the necessary training within the shortest period of time. Once the members of the board of directors are appointed, the corporate governance committee should commence its adaptation program. The adaptation program should be completed in a rapid and efficient manner and address the below mentioned issues:
  - a- Meeting the executives and visits to the production units of the company,
  - b- Evaluations of the executives' CVs and performances,
  - c- Strategic goals of the company, current situation and problems,
  - d- Indicators of market share of the company and its financial performance.

## **3.2. The board of directors comprises of both executive and non-executive members.**

- 3.2.1. It should be maintained that the board chairman and chief executive officer are not the same person and that majority of the board of directors should consist of non-executive members.



3.2.2. Non-executive members of the board of directors should regularly conduct internal meetings.

**3.3. The board should be composed to comprise independent members who have the ability to execute their duties without being influenced under any circumstances.**

3.3.1. Independent board members should comprise at least one third of the board of directors and in any case two members of the board should be independent. While calculating the number of independent members, fractions should be considered as the next whole number.

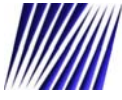
3.3.2. Remunerations including compensations and attendance fees offered to the independent board members should be provided at a level to sustain independence and in accordance with suggestions of the board of directors and upon approval by the general shareholders' meeting. Remunerations targeted on such aim do not hinder independence.

3.3.3. Professionals who have previously worked in regulatory authorities and self-regulatory institutions can be elected as members to the board provided that the other independence criteria are met (R).

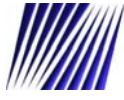
3.3.4. A person who has been a member of the company's board of directors for seven years cannot be appointed as an independent member to the board of directors.

3.3.5. A member of the board who fulfill the below mentioned requirements may be qualified as an "independent member":

- a- Not to have any direct or indirect relationship of interest in terms of employment, capital or trade and commerce between the company, its subsidiaries, affiliates or any other group company and himself/herself, his/her spouse and his/her blood or affinity relatives by up to the third degree within the last two years,
- b- Not to be previously elected to the board of directors as a representative of a certain group of shareholders,
- c- Not to be employed in a company, primarily for the audit and consultant firm, which undertakes full or partial activity or organization of the company under a contract and not to be have a managing position therein within the last two years,
- d- Not to be previously employed by the external auditor of the company or not to have been included in the external audit process within the last two years,
- e- Not to be previously employed by a firm providing significant amounts of services and products to the company and not to have a managing position therein within the last two years,



- f- For his/her spouse or any of his/her relatives by blood and affinity up to the third degree, not to have a managing position or be a shareholder holding more than 5% of the total capital or the controlling shareholder by all means, or not to hold a managerial position or not to be effective in the control of the company,
  - g- not to receive any compensation other than the board membership compensation and attendance fee; to hold shares of less than 1% if he/she is a shareholder due to his/her duty, provided that such shares are not preferred shares.
- 3.3.6. Independent member of the board of directors should provide a written declaration to the board of directors, stating that he/she is independent within the framework of the legislation, articles of association and the criteria stated above.
- 3.3.7. In case the independence is jeopardized in any way, any change in the independence status should immediately be reported to the board of directors by the independent member to be disclosed to public. In principle a member disqualified from independent membership should immediately resign to preserve number of independent members in the board of directors. In this case, the board of directors should elect an independent member in order to fill the vacant position before the first general shareholders' meeting. However, should any problems with respect to meeting and decision quorums arise as a result of the circumstances, the member, who was disqualified from independent membership, should continue his/her duty. Transaction in this respect should be disclosed to public by the board of directors as soon as possible.
- 3.4. Priority should be given to the use of cumulative voting in the election of the board of directors.**
- Within the framework of the legislation, the procedure for the adoption of cumulative voting should be incorporated in the articles of association of the company. The board of directors should inform the shareholders about the cumulative voting system. The cumulative voting system should be used in line with its objective and members of the board should act duly sensitively in this subject.
- 4. Remuneration of the Board of Directors**
- 4.1. Attendance fee should be paid to members of the board of directors, provided that it does not exceed a certain rate of his/her compensation.**
- 4.2. In principle, compensation for the members of the board of directors should be determined by the general shareholders' meeting so as to**



**counterweigh the time invested and performance of membership duties as a minimum .**

The compensation of the members of the board of directors should be close to the fixed wage per hour provided to the chief executive officer/general director, as a general principle. The level of the compensation should be calculated by taking into consideration the amount of time which a member has to spend for the company in the meeting, and pre and post-meeting preparations and special projects.

- 4.3. Incentive remunerations of the board of directors should be based upon the performance of the members of the board in connection with the performance of the company. The corporate governance committee may propose any suggestions on this issue together with the reasoning thereof.**

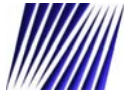
The board of directors will be held liable for the company's level of achieving its pre-determined operational and financial goals. Should those goals not be accomplished, the reasons thereof are clearly explained in the annual report. Thus, the board should conduct a self-assessment and performance evaluations of both the board and the members thereof, in line with the Principles established by the authorized committee. The board of directors will be provided with incentive remunerations or be dismissed under such Principles.

- 4.4. The company is not entitled in any way to lend money, to extend any credits, to prolong the terms of existing loans and credits, to improve the conditions thereof, and to extend credit under the name of any personal credit means through a third person or to provide warranties to a member of the board or the executives .**

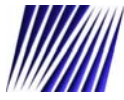
Only those institutions which offer personal credits to individuals may be entitled to offer loans to above-mentioned persons via credits credit cards and other means.

## **5. Number, Structure and Independence of Committees Established By The Board Of Directors**

- 5.1. In accordance with the conditions and necessities of the company, an adequate number of committees should be formed so as to enable the board to execute its tasks in an efficient manner.**



- 5.2. Chairman for each committee should be elected from among independent members of the board.**
- 5.3. Each committee should comprise of at least two members. If there are two members, both of them should be non-executive members. If there are more than two members in a committee, the majority of its members should be non-executive members.**
- 5.4. In principle, members of the board of directors cannot be assigned to more than two committees. If necessary, experts in specific areas may be eligible to be commissioned at a committee, even if they are not board members.**
- 5.5. Each committee should act within the limits of their own authority and duties and may present advices to the board of directors whereas the final decision should be reached by the board.**
- 5.5.1. Each committee should keep record of all their work in writing.
- 5.5.2. The work period of each committee should be designed in parallel with the board of directors. The corporate governance committee, however, should only be established once the restructuring of the new board of directors is completed.
- 5.5.3. The scheduling for committee meetings should be compliant with that of the board of directors meetings.
- 5.5.4. After the meeting, the chairman of the committee should deliver a written report about the activities of the committee to the board of directors and should deliver or have the summary of the minutes of the meeting delivered to the board in writing.
- 5.6. An audit committee in charge of supervision of the financial and operational activities of the committee should be established.**
- 5.6.1. The board of directors shall provide all necessary sources and assistance to the audit committee for its duties to be performed. The committee should be entitled to invite any executive, internal and external auditors to the committee meetings and to obtain their opinions. The internal auditor reports to the audit committee.
- 5.6.2. The audit committee should supervise whether or not periodic financial statements including footnotes are prepared in accordance with the current legislation and international accounting standards and should declare its opinion to the board of directors in writing upon receiving the opinion of the independent audit firm.
- 5.6.3. The audit committee should take all necessary measures in order to ensure that internal and external auditing are carried out adequately and transparently.



- 5.6.4. The audit committee should supervise execution and efficiency of the accounting system of the company, disclosure of financial information to the public, external audit of the company and internal control system thereof. Appointment of the external audit firm, preparation of audit agreements and initiation of audit process and all activities of the external audit firm should be made under the surveillance of the audit committee.
- 5.6.5. Appointment of the external audit company and the services to be provided thereby should only be submitted to the board upon the preliminary approval by the audit committee. Prior to appointment of the external audit company, the audit committee should prepare a report stating whether or not there exist any issues that may jeopardize independence of the audit company.
- 5.6.6. The external audit company should declare significant issues relating to the accounting policy and practices of the company, any alternative implementation and public disclosure strategies within the framework of international accounting standards as previously notified to the company's management, probable outcomes and implementation proposals thereof, significant correspondences made in writing with the company to the audit committee.
- 5.6.7. The audit committee should evaluate and resolve any issues pertaining to the complaints and suggestions on the accounting practices, internal control system and external auditing as submitted to the company and also ensure that complaints made by the employees in this respect are evaluated in accordance with confidentiality principle.
- 5.6.8. The audit committee is entitled to obtain opinions of the independent experts as it deems necessary regarding its operations. The respective fees for consulting services as required by the audit committee should be reimbursed by the company.
- 5.6.9. The audit committee should convene at least once in three months and submit the outcome of such meeting to the board of directors. The external audit company should participate in the meetings regarding the evaluation of the financial statements and should provide information about its work.
- 5.6.10. The audit committee should scrutinize full compliance with the in-house regulations and policies which aim to avoid any possible conflicts of interests that may arise among members of the board, the executives and other employees of the company and to prevent abuse of confidential information.
- 5.7. A corporate governance committee should be established in order to monitor the company's compliance with the corporate governance**



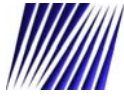


**Principles and perform improvement studies and offer any possible suggestions to the board.**

- 5.7.1. The majority of the corporate governance committee should comprise of independent members. The chief executive officer/general director should not hold a position at this committee.
- 5.7.2. The corporate governance committee should;
  - a- Determine whether or not corporate governance Principles are being fully implemented by the company, if not, the reason thereof, and state any conflict of interests arising as a result of imperfect implementation of these Principles, and present remedial Principles to the board of directors,
  - b- Coordinate the work of shareholders relations division,
  - c- Constitute a transparent system for determination, evaluation, training and rewarding of candidates eligible for the board of directors and determine policies and strategies in this respect,
  - d- Offer suggestions regarding the number of board members and executives,
  - e- Determine the Principles and practices regarding the evaluation of performances of the of the board members and executives, career planning and rewarding of the same.

## **6. Executives**

- 6.1. **The executives should perform their duties in a fair, transparent, accountable and reliable manner.**
- 6.2. **The executives should ensure that the company conducts its business within the framework of its mission, vision, goals, strategies and policies.**
- 6.3. **The executives should act in accordance with the financial and operational plans of the company as approved by the board of directors each year.**
- 6.4. **The executives should be authorized to perform their duties.**
- 6.5. **An executive should have the required professional qualifications in order to perform the assigned duties.**
  - 6.5.1. The person, who is appointed to the position of chief executive officer/general director, must be an expert in his/her area and have adequate managerial experience.
  - 6.5.2. The chief executive officer/general director should not accept any duties outside the company. However, the chief executive officer/general director may be commissioned



as a board member or manager in institutions, as associated with the company in management and capital aspects, in order to protect the interests of the company.

- 6.6. The executives should obey the legislation, articles of association, in-house regulations and policies while performing their duties; and submit a report regarding the conformity of the performed works with the Principles to the board of directors each month.**
- 6.7. The executives cannot exploit company related confidential and publicly unavailable information in favor of himself/herself or others, and cannot provide information or extend news or make comments that are false, untrue, misleading or unfounded about the company.**
- 6.8. Executives should not accept direct or indirect gifts offered to them in return for the conduct of their business in the company and may not obtain unjust benefits.**
- 6.9. The executives should compensate the losses incurred by the company and third persons as a result of not performing their duties duly (R).**
- 6.10. The compensation to be paid to the executives should be compatible with their qualifications and their contributions in the success of the company. The compensation to be paid to executives should be determined in accordance with market conditions.**
- 6.11. A person who has been convicted of non-conformity with the capital markets legislation, insurance legislation, banking legislation, legislation on prevention of money laundering and legislation on lending money; and/or sentenced with heavy imprisonment or imprisoned for more than five years, excluding negligent offences, even if they have enjoyed amnesty, or infamous crimes like embezzlement, qualified embezzlement, extortion, bribe, theft, swindling, forgery, abuse of trust, deceptive bankruptcy, and smuggling crimes other than employment and consumption smuggling; any fraudulent act to render official tenders; revealing state secrets; tax evasion; attempting or participating in tax evasion may not be eligible to become a manager.**
- 6.12. Employment agreement should clearly indicate that the executive may not be permitted to work for a competitor of the company in case the executive renounces from his/her duty to protect the interests of the company for a**



certain period of time and describe the sanctions to be implemented in case of violation of such provision (R).

- 6.13. The chief executive officer/general director should ensure that a communication method is established among the executives of the company, and between the executives of the company and third persons (R).