



Corporate Governance and Credit Rating Services, Inc.

## Corporate Governance Rating Report



TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

November 2, 2017

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## Rating and Executive Summary

### Tofaş Türk Otomobil Fabrikası A.Ş (TOASO)

 **SAHA**  
Corporate Governance Rating:

**9.15**



**MAIN SECTIONS: Avg. 91.48**

**Shareholders: 85.38**



**Public Disclosure&Transparency: 93.94**



**Stakeholders: 99.51**



**Board of Directors: 90.64**



0 10 20 30 40 50 60 70 80 90 100

### EXECUTIVE SUMMARY

The Corporate Governance Rating of 9.14 that has been assigned to Tofaş Türk Otomobil Fabrikası A.Ş. (Tofaş) on November 3, 2016 is hereby revised as 9.15. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

The Company's corporate governance rating is revised as above in consideration with the importance given by Tofaş to corporate governance principles and its willingness to carry out the compliance process continuously and dynamically.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Tofaş is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 can be accessed at <http://www.saharating.com>.

Tofaş is rated with **8.54** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Company carries out the investor relations obligations through the Corporate Governance and Shareholder Relations Unit. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed dividend policy of the Company. Tofaş has established a policy on donations and grants and has submitted to the shareholders at the general shareholders' meeting in which the year 2016 results were discussed. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the Company's articles of association as prescribed for public joint stock companies (%5), existence of privileges on board nominations and restrictions on transfer of non-public shares.

Tofaş attained **9.39** under the **Public Disclosure and Transparency** chapter. The Company has a comprehensive web site. Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. The annual report complies with the legislation, comprehensive and informative. The agreement and work conducted with the external auditor also complies with the legislation. Nevertheless, non-disclosure of the names of ultimate controlling individual shareholders and benefits provided to board members and senior management on individual basis are areas in need of further refinement.

On the topic of **Stakeholders**, Tofaş scored **9.95**. In case of violation of stakeholders' rights drawn up in line with the legislation and mutual agreements, Tofaş enables an effective and speedy compensation. The Company has a written and advanced a human resources policy. Code of ethics is publicly available through the corporate web site. During the rating period, the Company was not held liable by any public authority for any sanctions. The Company complies with environmental laws. Corporate Social Responsibility and Sustainability studies are at top levels. Tofaş is a constituent of BIST Sustainability Index.

From the perspective of the principles regarding the **Board of Directors**, TOFAŞ's tally is **9.06**. The board of directors fulfills all duties regarding Company needs. The board of directors consists of 10 members and in accordance with the CMB rules on "joint venture" companies, 2 of them are independent. Corporate Governance, Audit, and Early Detection of Risk and Risk Management Committees are established within the board of directors. The working principles of the committees are disclosed to the public. Principles of remuneration of board members and senior executives are included on the corporate web site. However, the Company has not prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of 25% female board membership rate and there are no female members on the board of directors.

## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul 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 taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. 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 future should be mentioned in the annual report and disclosed to public.

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

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.


SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.23).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**  
Public Disclosure and Transparency: **25%**  
Stakeholders: **15%**  
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

<b>TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.</b>	
 <b>TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.</b>	<b>CHAIRMAN OF THE BOARD</b> M. Ömer Koç  <b>GENERAL MANAGER (CEO)</b> Cengiz Eroldu
<b>Headquarters:</b> Büyükdere Cad. No: 145 Tofaş Han 34394 Zincirlikuyu / İstanbul <a href="http://www.tofas.com.tr">www.tofas.com.tr</a>	<b>Corporate Governance and Shareholder Relations Unit Manager</b> Devran Aydın Tel: 0212 275 33 90 / 2754 <a href="mailto:devran.aydin@tofasc.com.tr">devran.aydin@tofasc.com.tr</a>

The Turkish automotive company, Tofaş, whose foundations were laid by founder of the Koç Community deceased Vehbi Koç, in 1968, and which has equal shareholders as Koç Holding and Fiat Auto S.P.A., today is one of the two R&D centers of Fiat in Europe. Being the third largest industrial enterprise of Turkey, Tofaş has an annual manufacturing capacity of 450 thousand vehicles and houses over 10,000 employees.

Tofaş is the only automotive company in Turkey which manufactures passenger cars as well as light commercial vehicles. Fiat, Citroen and Peugeot brands are manufactured as part of Minicargo project, and Fiat, Opel, Vauxhall and RAM brands are manufactured under the New Doblo project at the Bursa plant.

Tofaş became the company with the highest production in the Turkish Automotive Industry with 383 thousand vehicles in 2016. In the same period, Tofaş exported 280 thousand vehicles and is the leader in this field. Tofaş R&D Center has been selected by the Ministry of Science, Technology and Industry of the Republic of Turkey as the Most Successful R&D Center of Automotive Industry for two consecutive years.

The Company shares are traded under "TOASO" code at BIST Stars Market and Tofaş is a constituent of BIST SUSTAINABILITY, BIST ALL SHARES, BIST INDUSTRIALS, BIST DIVIDEND 25, BIST 30, BIST 100, BIST Bursa, BIST STARS, BIST CORPORATE GOVERNANCE, BIST DIVIDEND, BIST METAL PRODUCTS, MACHINERY and BIST 50 indices.

Company's capital structure is as follows:

<b>Capital Structure of TOFAŞ Türk Otomobil Fabrikası A.Ş.</b>		
<b>Shareholder</b>	<b>Share Amount (TL)</b>	<b>Share %</b>
FIAT AUTO S.P.A	189,279,856.87	37.86
KOÇ HOLDING and KOÇ FAMILY	189,279,856.87	37.86
Other (Free Float)	121,440,286.26	24.28
<b>Total</b>	<b>500,000,000.00</b>	<b>100.00</b>

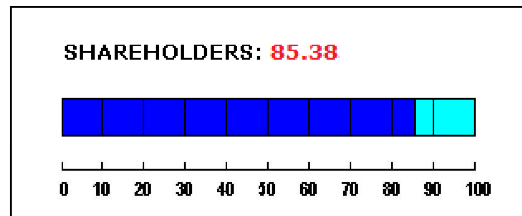
It was decided at the general shareholders' meeting held on March 28, 2017 that;

- A total amount of TL 350,000,000.00 to be paid to shareholders as 1<sup>st</sup> dividend, and
- Distribution will be paid in cash, starting from April 3<sup>rd</sup>, 2017.

The Company's board of directors is as follows:

<b>TOFAŞ Türk Otomobil Fabrikası A.Ş. Board of Directors</b>		
<b>Name</b>	<b>Title</b>	<b>Executive/Independent</b>
Mehmet Ömer Koç	Chairman	Non-executive
Sergio Marchionne	Vice-chairman	Non-executive
Cengiz Eroldu	Member & CEO	Executive
Temel Kamil Atay	Member	Non-executive
Levent Çakıroğlu	Member	Non-executive
Alfredo Altavilla	Member Corporate Governance Committee Member	Non-executive
İsmail Cenk Çimen	Member Corporate Governance Committee Member Early Detection of Risk and Risk Management Committee Member	Non-executive
Giorgio Fossati	Member Early Detection of Risk and Risk Management Committee Member	Non-executive
Gökçe Bayındır	Member Audit Committee Chairman Corporate Governance Committee Member Early Detection of Risk and Risk Management Committee Chairman	Independent
Libero Milone	Member Audit Committee Member Corporate Governance Committee Chairman Early Detection of Risk and Risk Management Committee Member	Independent

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Active and competent investor relations department
+	General shareholders' meetings conducted in compliance with the legislation
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Publicly disclosed dividend policy
+	Policy on donations submitted to the general shareholders' meeting
+	The provisions of the articles of association allow the attendance of those including stakeholders and media to the general shareholders' meetings with no voting rights
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Privileges on board nominations
-	Restrictions on transfer of non-public shares

#### 1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The Company carries out investor relations obligations through the "Corporate Governance and Shareholder Relations Unit".

Employees of this unit are competent, active and willing on exercise of corporate governance principles at the Company.

Along with other units of the Company, the "Corporate Governance and Shareholder Relations Unit" plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- Ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- Respond to the queries of the shareholders requesting written information on the Company.
- Ensure that the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- Prepare the documents that might be used by shareholders in the general shareholders' meeting.
- Supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

The Corporate Governance and Shareholder Relations Unit submit a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights is



available up to date on the corporate web site.

Corporate Governance and Shareholder Relations Unit manager, Mr. Devran Aydın is holder of Capital Market Activities Level 3 and Corporate Governance Rating Specialist Licenses.

The Company's free float ratio is 24.28%.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine or warning received in this regard.

The Company's disclosure policy is submitted to shareholders and disclosed to the public via the corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted exactly the rate foreseen in the legislation for listed companies.

### **1.4. General Shareholders' Meeting:**

SAHA participated to the general shareholders' meeting on the fiscal year 2016 as observer and assessments are carried out accordingly.

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting held on March 28, 2017 is performed through all means of communication available to the company on March 1<sup>st</sup>, 2017 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

In addition, a descriptive disclosure document on agenda items has been prepared.

Commencing from the date of announcement of invitation for the general shareholders' meeting, following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Company, and the electronic media;

- The annual report,
- Financial statements and reports,
- All other related documents pertaining to the agenda items,
- Dividend distribution proposal.

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

- a. Total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure, number of

shares and voting rights reflecting the privileged share group within the Company capital, and the nature of the privileges,

- b. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the Company and its related parties, whether they are independent or not, and information on similar issues.
- c. Information on changes in management and activities of the Company and its subsidiaries in the previous fiscal year, or planned for the upcoming fiscal period which can significantly affect the Company operations.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

General shareholders' meetings take place in Istanbul, at the Company headquarters.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions.

Agenda of the general shareholders' meeting included the proposal for the

permission to be granted to shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives to execute transactions and compete with the Company and/or its affiliates, to make a commercial business transaction for himself or on behalf of others or to join to another company dealing with the same type of commercial business as a partner with unlimited responsibility.

The members of the board of directors related with those issues of a special nature on the agenda, other related persons, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

General shareholders' meeting was also attended by the representative of the independent auditor who read a summary of the report to the participants.

The Company has established a policy on donations and grants and submitted it for the approval of shareholders at the general shareholders' meeting in which the operating period of 2016 was discussed.

Furthermore, shareholders are informed, with a separate agenda item, of amount and beneficiaries on all donations and grants effectuated during the reporting period and the distribution cap is set for next year.

The articles of association of the Company contain a clause on attendance of those including stakeholders and media with no voting rights to the general shareholders' meetings.

### **1.5. Voting Rights:**

At Tofaş all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the Company avoids applications that make it difficult to exercise voting rights.

The Company's articles of association indicates that there are voting privileges on board nominations; all members of the board are elected among the candidates nominated by the holders of Group A and D shares. Public shares have no say on board of directors' nominations.

### **1.6. Dividend Rights:**

The dividend policy of Tofaş is clearly defined. It is submitted to the attention of the shareholders at the general shareholders' meeting and disclosed to public on the corporate web site. Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles.

As mentioned on the dividend policy document, a balanced policy is followed between the interests of the shareholders and those of the Company.

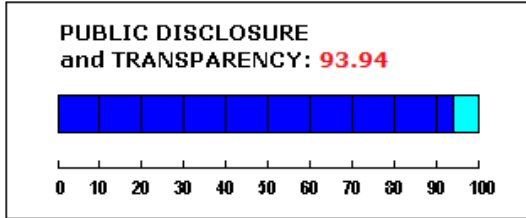
Also the articles of association contain a provision on advance dividend payments.

### **1.7. Transfer of Shares:**

Neither the articles of association nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of 24.28% of public shares. Nevertheless, share transfer of two major shareholders (holders of Group A and D shares) depend on certain restrictions.

There are no restrictions on transfer of publicly held shares.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive web site, actively used for public disclosure, English version exists
+	Annual report complies with the legislation, comprehensive and informative
+	Agreement and studies conducted with external auditors comply with the legislation
+	Important events and developments disclosed in accordance with the legislation
+	An employee remuneration policy established and disclosed to public on the corporate web site
-	Benefits provided to board members and senior executives are not mentioned on individual basis
-	List of ultimate controlling individual shareholders are not disclosed to the public

#### 2.1. Corporate Web Site:

The Company's web site ([www.tofas.com.tr](http://www.tofas.com.tr)) is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the corporate web site includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry

gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, periodical financial statements, annual reports, other public disclosure documents, 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, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions, and responses thereof.

In this context, information on at least the last five years can be reached on the web site.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the Company also discloses financial statements on PDP (Public Disclosure Platform) and simultaneously in English.

The information contained on the web site exists also in English for the benefit of international investors and is identical to the Turkish content.

However, the ultimate controlling holders of non-public shares are not disclosed to the public.

The Company's web site also includes; investor presentations, working principles of the committees, important board decisions under the heading of Material Disclosures, the vision/mission of the Company established by the board, information on dividend payments and capital increases, news, general shareholders' meeting internal guidelines, the

sustainability policy, information on senior management, financial data, and the human resources policy.

## **2.2. Annual Report:**

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and it covers information such as;

- a. Period covered by the report, the title of the Company, trade register number, contact information.
- b. The names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates).
- c. The sector in which the Company operates and information on its position in these sectors.
- d. Qualifications of the production units, capacity utilization rates, general explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years.
- e. Progress on investments, the eligibility status on incentives.
- f. Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.
- i. Company's organization, capital and ownership structure, and any changes in the related accounting period.
- j. Benefits provided to staff and workers, information on number of personnel.
- k. Information on board members' involvement in any transactions with the Company on their behalf or someone else within the

framework of permission granted by general shareholders' meeting along with their activities within the scope of restraint of trade.

- l. Conducted research and development activities.
- m. The dividend distribution policy.
- n. Basic ratios on the financial position, profitability and solvency.
- o. Company's financing resources and risk management policies.
- p. Information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the content specified in the legislation, the following also took place in the annual report:

- a. Information on external duties of board members and executives.
- b. Members of the committees within the board and their working principles on conducted activities.
- c. The number of board meetings held during the year.
- d. Major court cases against the Company and possible consequences.
- e. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results,
- f. Signed declaration of independence of the independent board members.

On the other hand, assessment of the board of directors on the efficiency of the committees is not included in the annual report.

In addition, the benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

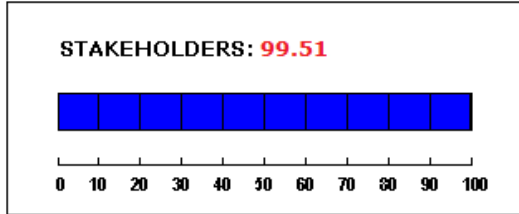
## **2.3. External Audit:**

The external auditor hired for 2017 fiscal years' audit is Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young group with a worldwide experience.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared by the Company officials that there has been no legal conflict between the Company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Compensation is provided in case of violation of the stakeholder rights safeguarded by relevant legislation and mutual agreements
+	Efficient Human Resources policy
+	Incentive models developed for employees to participate in management of the Company
+	Strict quality standards for goods and services
+	Code of ethics disclosed to the public
+	Company complies with environmental laws, Corporate Social Responsibility and Sustainability studies are at top levels
+	Active trade union within the Company

#### 3.1. Company Policy Regarding Stakeholders:

Company's ownership is dominated by the FIAT group of Italy and KOÇ group of Turkey who operate in a wide spectrum of industrial, commercial, and financial businesses. Due to its substantial size and prominent corporate identity, Tofaş possesses consistent and advanced policies regarding the rights of stakeholders as well as relations with the private and public sector.

We have not come across a significant or repetitive situation in which the rights of stakeholders established by any law or agreement are not recognized. The Company's corporate governance practices are in top level and Tofaş recognizes the rights of stakeholders established by law or through any other mutual agreement.

Stakeholders can convey any transaction that contradicts with the legislation and is ethically inappropriate to the Corporate Governance Committee or to the Audit Committee.

The web site of the Company is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

In addition, Company officials declared that the procurement policy is implemented through tender procedures.

#### 3.2. Stakeholders' Participation in the Company Management:

The Company has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company and these models are included in internal guidelines.

Along with Self-evaluation Studies, it is declared in the annual report that systematic meetings and training programs are organized so that employees, suppliers and customers can voice their demands, and surveys such as "working life assessment questionnaires" are conducted. In addition to the corporate web site, the

Company also has an intranet and an internal publication ("Tofaş Gazette") aimed at improving internal communication and facilitating information flow.

### **3.3. Company Policy on Human Resources:**

The Company has a detailed human resources policy. In this context, recruitment, career planning and rotation, individual development, wage and performance management issues are handled. Work-related issues and main duties and responsibilities of employees are also outlined in the "Personnel Guidelines" which are prepared in line with the relevant law and the collective bargaining agreement.

Various committees have been established to coordinate employee relations and employees also have representatives in each of these committees. However, it is disclosed to the public via the annual report that no representative has been selected and/or assigned to coordinate relations directly with the employees except for the employee union relationships.

We have come to the conclusion that measures are taken to prevent discrimination among employees on the basis of race, religion, language, or sex; to protect employees against physical, mental, or emotional abuse and a contradicting finding has not been observed.

The group collective agreement signed on December 15, 2014 between Tofaş, Turkish Metal Trade Union and Turkish Employers' Association of Metal Industries to be effective from 1<sup>st</sup> of September 2014 has expired on August 31, 2017. Company officials declared that negotiations for the new contract are in progress.

### **3.4. Relations with Customers and Suppliers:**

Tofaş has taken all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services. Company has created separate call centers both for the plant and for each imported vehicle brand.

The Company complies with quality standards of products and services and strives to maintain these standards. To this end, Tofaş provides a certain level of quality guarantee.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

We have witnessed no evidence on non-market pricing of goods and services of the Company.

### **3.5. Ethical Rules & Social Responsibility:**

The ethical rules of Tofaş is established and publicly disclosed through the corporate web site.

The Company keeps good relations with non-governmental organizations and public social institutions.

Company fulfills its responsibilities within the concept of Social Responsibility with its long-term projects and also through collaboration with many Non-Governmental Organization memberships. These activities are as follows:

In 2015, Tofaş was recognized with an award in the "Social Responsibility" category with its "Fiat Laboratories – Fiat Technical Education Program" at the "Learning and Development Awards" organized by TEGEP (Association of Training and Developments Platform). Tofaş was



also awarded the "Sustainable Green Business Award" in the "Carbon and Energy Management" category by the Sustainability Academy for its project "Proactive Carbon and Energy Management in 7 Steps" in the reporting period. In 2016, Tofaş won first prize with its project "5R for Sustainable Waste Management" in the "Waste Management" category at the Sustainable Business Awards, which is organized by the Sustainability Academy. The Project also received first prize at the "2016 Green Dot Industry Awards", organized by ÇEVKO (Environmental Protection and Packaging Waste Recovery and Recycling Foundation).

In 2016, Tofaş continued to report its activities to CDP (Carbon Disclosure Project). As a result of its 2014 Climate Change Report, Tofaş became the first Turkish company to be included in CDP's global "A" list of 187 corporations. In 2016, Tofaş also received the "CDP Turkey Climate Leadership Award".

Additionally, Tofaş was the first automotive company to be included in BIST Sustainability Index in 2014. According to an assessment conducted by EIRIS (Vigeo Eiris), Tofaş fulfilled all criteria, and qualified for inclusion in the BIST Sustainability Index in both 2015 and 2016.

Furthermore, Tofaş won first prize with its "SolarDRY" project at the European Business Awards for the Environment-Turkey Program. Tofaş's environment and energy policy reflects the Company's environmental sensitivity and efforts related to about sustainable manufacturing and green products.

Ethical rules are formalized in a written document and announced as "Tofaş Business Ethics Principles" in the "Personnel Regulation". It is included in the annual report that

ethical rules cover issues regarding shareholders, disclosure of information, employee activities, stakeholders and the Board of Directors.

Tofaş Code of Ethics applies to all Tofaş employees, members of the board of directors, shareholders, subsidiaries, dealers and suppliers - in brief all Tofaş people.

### **3.6. Sustainability:**

The Company has policies, internal regulations, goals, initiatives and campaigns on environment, nature, energy conservation, recycling and education issues. A Sustainability Policy established accordingly is disclosed to the public through the corporate web site.

A sustainability report covering the Company's 2016 activities is also supplied.

In this context, the Company has national/international quality/health standard certificates. Yet it also holds memberships at domestic/overseas organizations which carry out similar activities.

Moreover, Tofaş measures its carbon emissions, evaluate the results and takes action to reduce the carbon footprint within the set objectives.

Developing vehicles with alternative fuel and electric engines that will have an extensive area of operation constitutes a significant part of the Company's R&D studies. For R&D studies planned in line with Fiat product strategies, the Tofaş R&D Center performs in strategic research fields. Many projects conducted in this regard generally focus on electrical vehicle engines, interfaces and various systems for several models and the development of parts and components

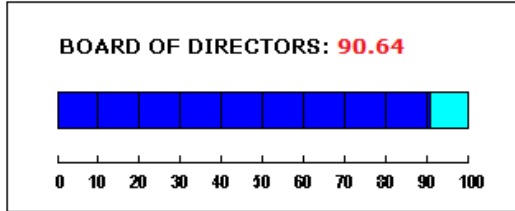
to be used in vehicles equipped with CNG and ANG fuel systems.

Tofaş declared in its Sustainability Report that in 2016 total vehicle production increased by 38% compared to the previous year and energy consumption per vehicle decreased by 17%.

Tofaş aims to increase the awareness of employees by increasing the awareness on climate change and reviving the perception of green factory by implementing the vertical garden applications (Greenwall) in appropriate areas both inside and outside the factory.

The Company is one of the first 15 companies which are included in the Borsa Istanbul's "Sustainability Index", created in 2014.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The board works efficiently and staffed with qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each member has a right to a single vote
+	2 independent members on the board
+	Audit, Corporate Governance and early Detection of Risk and Risk Management Committees are established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
+	Duties of the chairman of the board and CEO/General Manager are clearly separated and this separation is documented in the articles of association
-	No female board members
-	No policy established and no target is set for a 25% female board membership rate

#### 4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage Tofaş's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the Company. It is thought

that the board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

#### 4.2. Principles of Activity of the Board of Directors:

It is believed that the board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees.

It is declared in the annual report that the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman and chief executive officer/general manager duties are carried out by different people. This separation is included in the articles of association.

Koç Holding and Fiat Auto separately provide Manager Responsibility insurance for defects and damages

that may be caused by board members, but not with an amount exceeding 25% of the capital of the Company. No such disclosure has been provided on the PDP.

Analyzing the Company's organization, it is seen that there is no person in the Company who has unlimited authority to make decisions alone and this is considered as positive by us.

#### **4.3. Structure of the Board of Directors:**

Tofaş's board of directors is composed of 10 members and only one of them is executive. There are 2 independent members who have the ability to execute their duties without being influenced under any circumstances.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board of directors. Besides, it has been declared that the Company has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

#### **4.4. Conduct of the Meetings of the Board of Directors:**

Board meetings are held in accordance with the Company's articles of

association, the Turkish Commercial Code and Capital Markets Board regulations. Board of directors passed 17 resolutions since the date of our last report. It has been declared that the majority of the board members attended to all of the meetings.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the CEO/general manager.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member is entitled to a single vote.

The meeting and decision quorums have been included in the articles of association of the Company. Board meetings can also be held through a remote access system.

There are no certain rules or limitations for board members taking on additional duties outside the Company.

The external duties and grounds of the board members are presented to the general shareholders' meeting where their nomination is discussed, with a distinction between intra-group and out-group activities.

The conduct of the board of directors meetings is documented in internal regulations of the Company.

#### **4.5. Committees Established Within the Board of Directors:**

Corporate Governance, Audit, and Detection of Risk and Risk Management Committees are established from within the board of directors in order to fulfill its duties and responsibilities duly.

Functions of the committees, their working principles, and members are designated by the board of directors and disclosed to public on the corporate web site.

All members of the Audit Committee and the chairmen of the other committees are elected among the independent board members. The chief executive officer/general manager and the chairman of the board of directors are not on the committees. Except for independent members, only one member can take part in more than one committee.

Investor Relations Unit manager is a member of the Corporate Governance Committee. Absence of any other executive members on the committees is considered positive by us.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors.

Committee meeting frequency has been found sufficient by us. Corporate Governance, Audit, and Early Detection of Risk and Risk Management committees held 4 meetings each since the date of our last report.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

Audit Committee supervises the operation and efficiency of the

Company's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the Company regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate.

The annual report contains information on working principles of the Audit Committee and number of written notices given to the board of directors in the reporting period.

The external audit of the Company is conducted by Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young group with a worldwide experience. The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the auditing committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

Detection of Risk and Risk Management Committee carries out its tasks towards early detection of risks which may jeopardize the Company's assets, its development and progression, and measures taken to mitigate and manage those risks. It reviews risk management systems at least once a year.

The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee. The Corporate Governance Committee conducts studies toward determination of independent candidates

the Company, and third parties, as a result of not performing the executives' duties duly.

Additionally, the orientation process for newly appointed managers is documented

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders as a separate item at the general shareholders' meeting. A remuneration policy prepared for this purpose can be found on the Company's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

It has been declared that Tofaş does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

We are convinced that the executives have the required professional qualifications in order to perform the assigned duties and they comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no case where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Company's affairs, and provided unfair advantage.

There is an insurance policy on compensation for losses incurred by

## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs <b>weakly</b> as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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