



Corporate Governance Rating Report



**Tüpraş**

3 October 2017

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## Rating and Executive Summary

### TÜPRAŞ TÜRKİYE PETROL RAFİNERİLERİ A.Ş. (TUPRS)

 SAHA  
Corporate Governance Rating:

**9.47**



MAIN SECTIONS: **Avg. 94.67**

Shareholders: **95.51**



Public Disclosure & Transparency: **94.00**



Stakeholders: **98.59**



Board of Directors: **92.86**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

This report on rating of Tüpraş Türkiye Petrol Rafineleri A.Ş.'s (Tüpraş) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the Company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Tüpraş is rated with **9.47** as a result of the Corporate Governance study done by SAHA. The Company's corporate governance rating is revised as above in consideration with the importance given by Tüpraş to corporate governance principles, its willingness to carry out the continuous and dynamic process and improvements which had been initiated in this direction.

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.. Tüpraş 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>.

Tüpraş is rated with **9.55** 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. Tüpraş carries out the investor relations obligations through Investor Relations Department. There is no upper limit or privileges on voting rights. 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 consistent dividend policy of the Company and it is disclosed to the public. There are no restrictions on transfer of shares. 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).

Tüpraş attained **9.40** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the CMB Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. However, the names of the Company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are not disclosed to the public. A web site is also prepared in English for international investors. However, benefits provided to board members and senior management is not listed on individual basis in the annual report.

On the topic of **Stakeholders**, Tüpraş scored **9.86**. Tüpraş guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy for the employees is effectuated and disclosed to the public on the corporate web site. Models have been developed to support the participation of stakeholders in the management of the Company, but not included in the articles of association. Tüpraş has a written human resources policy and there is an active trade union in the Company. Tüpraş complies with quality standards concerning its goods and services and takes measures to ensure these standards. Specific guarantees are provided for this purpose. Code of ethics is publicly available through the corporate web site.

From the perspective of the principles regarding the **Board of Directors**, Tüpraş's tally is **9.29**. There is a well communicated Company mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board of directors and the chief executive officer is not the same person. The board of directors consists of fifteen members, five of whom are independent. CMB criteria are complied with and the opinion of the Corporate Governance Committee received in designation of the independent members and they have each signed a declaration of independence. There is one female member on the board of directors. Necessary changes on the articles of association were made to comply with the CMB regulations on related party transactions of a significant nature. A Corporate Governance Committee, an Audit Committee, and a Risk Management Committees are established within the board of directors. The working principles of the committees are disclosed to the public. Our observations will continue in order to have a more precise view of the activities and the degree of functionality of the committees. Principles of remuneration of board members and senior executives are available on the Company's web site. The Company does not provide any loans or extend any credit to the board members or senior executives.

## 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

Tüpraş A.Ş	
	<b>Chairman of the Board</b> Mehmet Ömer KOÇ <b>General Manager</b> İbrahim YELMENOĞLU
41790 Petrol Cad., Körfez, Kocaeli <a href="http://www.tupras.com.tr">www.tupras.com.tr</a>	<b>CFO Responsible of Investor Relations</b> T. Doğan Korkmaz Tel: (0262) 316 31 10 <a href="mailto:Dogan.Korkmaz@tupras.com.tr">Dogan.Korkmaz@tupras.com.tr</a>

Tüpraş is the energy segment of Koç Holding A.Ş. (Koç Group of Companies), Turkey's leading group of companies which has been operating since 1930 in energy, automotive, finance, and consumer durables sectors.

Koç Group operates mainly in areas of energy, automotive, finance, durable consumer goods, as well as food industry, retail, tourism, information technology, and the construction sectors.

Being Turkey's only producer in the refining sector and its largest industrial corporation, Tüpraş joined the Koç Group of Companies in 2006. With its production facilities and partnerships Tüpraş provides products and services in refining and distribution, meeting a large part of Turkey's petroleum product needs.

The Company shares are traded under "TUPRS" code at BIST and Tüpraş is a constituent of BIST 100 (XU100), BIST 50 (XU050), BIST 30 (XU030), BIST Dividend (XTMTU), BIST Dividend 25 (XTM25), BIST All Shares (XUTUM), BIST National (XULUS), BIST Industrials (XUSIN), BIST Chemical, Petroleum, Plastics (XKMYA), BIST Stars (XYLDZ), BIST Sustainability (XUSRD) BIST Kocaeli (XSKOC) and BIST Corporate Governance (XKURY) indices.

Tüpraş decided to distribute a gross cash dividend of TL 1,557,106,585.60 at the Ordinary General Shareholders' meeting held on March 29, 2017. On this basis;

- A cash dividend of gross=net 6.218 TL is to be paid for one nominal stock worth 1.00 TL at a rate of 621.8% to legally obligated corporate taxpayer shareholders and limited corporate taxpayer shareholders earning dividends through a Turkey-based business or permanent representation office.
- Other shareholders will be paid a gross rate of 621.8%, a cash dividend of gross 6.218 TL, and net rate of 528.53%, a cash dividend of net TL 5.2853 for one nominal stock worth 1.00 TL.

The dividend distribution is set to begin on April 4<sup>th</sup>, 2017.

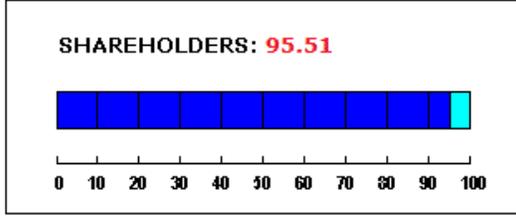
Company's capital structure as of the date of our report is as follows:

<b>Capital Structure of the Company</b>		
<b>Shareholder</b>	<b>Share Amount (TL)</b>	<b>Share %</b>
Enerji Yatırımları A.Ş.	127,713,792.22	51.00
Privatization Administration (PA)	0.01	
Public Shares	122,705,407.77	49.00
	<b>250,419,200.00</b>	<b>% 100.00</b>

As of the date of our report, the board of directors is composed as follows:

<b>TÜPRAŞ BOARD OF DIRECTORS</b>	
<b>Name</b>	<b>Title</b>
Mehmet Ömer KOÇ	Chairman
Yıldırım Ali KOÇ	Vice Chairman
Mustafa Rahmi KOÇ	Board Member
Semahat Sevim ARSEL	Board Member
Temel Kamil ATAY	Board Member Risk Management Committee Member
Bülent BULGURLU	Board Member
Levent ÇAKIROĞLU	Board Member
Osman Turgay DURAK	Board Member
Erol MEMİOĞLU	Board Member
Yağız EYÜBOĞLU	Board Member Corporate Governance Committee Member
Süleyman KARAMAN	Independent Board Member
Ahmet TURUL	Independent Board Member
Gökçe BAYINDIR	Independent Board Member Risk Management Committee Member
Kutsan ÇELEBİCAN	Independent Board Member Audit Committee Chairman Corporate Governance Committee Chairman
Osman Mete ALTAN	Independent Board Member Audit Committee Member

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	Voting rights are facilitated
+	General shareholders' meetings are conducted in compliance with the legislation
+	No restrictions on transfer of shares
+	Detailed dividend distribution policy
+	Policy on donations and grants is established and submitted to the general shareholders' meeting for approval
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital

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

Tüpraş carries out the shareholder relations obligations through Investor Relations Department managed by Mr. Doğan Korkmaz and his staff, and all shareholders are treated equally.

Along with other units of the Company, the "Investor Relations Department" 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;

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

Investor Relations Department submits 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.

In addition, the manager of the Investor Relations Department is holder of licenses as stated in the Corporate Governance Principles Communiqué.

Free float ratio of the Company is around 49%. All shareholders are offered the opportunity to attend informative meetings held

independently of the general shareholders' meeting.

### **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/warning received in this regard.

The Company has established a disclosure policy and submitted to the attention of shareholders at the general shareholders' meeting, and disclosed it to the public on 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.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

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

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 general shareholders' meeting is performed through all means of communication available to the Company 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.

Besides, the Company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Company, and the electronic media.

Shareholders are informed of the following issues 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 if any, 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.

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.

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. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

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 the issues of a special nature on the agenda, other related personality, 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.

Company's policy on donations and grants is submitted to the general shareholders' meeting for an approval. In addition, shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries at this meeting.

The provisions of the articles of association of the Company allow the attendance of those including stakeholders and media with no voting rights. General shareholders' meeting is attended by the representative of the external auditor.

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

According to the Company's articles of association, board resolutions on below mentioned topics are subject to the affirmative vote of the member selected among Class C shareholders:

- a) All kinds of amendments in the articles of association which may directly or indirectly effect the meeting and the resolution quorum of the Board of Directors, and the rights that belong to the privileged share, and the obligation of accommodating the needs of the Turkish Armed Forces, and the rights of the privileged share that relate to this obligation,
- b) Accommodation of the petroleum products demand of Turkish Armed Forces outside the required quality, timing and quantity and with higher prices than suitable market prices in line with similar products since it is essential that petroleum products demand of the Turkish Armed Forces - including the procurement and protection of production capability and all systems related to transportation of such petroleum products- shall be accommodated with priority in accordance with the required quality, timing and quantity and with suitable market prices that are in line with similar products,

- c) Issues that might restrict or hinder the supply of petroleum to the Turkish Armed Forces, such as,
- closure or sale of one of the refineries, limitation of activities through establishment of restraint or any reduction corresponding to more than 10% of the capacity, or
  - spin-off or merger of the Company
- d) Liquidation of the Company.

In matters other than those mentioned above, decisions are taken by bringing issues debated by the board of directors to the general shareholders' meeting for discussion and resolution.

In addition, one Class "C" registered share belonging to the Republic of Turkey Prime Ministry Privatization Administration has the privilege to nominate a member to the board of directors.

Apart from those indicated above, Class C shares do not hold any other privileges concerning voting rights. Except for the matters listed in, the Company shows maximum care to ensure the exercise of minority rights. Each share is entitled to one vote. 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.

At Tüpraş, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and there are no voting privileges on issues other than listed above.

## **1.6. Dividend Rights:**

The dividend policy of Tüpraş is clearly defined and disclosed to the public on the Company's web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and that of the Company.

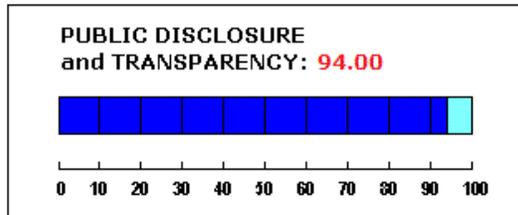
In addition, the articles of association of the company contain a provision on advance dividend payments.

The dividend distribution proposal submitted to the general shareholders' meeting of 2016 specifies the source and amount of the profit to be distributed for the period, dividends per share by specifying the group distinctions, and timing and terms of dividend payments.

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

Neither the articles of association of the Company nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares which are publicly traded.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	There is a Shareholder Relations Unit
+	Comprehensive Disclosure Policy
+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	List of insiders disclosed to the public
+	Important events and developments disclosed in accordance with the legislation
+	English version of the web site for international investors
+	Employee compensation policy established and announced to the public through the web site
+	Dividend distribution policy disclosed to public via corporate web site
-	List of ultimate controlling individual shareholders are not disclosed to the public

#### 2.1. Corporate Web Site:

Company's web site 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 Company's web site includes; trade register information,

information about latest shareholder and management structure, detailed information on privileged shares, 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, annual reports, periodical financial statements, prospectuses and circulars and 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 including requests for information, questions and notices, and responses thereof.

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

The Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is not disclosed to the public along with the privileges they hold and also not updated bi-annually as per the minimum requirement.

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 (exactly same with Turkish content) for the benefit of international investors.

The Company's web site also includes; investor presentations, working principles of the committees, the donation policy, important board decisions under the heading of material disclosures, the vision/mission of the Company established by the board of directors, information on capital increases, disclosure area, general shareholders' meeting internal guidelines, social responsibility activities, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, 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 the sector,
- 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, and to what extent,
- f. Changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. Information on related party transactions,
- i. Other issues not included in the financial statements, but are beneficial for users,
- j. Company's organization, capital and ownership structure and any changes in the related accounting period,
- k. All benefits provided to staff and workers, information on number of personnel,
- l. Explanation on privileged shares and their amounts,
- m. Information on board members' 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,
- n. Research and development activities,
- o. Dividend distribution policy,
- p. Basic ratios on the financial position, profitability and solvency,
- q. Company's financing resources and risk management policies,
- r. Information on major events which took place between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

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

- a. External duties of board members and executives,
- b. Members of the committees within the board, assessment of their working principles,

- c. Number of board meetings held during the year,
- d. Changes in legislation which could significantly affect the company's operations,
- e. Major court cases against the company and possible consequences,
- f. Information on direct contributions to capital ratio with cross shareholding investments in excess of 5%,
- g. Benefits and vocational training of employees, and other company activities that give rise to social and environmental results,
- h. Rating results.

management or capital provided any consulting services during the same period.

However, 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. Also the participation rate of the members to the board meetings can be included in the annual report.

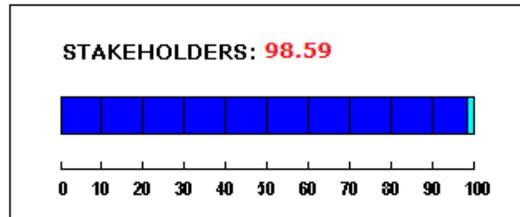
### **2.3. External Audit:**

The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

There has not been a situation during the reporting period 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 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. Neither a consulting company in which the external audit firm is in a dominant position either directly or indirectly in

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights are facilitated
+	Efficient Human Resources policy
+	Strict quality standards for goods and services
+	Stakeholders' views are taken on important decisions that give rise to the results which considers them
+	Code of ethics disclosed to the public
+	Measures are taken to ensure customer satisfaction on sale of goods/services
+	Company is socially and environmentally sensitive and respectful
+	Existence of a trade union
+	A written employee compensation policy is disclosed to the public on the web site
=	No provision in the articles of association regarding the participation of stakeholders in the management of the Company despite the existence of certain incentive models

### 3.1. Company Policy Regarding Stakeholders:

Tüpraş recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant

legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and expeditious compensation is provided in case of violation of the rights.

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

The corporate governance structure of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions.

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

Tüpraş has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company and they are included in the Corporate Governance Compliance Report. However these models and mechanisms are not included in the articles of association.

### 3.3. Company Policy on Human Resources:

The primary function of the Company's human resources policy is based on training and improvement perspective focusing on supporting employees' and Company's performance with the principle of continuous development in parallel with corporate vision and business goals. While planning current and future development needs of the employees, internal resources are

used efficiently and productively in line with the business requirements. Tüpraş has a written human resources policy determined in accordance with the corporate strategies, common values and business ethics. Its principles are listed below:

- Job descriptions, their delegation and performance criteria applied are defined and communicated to the employees by the Company.
- Recruitment criteria are laid out and communicated in writing and these criteria are applied for recruitment.
- Decisions for training, appointments and promotions are taken diligently by consulting objective data and considering corporate interests.
- There is great emphasis on providing training to develop both the professional knowledge and capabilities and personal talents of the staff.
- A safe work environment and work conditions are provided for the staff and efforts are constantly made to improve them.
- Events relating to or decisions concerning the employees are communicated to them.
- Rewards are presented to employees upon completion of five years, and multiples thereof, in service thus encouraging qualified, trained and experienced staff for continued service.

There have been no complaints brought by Tüpraş employees to senior management concerning discrimination. On the other hand, no representative has been assigned for liaising with the employees.

One of the biggest indicators of the importance of the human resources

policy of Tüpraş is that it is within the context and subject to Company goals and values. Issues such as recruitment policies, career planning, improvement and training policies for the employees established within this framework are dealt with under Human Resources Policies. Giving priority to skilled workforce during the recruitment process and benefiting in a most efficient and productive manner in the working environment is the basis of the human resources policy of Tüpraş. All stakeholders, including employees and representatives are allowed to deliver their concerns on legally improper and unethical transactions to the management.

In accordance with human resources policies the rights and working conditions of both white collar and blue collar employees have been guaranteed so as to ensure that no employee is subject to any discrimination or ill treatment. No complaint has been received in this regard during the period.

The purpose of the performance management system implemented on a regular basis each year is to achieve excellent performance and to manage the performance of employees in an objective manner within the framework of common principles. Expected targets of the employees during the year are determined. Realization of these targets is monitored during the year on monthly/quarterly/semi-annual periods and corrective measures are taken.

Union representatives carry out relationship with the employees included in Collective Bargaining. Turkish Petroleum Chemical Rubber Workers' Union (Petrol-İş) is active in the Company.

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

Tüpraş is taking all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services. Suppliers are evaluated and selected on the basis of their ability to provide quality products. Selection, evaluation and re-evaluation criteria are in place.

The Company receives annual order predictions from its customers and production is scheduled to meet this demand. Order forecasts are revised on a monthly basis in order to eliminate supply disruptions. Necessary mechanisms to ensure ongoing customer demand are in place.

Since 2008, Tüpraş has served as the operating sponsor of five Firefly Mobile Education Units of the Educational Volunteers Foundation of Turkey.

In collaboration with the Ministry of National Education, the Foundation takes Firefly Mobile Education Units-trailers designed as child-friendly spaces-to elementary schools across Turkey, reaching out to children at or near schoolyards.

Satisfaction of customers and suppliers is the Company's primary goal and customer satisfaction is reported and monitored regularly. Care is also taken on the confidentiality of all trade secret data and information on customers and suppliers.

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

The Code of Ethical Business involves the fundamental principles of conduct. Employees of the Company are expected to comply with the Business Ethics Principles and Common Values of the Koç Group when performing their jobs. In recognition that business procedures, standards, laws and regulations cannot provide guidance for all conduct and actions, Tüpraş

utilizes the Code of Ethics built on corporate values and the Ethics Committee.

The Code of Ethics adopted by the Board of Directors has been approved during the General Shareholders' Meeting on April 2011 and signed statements of compliance from all employees have been obtained. The Code of Ethics is also disclosed to the public on the corporate web site.

In applying the principles of Corporate Social Responsibility, Tüpraş refers to the "United Nations Global Compact" signed between Mr. Mustafa V. Koç and the UN Secretary-General Mr. Kofi Annan. Within this context, Tüpraş participates in almost all the projects of social responsibility carried out by Koç Holding and supports education and health initiatives mainly in cities where refineries are located.

The primary objective of Tüpraş's corporate social responsibility management is to ensure the Company's sustainable development. Cognizant that sustainable development passes through profitability and operational continuity, as well as safeguarding and enhancing social trust, the Company strives to respond to the expectations of its stakeholders in the most efficient fashion while planning its investments, by taking into consideration the developmental priorities of these regions and the results of Corporate Reputation Perception surveys.

Tüpraş issued its first Corporate Social Responsibility Report in 2008 and the seventh report was completed in 2016. In its Corporate Social Responsibility Report, Tüpraş adopted the Global Reporting Initiative's (GRI) G3 Reporting Principles.

The 20th Istanbul Theater Festival was organized by the Istanbul Foundation for Culture and Arts under the joint

sponsorship of Koç Holding's energy companies Aygaz, Opet and Tüpraş.

Aiming to foster reading habits in children, volunteers from the Batman Refinery collected books from the Head Office and other refineries, and distributed these to the elementary schools in Batman that were in need. In addition, Tüpraş volunteers held book-reading days to encourage young people to read books, helping them develop a life-long reading habit

### **3.6. Sustainability:**

Tüpraş's main objective is to meet Turkey's demand for petroleum products in a comprehensive and timely manner. Aware of its corporate responsibilities, the Company strives to eliminate any negative social, economic or environmental impacts arising from its operations, while contributing to economic and sociocultural development in its operating regions.

Tüpraş aims to develop and integrate its business targets into the management strategy and work culture of the Company while reporting its overall and sustainability related performance in line with internationally accepted criteria.

In all refineries of Tüpraş, Integrated Management Systems which are ISO 14001 Environmental Management, OHSAS 18001 Occupational Health and Safety Management ISO 9001 Quality Management Systems, ISO 27001 Information Security Management and ISO 50001 Energy Management Systems have been implemented efficiently.

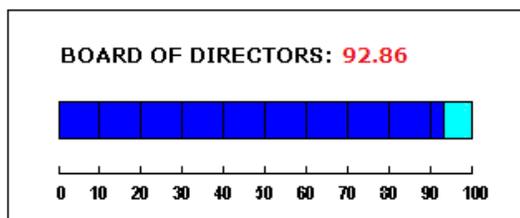
External environmental audits are performed by the legal authorities and third parties at all refineries of Tüpraş.

Cross internal audits are performed between the refineries at least once a year by the authorized staff on environment.

Tüpraş was among the 15 companies assessed and included in the BIST 30 Index in 2014. The Company also figured among the 29 companies assessed and included in the BIST 50 Index in 2015 and 2016.

Tüpraş always places human health, workplace safety, and environmental protection at the forefront of its business activities to achieve its goals. All Tüpraş personnel adhere to Health, Safety and Environmental (HSE) standards.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The Company's vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	Five independent members on the board
+	Audit, Corporate Governance and Risk Management Committees established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
+	Conduct of the board meetings is specified by the Company's internal regulations and indicated in the articles of association
+	Female member on the board
+	Existence of a regulation on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.
+	Remuneration policy established and disclosed on the web site
=	The level of functionality and effectiveness of the committees will be monitored further

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

Strategic decisions of the board of directors aim to manage the Company'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. 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.

The board also oversees that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

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

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 various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees. In this context, 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 of the board and chief executive officer/general manager's executive powers are clearly separated.

The board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise. The board works in close coordination with the Shareholder Relations Unit in this context.

In addition, there is a regulation on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

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

The Company's board of directors is composed of fifteen non-executive members. There are five independent members among them 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 each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There is one female member on the board. Besides Tüpraş has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female membership rate on the board of directors, and evaluation studies on this issue are still in progress.

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

Ordinary board meetings take place with sufficient frequency and board members also convene upon any extraordinary situation and negotiate and render resolutions on critical agenda issues.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive officer. Whenever the business of the Company so required, and with the number of members providing absolute majority, the Board of Directors convened three times in 2016. The meetings of the board of directors were held with full participation by absolute majority and independent members.

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 of the board has a right to one vote.

The conduct of the board of directors meetings is defined in internal regulations and meeting and decision quorums have been included in the articles of association of the Company.

Board members allocate necessary time for the Company's business and there are no limitations taking on additional duties outside the Company. Especially, due to the significant contribution of the professional and sectorial experiences of the independent members to the board of directors such a restriction is not required.

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

A Corporate Governance Committee, an Audit Committee, and a Risk

Management Committees are established from within the board of directors along with the Steering Committee in order to fulfill its duties and responsibilities.

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

All members of the Audit Committee and the chairmen of the all three committees are elected among the independent board members. The chief executive officer is not on the committees. There are no executive members on the committees. Care is taken to avoid appointment of a board member on multiple committees.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

The Corporate Governance Committee is established in order to determine whether or not 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 imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

In line with the new corporate governance principles published on January 3<sup>rd</sup> 2014, Investor Relations Department manager must be a member of the Corporate Governance Committee. Tüpraş adapted to the principle in question.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal audit systems.

It also 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.

Committee immediately 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.

Audit Committee members possess the qualifications mentioned in the Corporate Governance Principles communiqué.

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 fiscal year. In addition, meeting resolutions are included in the annual report.

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

Risk Management Committee reviews risk management systems at least once a year. It achieves early identification of risks that may jeopardize the Company's existence and continued development, implements the necessary measures identified with the associated risks and conducts studies to manage such risks.

The Corporate Governance Committee carries out the duties of the Nomination Committee and Remuneration Committee, since they are not established yet. It has made its proposal on suitable candidates for the board of directors, on creation of a transparent system of evaluation and training, on determination of the relevant policies and strategies, and their remuneration principles.

However; we need further observation to assess the degree of efficiency and functionality of the Committee, particularly with regard to its reviews on the structure and efficiency of the board of directors. Also, whether the Committee submits its recommendations to the board members on changes that can be done on these matters; whether it ensures that a system with regards to the principles and practices regarding career planning and rewarding of the board members is implemented; and by taking into account the degree of achievement of the criteria, whether it makes proposals to the board on remuneration of the board members and senior executives will need to be monitored further.

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

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a

separate item in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the corporate web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

The Company 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.

The executives have the required professional qualifications in order to perform the assigned duties.

The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There have been no cases 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 a regulation on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the Company.

Orientation process for newly appointed managers is documented in the Human Resources Policy which has been presented to us in its entirety.

## 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 on the highest level.
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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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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