



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



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

26 July 2019

Validity Period 26.07.2019-26.07.2020

## LIMITATIONS

This Corporate Governance Compliance Rating Report, issued by Kobirate Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. for Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi is compiled;

in accordance with the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as the CMB's board decision taken at the Board meeting on 01.02.2013, no 4 / 105.

The criteria, established for the companies whose shares are traded at BIST, are organized separately as First Group, Second Group and Third Group companies and investment partnerships, taking into consideration the group distinctions stated by CMB's Corporate Governance Principles in Item 2 - Article 5 of communiqué no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014.

The Corporate Governance Compliance Rating Report issued by Kobirate Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. is based on 70 copies of documents, data and files transmitted by the concerned firm electronically, including data open to general public and examinations made by our rating experts on site.

Kobirate Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. has formulated its Ethical Rules according to the Banking Act, the CMB and BRSA Directives on the Operations of Rating Companies, generally accepted ethical rules of the IOSCO and OECD including generally accepted ethical customs, which is shared with the public through its Internet website ([www.kobirate.com.tr](http://www.kobirate.com.tr)).

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

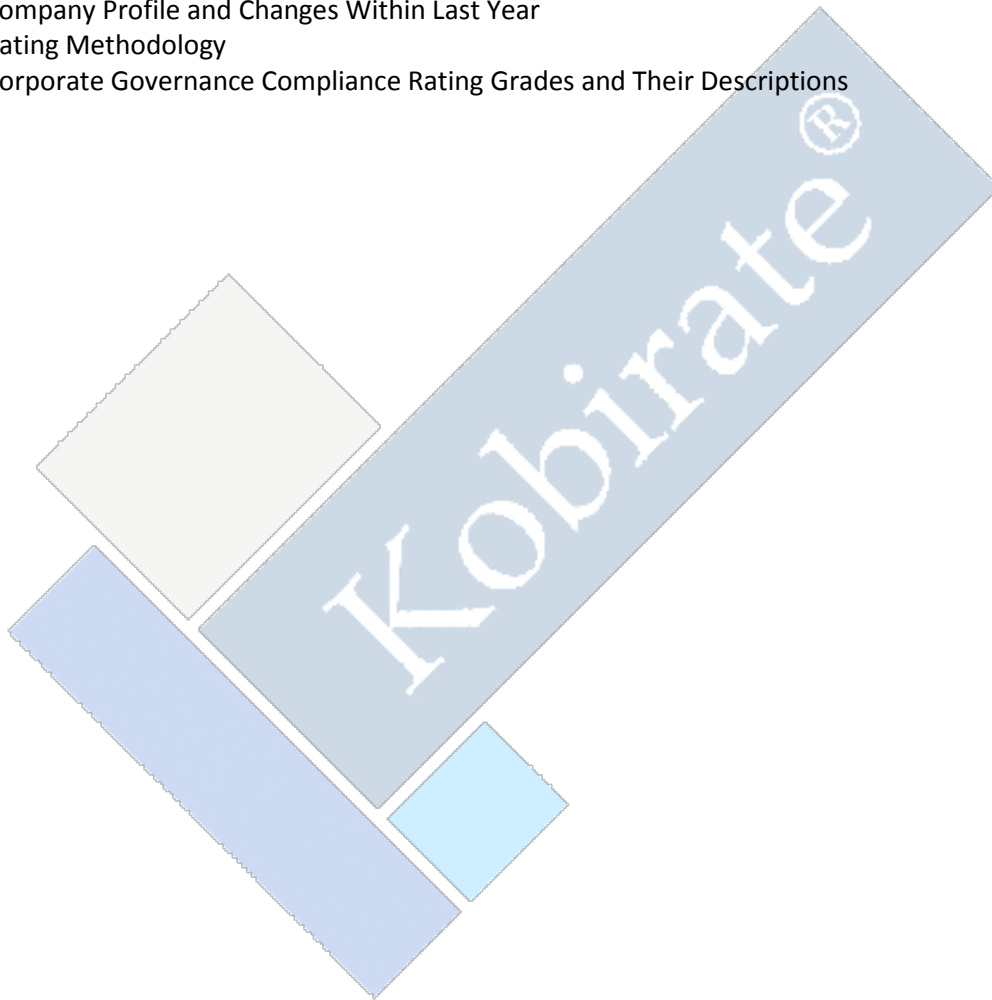
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## EREĞLİ DEMİR VE ÇELİK FABRİKALARI TÜRK ANONİM ŞİRKETİ (ERDEMİR)

CMB CORPORATE GOVERNANCE  
PRINCIPLES COMPLIANCE GRADE

BIST FIRST GROUP

**9.49**

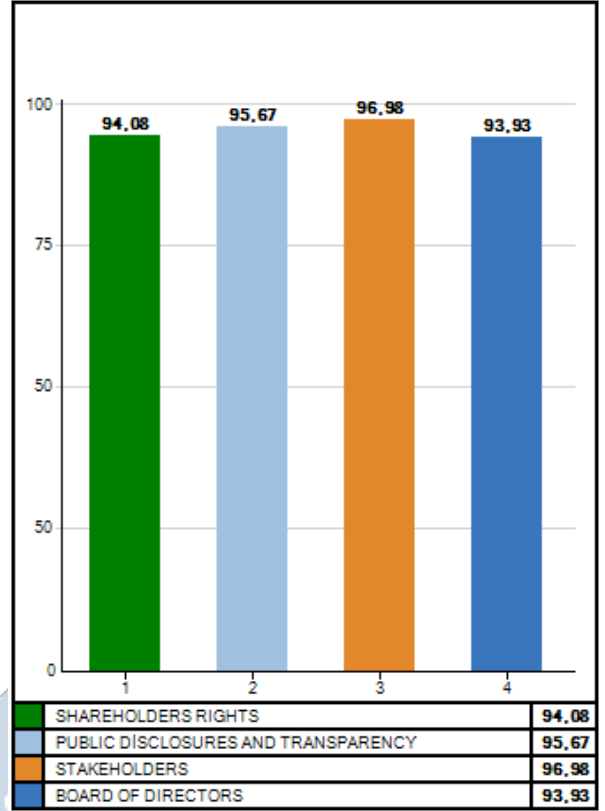
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### 1. FIFTH PERIOD REVISED RATING RESULT

The process of rating of compliance of Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi (ERDEMİR) with the Corporate Governance Principles has been concluded in accordance with the Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.S., through onsite examinations of the documents, interviews held with executives and persons involved, examination of information disclosed to public and of other comprehensive reviews and observation. The methodology and the rating process are based on Capital Markets Board's (CMB) Corporate Governance Principles Communiqué no II-17.1 published by the Official Gazette edition 28871 on 03.01.2014. At the end of examination of 408 criteria under the main headings of Shareholders,

Public Disclosure and Transparency, the Stakeholders and the Board of Directors, as specified in the CMB's Corporate Governance Principles, and according to the methodology of Kobirate A.S. for "BIST First Group Companies", the Corporate Governance Compliance Rating Grade of Erdemir has been determined as **9.49**.

This result shows that the company has achieved compliance with CMB's Corporate Governance Principles to a great extent. Possible risks for the company have been determined and they can be controlled. Public disclosure activities and transparency are at the highest level. Rights of shareholders and stakeholders are being treated fairly. The structure and working conditions of board of directors are generally

compliant with corporate governance principles.

In assessment of Erdemir's activities and compliance with the principles, following items are the basic reasons for Company's grade increase;

- Compliance with Corporate Governance Principles continues in a stable fashion and with great care.
- Changes in top management and organizational structure during the rating period were disclosed immediately to public and shareholders and investors were informed.
- Dividend distribution takes place regularly and a fine balance is achieved between Company's interests and shareholders' "right for dividend".
- Collective agreement with workers' union has been renewed for a period of 2 years.
- The Company continues to be on the sustainability index.

As a result, this grade shows that Erdemir highly deserves to be included in the BIST Corporate Governance Index.

▪ At the section of Shareholders, it is seen that Erdemir has achieved a grade of **94.08**.

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

Relations with shareholders are conducted through Investor Relations Department, which reports to Erdemir Group Finance Management and Financial Affairs Coordinator İbrahim Emrah SİLAV. İdil ÖNAY ERGİN (Manager) work in the department. İdil ÖNAY ERGİN has Licenses of Capital Market Activities Advanced Level and Corporate Governance Rating Specialist.

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

It has been determined that Investor Relations Department reports to the Board of Directors and makes a presentation about its operations regularly once a year. A presentation about operations of 2018 was made to the Board of Directors on February on 07.02.2019.

There is no regulation or policy of cancelling or restricting shareholders' right to obtain and review information imposed by the Articles of Association and/or a decision by any corporate department. Company disclosures for shareholders and public are made in accordance with the "Disclosure Policy". The policy is published on Company's corporate website.

The ordinary general assembly meeting to discuss company's 2018 operations took place on 21.03.2019. The invitation for the meeting was published on Public Disclosure Platform on 25.02.2019 and disclosed through Central Registration Office e – general assembly system, Turkish Trade Registry Gazette dated 27.02.2019, No 9776 and published by two national papers on the same day. The invitation was made properly, 3 (three) weeks before the date of meeting.

General Assembly document includes detailed information on distribution of company shares, voting rights and privileged votes. It also contains much information that corporate governance principles require to be disclosed to shareholders and public.

Executives and auditors who are authorized to inform participants and answer their questions have attended to the meeting. Attending top managers were Toker ÖZCAN (Deputy Chairman of Board and Executive Board Member), Aslihan DÖĞER (Board

Member), Salih Cem ORAL (Erdemir General Manager), Haluk Kemal ERUYGUR (OYAK Legal Councilor), İbrahim Emrah SİLAV (Erdemir Finance Management and Financial Affairs Group Vice President), Avni SÖNMEZYILDIZ (Financial Control and Reporting Director), Cemile Güneş DİNLENMİŞ (Legal Director), Ramazan ÇELİK (Erdemir Financial Affairs Assistant General Manager /Budget and Planning) and representative of the independent audit company Volkan BECERİK.

According to financial statements prepared in compliance with Tax Procedure Law the Company earned TRY 5,515,585,318, According to financial statements prepared in accordance with CMB regulations, this figure was TRY 5,457,154,877 net distributable profit through its activities in 2018. The use of the profit is explained at “ii. Dividend Distribution” section of our report.

Board’s dividend distribution proposal and statement have been published on Public Disclosure Platform on the same day with invitation to the general assembly meeting.

- In the section of Public Disclosure and Transparency, the Company has achieved the grade of **95.67**.

It has been determined that Erdemir’s public disclosure and transparency activities are in line with legal regulations and corporate governance principles. The content of annual reports is satisfactory and includes sufficient information about activities. Company’s corporate website contains all the information and documents of last five (5) years that public, investors and officials want to have access to. Corporate website is designed as easy – to – use and easy – to – access structure. It has been seen that the corporate website and annual reports are used efficiently for public disclosures.

Responsible and authorized signatures for company’s public statements are Toker ÖZCAN (Deputy Chairman of Board and Executive Board Member), İbrahim Emrah

SİLAV (Erdemir Finance Management and Financial Affairs Group Vice President) and Avni SÖNMEZYILDIZ (Financial Control and Reporting Director). These individuals are assigned to manage and monitor all issues concerning public disclosures.

2018 independent audit has been conducted by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of Deloitte Touche Tohmatsu Limited). There were no situations in the report that the auditor avoided expressing opinion, expressed conditional opinion or withheld signature. Company officials have told us that no developments took place between the Company and independent audit company and its auditors that might damage independence and that there has been no legal conflict. With the suggestion of Audit Committee and approval of general assembly, it was decided for the same company to conduct 2019 audit.

- In the section of Stakeholders, the Company has achieved the grade of **96.98**.

Erdemir has been preparing comprehensive Sustainability Reports every year since 2014. 2018 Sustainability Report has been prepared in Turkish and English and published on Company’s corporate website. Since the period between November 2015 and October 2016, the Company is in BIST Sustainability Index.

Compensation Policy for employees has been developed and disclosed to public via corporate website.

Procedures on recruitment, remuneration, health, leave rights, promotion, appointments, discipline, dismissal, death, resignation and retirement have been determined. It is our impression that the company sticks to these policies in practice. Both during development and the implementation of the policies we have got the impression that the principle of equal opportunities for individuals under equal conditions has been respected.

Ethical Rules and Working Principles have been prepared and are updated whenever necessary. Anti-Corruption Policy has been prepared and disclosed to public through Company's corporate website.

As of 31.12.2018, Erdemir employed 5,844 employees, 1,683 of them with monthly fees and 4,161 with hourly fees. Blue collar employees have been organized under the roof of Türk Metal Union. Agreement has been achieved in the negotiations between the Company and the union at 27<sup>th</sup> Period Labor Contract, which is valid for two years between 01.09.2018 and 31.08.2020.

▪ Erdemir has achieved the grade of **93.93** in the section of Board of Directors.

Upon examination of Board of Directors Decision Book and interviews with Company officials, it has been determined that the Board continues its operations actively, efficiently and regularly. It is our impression that the Board has internalized Corporate Governance Principles, adapted an approach open to improvement and development and taken proactive attitude in terms of compliance with Principles.

Board of Directors has described corporate strategic objectives of the Company and determined required human and financial resources. Posts of Chairman of Board and General Manager are held by two different individuals and their powers are described. Board of Directors comprise 9 (nine) members, including one executive and eight non – executive members. Deputy Chairman of the Board is assigned as executive member and 3 (three) of the non – executive members are independent members.

Audit, Corporate Governance and Early Detection of Risk Committees, which are referred to by the principles are established. Separate Nomination Committee and Remuneration Committee have not been established because of Board's structure. Duties of these committees are carried out by Corporate Governance Committee.

Mandates, working rules and membership composition for all three committees have been determined, approved as written documents and disclosed to public on the corporate website. All members of three Committees are independent members of Board of Directors. Additionally Manager of Investor Relations Department has been appointed to membership of Corporate Governance Committee In accordance with CMB Corporate Governance Communiqué number II.17-1. General Manager has not been assigned to any committees within this structure.

Board of Directors convened 6 (six) times in 2018 and twice (2) as of April 2019. Board assistant Suzan MERT carries out secretarial duties.

Audit Committee convened 4 (four) times in 2018 and 2 (twice) by the end of April 2019. In the same period the Committee has made 6 (six) presentations about its activities to the Board of Directors in parallel to number of its meetings. Consolidation and Reporting Manager Ulaş YİRMİBEŞ carries out secretarial duties of the Committee.

Corporate Governance Committee convened 4 (four) times in 2018 and 2 (twice) by the end of April 2019. The Committee has made 3 (three) presentations in 2018 and 1 (one) by the end of April 2019 to the Board of Directors about its activities. Investor Relations Manager İdil ÖNAY ERGİN carries out secretarial duties of the Committee.

Early Detection of Risk Committee convened 6 (six) times in 2018 and made 2 (two) meetings by the end of April 2019. The Committee has made 6 (six) presentations to the Board of Directors about its activities in 2018 and 2 (two) by the end of April 2019. Corporate Risk Management Manager Erdem PREKA carries out secretarial duties of the Committee.

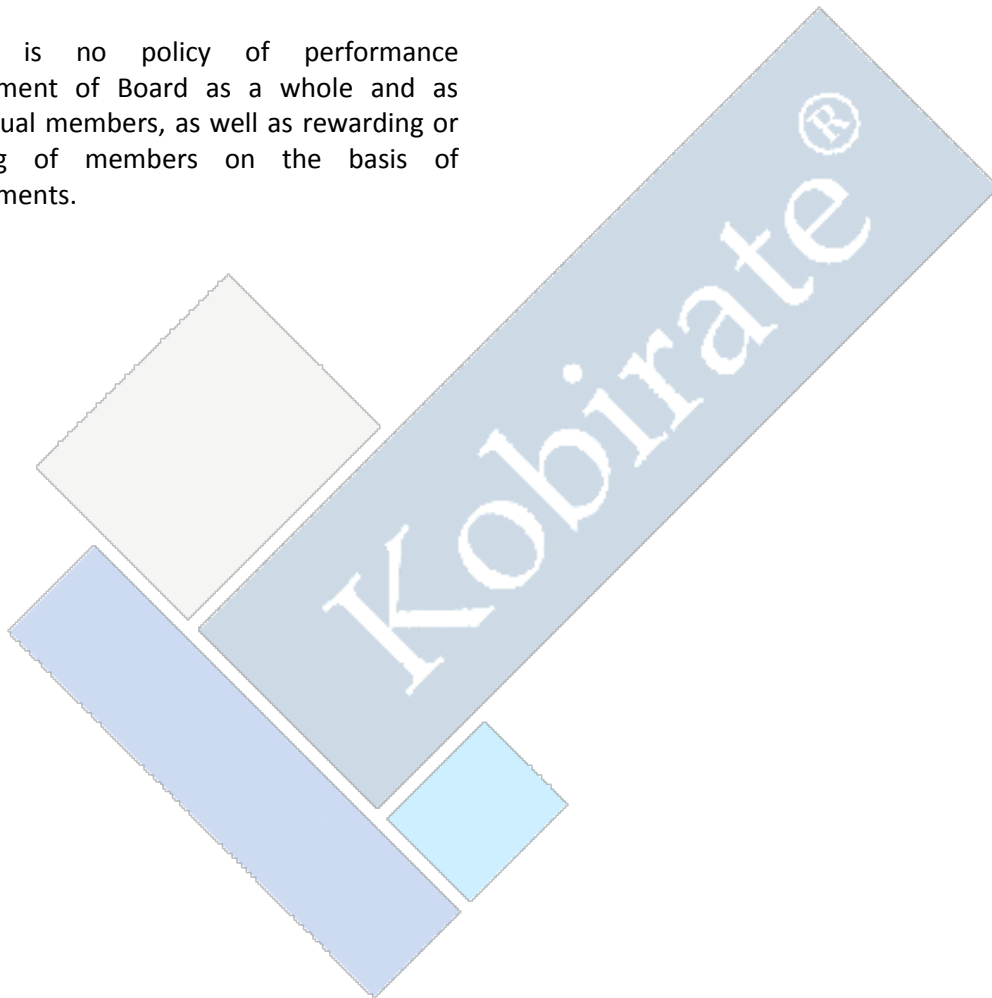
Upon examination of documents and on the spot observations, it has been seen that the

Board and the committees make regular records of meetings and keep them secure.

Guidelines on compensation of the Directors and top executives have been determined and disclosed to public on Company's corporate website.

Manager Liability Insurance against defects of Board Members duties has been made for USD 100 million. As this amount corresponded to about 15 % of Company's capital in 2019, no disclosure has been made to Public Disclosure Platform.

There is no policy of performance assessment of Board as a whole and as individual members, as well as rewarding or sacking of members on the basis of assessments.





## 2. COMPANY PROFILE AND CHANGES WITHIN LAST YEAR

### A. Company Profile:



<b>Company Name</b>	: EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş
<b>Company Address</b>	: <b>Head Office</b> Barbaros Mahallesi Ardiç Sok. No:6 Ataşehir / İstanbul <b>Ereğli Plant</b> Uzunkum Caddesi No: 7 67330 Kdz. Ereğli/ZONGULDAK
<b>Company Phone</b>	: (0216) 578 8000
<b>Company Facsimile</b>	: (0216) 469 4810
<b>Company's Web Address</b>	: <a href="http://www.erdemir.com.tr">www.erdemir.com.tr</a> <a href="http://www.erdemirgrubu.com.tr">www.erdemirgrubu.com.tr</a>
<b>E-Mail Address</b>	: <a href="mailto:iletisim@erdemir.com.tr">iletisim@erdemir.com.tr</a> <a href="mailto:investorrelations@erdemir.com.tr">investorrelations@erdemir.com.tr</a>
<b>Date of Incorporation</b>	: 11 May 1960
<b>Registered Number</b>	: 863637
<b>Paid in Capital</b>	: TRY 3.500.000.000
<b>Line of Business</b>	: Iron and steel roll products of all types, sizes and qualities, alloyed or pure iron, steel and iron casts, cast and pressed products and businesses stated in the Articles of Association.
<b>Company's Sector</b>	: Production industry / Metal Main Industry / Iron Steel Main Industry.

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

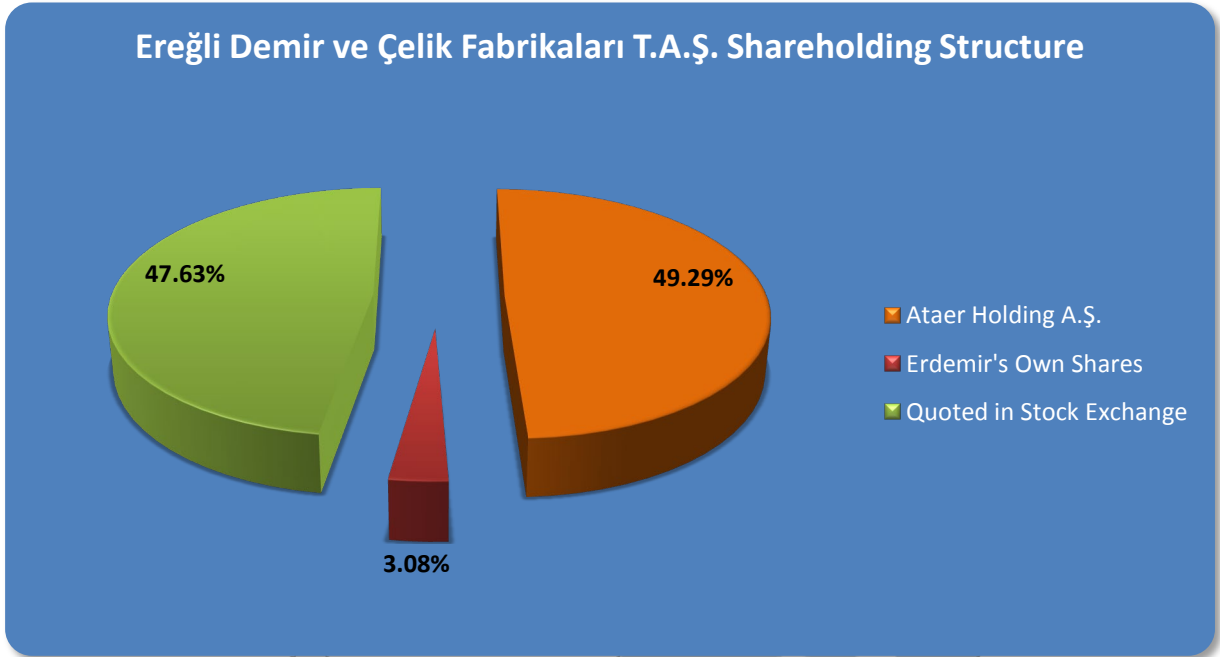
**İdil ÖNAY ERGİN**

**Investor Relations Manager**

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

**(0216) 578 8061**

Company's Shareholder Structure (as of the report date)



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

Name of Shareholder	Share (000 TL)	Share (%)
ATAER Holding A.Ş.*	1.724.982.-	49,29
Quoted in Stock Exchange	1.667.181.-	47,63
Erdemir's Own Shares	107.837.-	3,08
<b>Total</b>	<b>3.500.000.-</b>	<b>100,00</b>

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

\* The main shareholder of the company is ATAER Holding A.Ş. and its ultimate main shareholder is Turkish Armed Forces Assistance Fund (OYAK).

## Board of Directors

Name / Surname	Title	Executive/ Non - Executive
OYTAŞ İç ve Dış Ticaret A.Ş. (Representative: <b>Süleyman Savaş ERDEM</b> )	Chairman of Board of Directors	Non - Executive
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: <b>Toker ÖZCAN</b> )	Board Member and Executive Director	Executive
T.C Başbakanlık ÖİB (Representative: <b>Tahsin YAZAR</b> )	Board Member	Non - Executive
OYKA Kâğıt Ambalaj San ve Tic A.Ş. (Representative: <b>Baran ÇELİK</b> )	Board Member	Non - Executive
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Representative: <b>Güliz KAYA</b> )	Board Member	Non - Executive
OMSAN Lojistik A.Ş. (Representative: <b>Aslıhan DÖĞER</b> )	Board Member	Non - Executive
<b>Yunus ARINCI</b>	Independent Board Member & Chairman of Audit Committee, Member of Corporate Governance Committee	Non - Executive
<b>Ali FİDAN</b>	Independent Board Member & Chairman of Early Detection of Risk Committee, Member of Audit Committee	Non - Executive
<b>Kurtuluş Bedri VAROĞLU</b>	Independent Board Member & Chairman of Corporate Governance Committee, Member of Early Detection of Risk Committee	Non - Executive

### Committees of Board of Directors:

#### Corporate Governance Committee

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

#### Audit Committee

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

#### Early Detection of Risk Committee

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

### Top Management

Name / Surname	Title
Salih Cem ORAL	ERDEMİR General Manager
Başak TURGUT	Marketing and Sales Group Vice President
Can ÖRÜNG	Corporate Architecture and Human Resources Group Vice President / Information Technologies Group Vice President (V.)
İbrahim Emrah SİLAV	Finance Management and Financial Affairs Group Vice President
İsmail Kürşat KORKMAZ	Purchasing Group Vice President
Ural DURUSU	Enyterprises Group Vice President

Source www.kap.org.tr

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

	2017/12 (000 TL)	2017/12 (000 USD)	2018/12 (000 TL)	2018/12 (000 USD)	Change % (TRY)
Current Assets	14.841.725	3.934.814	22.512.149	4.279.144	51,68
Trade Receivables	2.582.106	684.564	4.401.474	836.639	70,46
Inventories	5.039.509	1.336.066	8.890.150	1.689.853	76,41
Non Current Assets	13.534.130	3.588.147	19.269.961	3.662.864	42,38
Total Assets	28.375.855	7.522.961	41.782.110	7.942.008	47,25
Current Liabilities	5.524.344	1.464.605	7.887.487	1.499.266	42,78
Non Current Liabilities	3.623.354	960.618	4.639.998	881.978	28,06
Share Capital	3.500.000	1.818.371	3.500.000	1.818.371	-
Equity	19.228.157	5.097.738	29.254.625	5.560.764	52,14

Source: Erdemir Group Annual Report 2018

### Income Statement Comparison of Company's Certain Selected Items for year-end of last two years (Consolidated)

	2017/12 (000 TL)	2017/12 (000 USD)	2018/12 (000 TL)	2018/12 (000 USD)	Change % (TRY)
Revenues	18.736.447	5.140.456	27.015.254	5.597.856	44,19
Cost of Sales	(13.480.960)	(3.698.582)	(18.631.954)	(3.860.745)	38,21
Operational Profit/Loss	4.902.072	1.344.912	7.814.311	1.619.211	59,41
Profit/Loss Before Tax	4.954.516	1.348.789	8.630.677	1.745.082	74,20
Profit/Loss for the Period	3.897.542	1.069.314	5.844.721	1.211.090	49,96

Source: Erdemir Group Annual Report 2018

### Subsidiaries within the Scope of Consolidation

COMPANY NAME	LINE OF BUSINESS	SHARE %
İskenderun Demir ve Çelik A.Ş.(*)	Integrated Steel Production	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Iron Ore, Pelet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Steel Service Center	100,00
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Management and Consultancy	100,00
Erdemir Romania S.R.L. (**)	Silicon Steel Production	100,00
Erdemir Asia Pacific Private Limited(***)	Trading	100,00
Erdemir Enerji Üretimi A.Ş.	Renewable Energy Production	100,00
İsdemir Linde Gaz Ortaklığı A.Ş.	Industrial Gas Production and Sale	50,00

Source: [www.kap.org.tr](http://www.kap.org.tr)

(\*) Company's shares have been dematerialized at Central Registry Office and they have been quoted at Pre – market Transaction Platform under process code "ISDMR" on 28.03.2016. It was quoted in Star Market on 19.04.2018.

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

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

- Group's financial data can be found in the section above.
- Erdemir Group employs a total of 11,607 employees (3,882 with monthly fees and 7,725 with hourly fees) as of 31.12.2018. As of the same date, Erdemir employs a total of 5,844 employees (1,683 with monthly fees and 4,161 with hourly fees).

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

- STAR MARKET
- BIST 50 / BIST DIVIDEND 25 / BIST 100 / BIST METAL MAIN / BIST SUSTAINABILITY INDEX (\*) / BIST INDUSTRIAL / BIST 30 / BIST CORPORATE GOVERNANCE / BIST DIVIDEND / BIST ALL / BIST STAR

(\*) In 2015, 2016, 2017, 2018 and 2019 Ereğli Demir ve Çelik Fabrikaları T.A.Ş. joined Sustainability Index, where high performance companies are listed after measurement of companies' - whose shares are traded in BIST - corporate sustainability performances.

#### **The Bottom and Peak Closing Values of Company's Shares traded on the BIST within last year (09.07.2018-08.07.2019)**

Bottom (TL)	Peak (TL)
7,00- (02.01.2019)	12,21- (09.08.2018)

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

## **B. Changes within Last Year:**

### ***i. Changes in Capital and Articles of Association:***

There have been no changes in Company's capital and Articles of Association within the period of rating.

### ***ii. Dividend Distribution:***

Company's Board of Directors took the following decision about the distribution of 2018 net period profit at its meeting dated 25.02.2019, No 9613;

"As a result of 2018 activities our Company earned TRY 5,656,420,668 net period profit, according to financial statements prepared in compliance with Tax Procedure Law, and TRY 5,597,990,227 net period profit, according to financial statements prepared in compliance with articles of CMB Communiqué No 11.14.1. Following points are decided to be presented to the Ordinary General Assembly meeting in March 2019;

- In line with Article 519 of the Turkish Trade Law and provisions of Capital Markets Board, as 20 % limit of paid in capital has been reached, TRY 140,835,350 - 5% of net profit of the year, which was calculated in financial statements of 2018, prepared in accordance with provisions of the Tax Procedure Law - will be allocated as general legal reserve fund,
- TRY 4,830,000,000 – TRY 1,712,892,466 of it being income subject to indemnification in accordance with Provisional Article 61 of Income Tax Law - , which 88,507658 % of distributable net profit of the year in financial statements of 2017, prepared according to regulations of Capital Markets Board, will be allocated as cash shareholder dividend,
- Since the allocated cash dividend is more than 5 % of the company's paid in capital, 10 % of excess amount, which is TRY 465,500,000 will be allocated as general legal reserve in accordance with the second paragraph, clause (c) of Article 519 of Turkish Commercial Law,
- After extracting primary reserves and first dividend for shareholders from net period profit, the remaining amount of TRY 161,654,877 will be allocated as extraordinary reserve,
- The dividend payment – as lump sum – date will be no later than December 15th 2018 and it will be determined by the Board of Directors after the General Assembly, taking the cash projection of the Company into consideration."

Dividend distribution decision of the Board of Directors was discussed at the Ordinary General Assembly meeting on 21.03.2019 as the 7<sup>th</sup> item of the agenda and approved.

### ***iii. Policies:***

No changes have taken place in Company policies (Disclosure Policy, Dividend Policy, Remuneration Policy, Compensation Policy, Human Resources Policy, Donations and Aid Policy, Erdemir Group Ethical Rules and Working Principles and Erdemir Group Anti – Corruption Policy) during the period of rating. These policies have been disclosed to public through Company's corporate website.

### ***iv. Management ve Organization:***

Following changes took place in top management during the rating period;

- According to Material Event Disclosure dated 19.02.2019;

According to the decision of our Company's Board of Directors, dated February 18th, 2019 and numbered 9611; it has been decided that Baran Çelik will be registered and announced on the trade registry as a representative of OYKA Kağıt Ambalaj San. ve Tic. A.Ş. according to the decision of our Company's legal entity Board Member OYKA Kağıt Ambalaj San. ve Tic. A.Ş.' Board of Directors, dated February 11th, 2019 and numbered 6.

- According to Material Event Disclosure dated 12.10.2018;

Mr. Toker ÖZCAN, General Manager of our subsidiary İskenderun Demir ve Çelik A.Ş., has left the position of General Manager as of October 12, 2018 due to his appointment as "Head of OYAK Mining Metallurgy Group" as of the same date. In addition to his new position, Mr. ÖZCAN will maintain his present Deputy Chairman (Representative of Erdemir Madencilik Sanayi ve Ticaret A.Ş.) position in İskenderun Demir ve Çelik A.Ş. Mr. Mesut KEYFLİ, Deputy Vice President of Operations, has been appointed to the vacant General Manager position as the "General Manager" of our subsidiary İskenderun Demir ve Çelik A.Ş. on October 12, 2018.

- At the Ordinary General Assembly meeting on 21.03.2019, Mr. Yunus ARINCI, Mr. Ali FİDAN and Mr. Kurtuluş Bedri VAROĞLU have been elected as Independent Board Members for one year.

- Mr. Sami Nezh TUNALITOSUNOĞLU has left his position as Business development Consultant on 04.02.2019.

- Steel Production Director Mr. Ural DURUSU has been appointed as Enterprises Vice President on 29.11.2018.

- Vacant position of Group Corporate Relations Coordinator has been dissolved as of 09.03.2018.

- Vacant position of Human Resources Vice President has been dissolved as of 25.01.2019.

- Vacant positions of Group Production Coordinator, Group Strategy and Business Development Coordinator, Group Legal Coordinator have been dissolved as of 31.01.2019.

With Board decision 20.03.2019, numbered 9621 it has been decided;

- to cancel İbrahim Emrah SİLAV's signature authorization as Erdemir Group Financial Management and Financial Affairs Coordinator and to replace it with signature authorization as Financial Management and Financial Affairs Group Vice President,

- to cancel Başak TURGUT's signature authorization as Erdemir Group Marketing and Sales Coordinator and to replace it with signature authorization as Marketing and Sales Group Vice President,

- to cancel İsmail Kürşad KORKMAZ's signature authorization as Erdemir Group Purchasing Coordinator and to replace it with signature authorization as Purchasing Group Vice President,

- to cancel Can ÖRÜNG's signature authorization as Erdemir Group Corporate Architecture and Human Resources Coordinator and to replace it with signature authorization as Corporate Architecture and Human Resources Group Vice President.

**v. Changes in Group Companies, Subsidiaries and Affiliated Companies:**

There have been no changes.





### 3. RATING METHODOLOGY

The Corporate Governance Compliance Rating is a system which audits whether or not the firm's management structures and management styles, the arrangements for shareholders and stakeholders and the process of informing in transparency and accuracy are performed in accordance with the modern corporate governance principles and which assigns a grade corresponding to the existing situation.

Organization for Economic Co-operation and Development (OECD) established a working group in 1998 in order to assess member countries' opinions on corporate governance and to prepare some non – binding principles.

The fact that principles are open to change in time was also accepted at this work. Although at first these principles were focused on the companies whose shares were quoted in stock exchange, it was emphasized by OECD that it would be also useful to implement these principles in public enterprises and companies whose shares were not quoted in stock exchange.

In 1999, OECD Corporate Governance Principles were approved at the OECD Meeting of Ministers. Since then, these principles have been regarded as international references for decision – makers, investors, shareholders, companies and other stakeholders throughout the world.

Since their approval, these principles kept the concept of corporate governance on the agenda and became guidelines for the laws and regulations in OECD members, as well as other countries.

There are four basic principles of corporate governance in OECD Corporate Governance Principles. These are: fairness, transparency, accountability and responsibility.

Turkey has been closely monitoring these developments. A working group, established within TUSIAD in 2001, prepared the guide,

titled, "Corporate governance: The best implementation code". Then CMB issued "Capital Market Board Corporate Governance Principles" in 2003 and updated it in 2005, 2010, 2012, 2013 and 2014, according to international developments in this field.

Obligation to comply with CMB's Corporate Governance Principles, based on the principle of "implement or disclose", and to declare it became part of companies' lives in 2004. Putting the Declaration of Compliance to Corporate Governance in the annual reports became obligatory the following year.

The principles are grouped under four main headings, namely: the Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors.

The Corporate Governance Compliance Rating Methodology has been prepared by Kobirate A.Ş. for companies whose shares are traded on BIST, banks, investment partnerships and non – quoted companies.

The methodology takes into consideration the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as CMB's board decisions taken at Board meeting dated 01.02.2013, no 4 / 105.

In a rating process, the full compliance of work flow and analysis technique with Kobirate A.Ş.'s Ethical Rules is taken into consideration.

In order to measure compliance of companies to corporate government principles, **408** criteria are used in the rating process of BIST First Group companies.

These criteria are translated into "Corporate Governance Rating Question Sets" through Kobirate A.S.'s unique software.

The weighting scheme for the four main sections in the new Corporate Governance Compliance Rating, determined by CMB's

memorandum dated 12.04.2013 and numbered 36231672-410.99 (KBRT)-267/3854, is as below:

**Shareholders 25 %**

**Public Disclosure and Transparency 25 %**

**Stakeholders 15 %**

**Board of Directors 35 %**

CMB decision dated 01.02.2013 and numbered 4/105 states that in case the minimum requirements of corporate governance principles are met, 85 % of full points can be given at most for that principle and it is required to add new questions / methods into the methodology in order to ensure that good corporate governance principles, which go beyond meeting the minimum requirements are included in the rating grade. Our company has been informed about this requirement by CMB notification dated 19.07.2013 and numbered 36231672-410.99 (KBRT) 452.

In the 2014/2 revised corporate governance compliance rating methodology, created by our company, the grade that can be given to a related criterion in that subsection for meeting minimum requirements of corporate governance principles, stated by CMB Communiqué of Corporate Governance published on 03.01.2014, numbered II-17.1, is restricted to 85 % of the full points. Remaining 15 % is reached by measuring company's efficiency in applying CMB's Corporate Governance Principles, degree to which the company is internalized these practices and the value that these internalized practices create for the company. The existence of those practices that are not included in CMB's Corporate Governance Principles, but determined as good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also considered as part of the remaining 15 % and affect the company's grade.

The grade to be assigned by the Corporate Governance Rating Committee to the firm ranges between 0-10. In this scale of grade, "10" points mean excellent, full compliance with CMB's Corporate Governance Principles while grade "0" means that there is no compliance with CMB's Corporate Governance Principles, in any sense, in the existing weak structure.

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

GRADE	DEFINITIONS
9-10	<p>The Company achieved a substantial compliance with to the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are established and are operational. Any risks to which the Company might be exposed are recognised and controlled effectively. The rights of the shareholders are impartially taken care of. The level of public disclosure and transparency are high. Interests of the stakeholders are fairly considered. The structure and the working conditions of the Board of Directors are in full compliance with the Corporate Governance Principles. The Company is eligible for inclusion in the BIST corporate governance index.</p>
7-8,9	<p>The Company complied considerably with the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are in place, and operational, although some improvements are required. Potential risks, which the Company may be exposed are identified and can be managed. Benefits of the shareholders are fairly taken care of. Public Disclosure and transparency are at high levels. Interests of the stakeholders are equitably considered. Composition and operational conditions of the Board comply with the Corporate Governance Principles. Some improvements are needed in compliance with the Corporate Governance Principles even though they do not constitute serious risks. The company is eligible for inclusion in the BIST Corporate Governance Index.</p>
6-6,9	<p>The Company has moderately complied with the Corporate Governance Principles issued by the Capital Market Board. Internal Control systems at moderate level have been established and operated, however, improvement is required. Potential risks that the Company may be exposed are identified and can be managed. The interests of the shareholders are taken care of although improvement is needed. Although public disclosure and transparency are taken care of, there is need for improvement. Benefits of the stakeholders are taken care of but improvement is needed. Some improvement is required in the structure and working conditions of the Board. Under these conditions, the Company is not eligible for inclusion in the BIST Corporate Governance Index.</p>

GRADE	DEFINITIONS
<b>&lt; 4</b>	<p>The Company has failed to comply with the Corporate Governance Principles issued by the Capital Market Board. It also failed to establish its internal control systems. Potential risks that the company might be exposed are not identified and cannot be managed. The company is not responsive to the Corporate Governance Principles at all levels. There are major weaknesses in the interest of the shareholders and the stakeholders, public disclosure, transparency. Structure and working conditions of the Board appear to be at a level that might cause the investor to incur material losses.</p>

