



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report



2 December 2011

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## Rating and Executive Summary

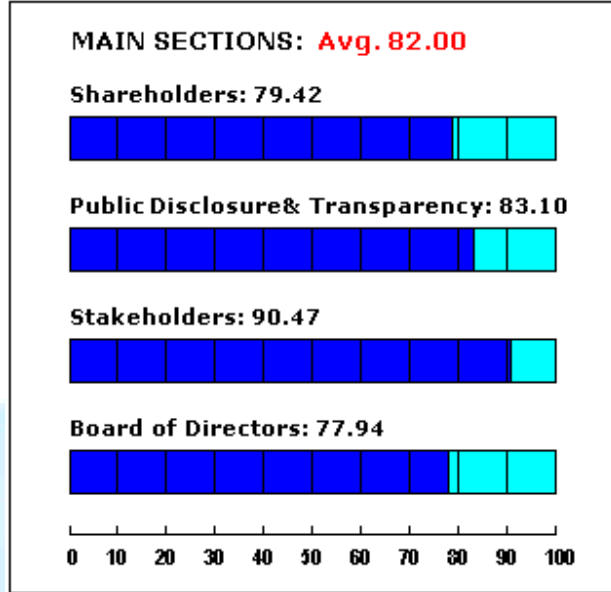
### EGELİ & CO. YATIRIM HOLDİNG A.Ş.

 **SAHA**  
Corporate Governance Rating:

**8.20**

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## EXECUTIVE SUMMARY

Egeli & Co. Yatırım Holding A. Ş. is rated with **8.20** as a result of the Corporate Governance study done by SAHA. Details of this study are presented in the following chapters as main sections and sub-sections. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" (the Principles). Ratings of main sections and sub-sections are disclosed separately.

Under the **Shareholders** heading, Egeli & Co. scored **7.94**. Having no limitations for voting rights, conducting general shareholder meetings in compliance with the country's rules and regulations and implementing a well established dividend payment policy are positive aspects. On the other hand, the lack of cumulative voting rights, individual shareholders' right to appoint an independent auditor, and of the privilege to nominate a candidate to the board of directors is observed to be the areas which need further improvement. The proactive approach of the Shareholders Relations division is a sign of corporate sensitivity and indicates further improvements to come in the near future.

Egeli & Co. attained **8.31** under the **Public Disclosure and Transparency** chapter. There is a comprehensive website that includes all information listed in the "Corporate Governance Principles" pertinent to public disclosure. Public

announcements are made via all communications channels and are in accordance with the CMB and İstanbul Stock Exchange (ISE) rules and regulations. On the other hand, the fact that the company's ultimate controlling individual shareholders, as identified after being released from indirect or cross ownership relationships between co-owners, are not disclosed to the public, and the absence of sufficient details in the annual report stands out as areas of further refinement.

On the topic of **Stakeholders**, Egeli & Co. scored **9.05**. Especially in the areas of company policy regarding stakeholders, protection of company assets, human resources policy, relations with the customers and suppliers, and social responsibility show compliance on a large scale with Capital Markets Board's "Corporate Governance Principles".

From the perspective of the Principles regarding the **Board of Directors**, Egeli & Co.'s tally is **7.79**. The positive aspects are; there is a well communicated company mission and vision; board of directors consist of broadly experienced, competent, suitably educated individuals of high ethical standards; there are no executives in the board, with 1/3 consisting of independent members. However, the absences of a corporate governance committee and of cumulative voting rights remain to be potential areas for improvement.

#### DISCLAIMER

This Corporate Governance Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) based on information made available by Egeli & Co. Yatırım Holding A.Ş. and according to the Corporate Governance Principles by the Turkish Capital Markets Board as amended on 2005.

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.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

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## 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 July 2003, as revised on February 2005.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of the Principles is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in the future should all be included in the annual report and disclosed to public.

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

On the foundation of these Principles, SAHA Corporate Governance Rating methodology features over 400 code 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.19).

In compliance with the CMB's directive and to reach an overall Corporate Governance Rating, SAHA allocates the following weights to the four main sections of the Principles:

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

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

Egeli & Co. Yatırım Holding A. Ş.	
	<b>CHAIRMAN</b> Tan Egeli
<b>Headquarters:</b> Abdi İpekçi Cad. Azer İş Merkezi No:40 Kat:6 Harbiye, Şişli - İstanbul <a href="http://www.egcyh.com">www.egcyh.com</a>	<b>Investor Relations Department</b> Elif Pehlivanlı Tel: (0212) 343 06 26 <a href="mailto:elif.pehlivanli@egelico.com">elif.pehlivanli@egelico.com</a>

In 2006, Egeli & Co. purchased the shares of Varlık Yatırım Ortaklığı A. Ş. which was established under the TEB BNP Paribas group on 1994.

Upon Capital Markets Board's permission, and following the decision taken at the General Shareholders' Meeting of 27 September 2010, Varlık Yatırım Ortaklığı A. Ş. has completed the conversion process by abandoning its status of being a trust company, and the name of the company was changed to Egeli & Co. Yatırım Holding A. Ş.

The company's objective is to contribute to Turkish economy by directing foreign and local investors towards vital sectors like energy and agriculture, thus transferring resources to real investments. For the purpose of electricity production, Egeli & Co., together with its project partner, NRG Enerji Yatırımları A. Ş., has won the tender for two licensed geothermal areas and has acquired 50% share of Karesi Jeotermal Enerji Üretim San. Ve Tic. A. Ş., and at the same period has participated as a co-founder to Batı Tarımsal Yatırımlar A. Ş. (which was established to operate in the field of agriculture) with a 9% share.

Company has a registered capital of 250,000,000, with 40,000,000 as the paid-in capital. Egeli & Co.'s latest capital structure is as follows;

Egeli & Co. Yatırım Holding A. Ş. Capital Structure			
Name	Group of Shares	Share Amt. (TL)	Share (%)
Egeli & Co. Finansal Yatırımlar A. Ş.	A	79,761	0.20
Tan Egeli	B	750,002	1.88
Egeli & Co. Finansal Yatırımlar A. Ş.	B	16,657,555	41.64
Public Shares	B	22,512,682	56.28
<b>Total</b>		<b>40,000,000</b>	<b>100.00</b>

Following the general shareholders' meeting on 23 March 2011, Board of Directors shaped up as follows:

<b>Board of Directors</b>		
<b>Name</b>	<b>Title</b>	
Tan Egeli	Chairman	
Ersoy Çoban	Vice Chairman & Audit Committee Member	
Murat Çilingir	Member	
Burak Koçer	Member	
Mehmet Ali Güneysu	Member & Audit Committee Member	Independent
Murat Nadir Tansel Saraç	Member	Independent

According to the company's Articles of Association, Article 8, Board of Directors consist of 6 members and all of the members are elected at the general shareholders' meeting among the candidates nominated by the Group A share holders, which two of them should serve as independent member.

Egeli & Co. is a constituent of ISE All (XUTUM), ISE All-100 (XTUMY), ISE Financial (XUMAL), ISE Holding and Investment (XHOLD), ISE Second National (XIKIU), and ISE Istanbul (XSIST) indices.

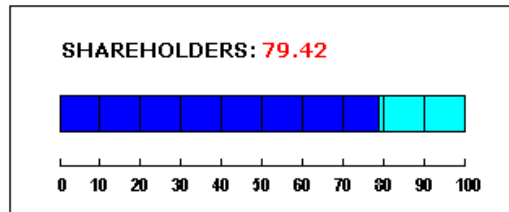
The consolidated sales and profitability profile of Egeli & Co. are as following:

<b>(000 TL)</b>	<b>2009</b>	<b>2010</b>	<b>2011/9 mos.</b>
<b>Sales Income</b>	2,690.7	955.6	193.6
<b>Gross Profit</b>	2,212.9	811.7	(264.9)
<b>Operating Profit (Loss)</b>	1,811.4	(301.0)	(1,821.6)
<b>Profit Before Tax (Loss)</b>	1,811.4	(297.6)	(651.9)
<b>Net Profit (Loss)</b>	1,811.4	(309.7)	(512.8)

The major Balance Sheet figures of Egeli & Co. are as following:

<b>(000 TL)</b>	<b>2009</b>	<b>2010</b>	<b>2011/9 mos.</b>
Current Assets	11,222.5	10,825.3	35,706.7
Fixed Assets	10.4	173.0	6,684.4
<b>Total Assets</b>	<b>11,232.9</b>	<b>10,998.3</b>	<b>42,391.1</b>
Short Term Liabilities	32.7	90.8	104.5
Long Term Liabilities	1.8	18.7	611.4
Equities	11,198.4	10,888.8	41,675.3
<b>Total Equities</b>	<b>11,232.9</b>	<b>10,998.3</b>	<b>42,391.1</b>

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	There is a shareholder relations division
+	Equal treatment of shareholders
+	General shareholder meetings are conducted in compliance with the CMB's rules and regulations
+	Preparation and disclosure prior to general shareholder meetings are satisfactory
+	Voting rights are facilitated
+	Dividend policy is made public

- Shareholders do not have the right to request appointment of special auditors from the general shareholder meeting
- Minority rights are not defined
- Lack of cumulative voting procedures
- Privilege to nominate a candidate to the board of directors

There is a shareholder relations division established within the company and its activities are satisfactory.

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

All information required to exercise shareholders' rights in a sound manner are made available to all shareholders. All necessary information is disclosed to public on the company's web site.

However, there is no provision in the articles of association that allows each shareholder to have the right to request from the general shareholder meeting that a special auditor is appointed for the examination and clarification of a specific material situation.

At Egeli & Co., utmost care is given to the exercise of minority rights. Nevertheless, a cumulative voting procedure is not adopted to allow minority shareholders send their representatives to the board. There is no enlargement of the scope of minority rights (beyond the requirements of the Turkish Commercial Code and regulations relevant to public companies) in the articles of association of the company.

Procedures followed prior to the general shareholders' meeting as well as the conduct of the actual meeting are in compliance with the relevant legislation and regulations and serve to enable shareholders to exercise their rights in a most efficient manner. Shareholders are provided with sufficient information prior and during the general shareholders' meeting. However, the articles of association of the company do not stipulate that certain decisions can only be taken at the general shareholders' meeting.

At Egeli & Co., all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately. No ceilings are applied on the number of votes that a shareholder may exercise during the general shareholders meeting. The right to vote is automatically granted once the share is acquired and arrangements that would postpone the



exercise of the right to vote a certain period following the acquisition of share are not adopted. Nevertheless, there are voting privileges for the nomination of board members according to articles of association. Only the Group A shareholders can nominate 6 members of the board and two of them should serve as independent member.

Egeli & Co. has a clearly defined and consistent dividend policy and this is disclosed to public. Interim dividend payments are not allowed as per the articles of association.

Neither the articles of association of the company nor any resolutions of the general shareholders' meeting contain any provisions that impede the transfer of shares.

All shareholders, including minority shareholders and foreign shareholders are treated equally.

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

Based on the decision of the board on 18.03.2009, a "Shareholder Relations Division" is established, and as of 31.03.2011 Elif pehlivanlı is named as division manager.

The shareholder relations division keeps proper, secure and up-to-date records of shareholders; responds to written queries for information regarding the company, excluding the undisclosed information that is confidential and trade secret; ensures that the general shareholders meeting is conducted in accordance with the legislation, the corporate statute and other inter-company regulations; prepares the documents to be used by the shareholders in the general shareholders' meeting; keeps the records of voting results and ensures that all reports related to the resolutions of the general

shareholders' meeting are sent to the shareholders; and conducts supervision and surveillance of all issues concerning public disclosure, including the related legislation and information policy of the company.

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

With regard to facilitating shareholder rights, all necessary information and documentation are available for and easily accessible by the shareholders. Shareholders are provided with information such as the identity and responsibility of shareholder relations staff, timing and other details related to the general shareholders' meeting, voting and minority rights, and procedures to be followed for the transfer of shares. Access to this kind of information is provided via the company's website ([www.egcyh.com](http://www.egcyh.com)), telephone, e-mail and personal visits and submitted as complete, accurate and in a timely manner.

The company's obligation to inform shareholders includes legal or commercial relationships with other enterprises or individuals with whom there is a direct/indirect managerial, administrative, supervisory or ownership related relationship. In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis on electronic media.

However, there is no provision in the articles of association that allows each shareholder to have the right to request from the general shareholder meeting that a special auditor is appointed for the examination and clarification of a specific material situation.

### **1.3. Minority Rights:**

On the positive front, there are no provisions to apply certain ceiling on the number of votes a shareholder might exercise, and no obstacles to the implementation of voting rights of foreign investors are present. However, there is privilege in the articles of association, stating that only Group A shares can nominate the board members, and two of them should serve as independent member.

Egeli & Co. recognizes minority rights in its articles of association at 5%, which is what the current legislation requires. However, it would be more appropriate if an enlargement of the scope of minority rights is attained through the regulations in the articles of association, as recommended by the CMB's Corporate Governance Principles.

### **1.4. The Right to Participate in the General Shareholder Meeting:**

The invitation to the general shareholders' meeting was published in two newspapers that enjoy nationwide circulation. Applications are made to the shareholder relations division to participate to the general shareholders' meeting. Prior to the 2010 general shareholders' meeting, form of proxies were announced for those who will appoint a proxy for the meeting. These forms were also open to use of shareholders in electronic media. Informative documents submitted to the shareholders before the conduct of general shareholders' meeting was easily associated with agenda items. This information consisted of references and citations pertaining to the agenda items to be discussed.

Forms of proxies and the voting procedure were announced in two daily newspapers. While preparing the agenda, the board of directors gave

attention to the issues that shareholders wish to include in the agenda.

Following the observation of minutes of the meeting, it is determined that the meeting had occurred at a fair and effective manner. However, year 2010 annual report does not contain information on previous board membership experience of the board members, their previous official duties in the public sector, and the nature and the extent of their relationship with the company. Besides, since there was not even verbal information given during the meeting, shareholders were not informed on board members at the general meeting. Additionally, minimum requirements for disclosure of information about the candidates are not stated in the articles of association.

The company, pursuant to the Capital Market Law, is subject to independent audit and the related audit company made necessary explanations about its report. Moreover, shareholders are informed about investment possibilities and developments in the sector.

The conduct of general shareholders' meetings poses no risk upon the rights of shareholders and complies with the relevant rules and regulations. Annual reports, financial statements and reports are presented to the shareholders prior to the general shareholders' meeting. The general shareholders' meeting announcement is published in accordance with legislation and the meeting venue (company premises) is suitable for the attendance numbers determined beforehand.

The voting procedure in the general shareholders' meeting is announced to the participants on electronic media as well as by the chairman in the beginning of the meeting. The manner in which the general meetings are

conducted is proper and the chairman's administration imposes no risks upon shareholders' rights. Agenda items were expressed in an unbiased and detailed manner with, clear and concise method in the general shareholders' meeting. Shareholders were provided with equal opportunities to express their opinions, and raise any questions and a sound discussion environment was created. Each agenda item is voted separately and voting results are announced before the end of the meeting.

All board members except one and those who were involved in the preparation of periodical financial statements were present at the meeting. Shareholders were given the opportunity to present their views and suggestions on board member candidates.

The articles of association of the company does not include a provision that decisions regarding the division and allocation of shares which changes the capital and management structure of the company and the composition of the company's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favor of a third person can only be adopted in the general shareholders' meeting.

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

At Egeli & Co., there are no ceilings applied on the number of votes that a shareholder may exercise during the general shareholders' meeting (one share one vote). Each shareholder is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient way. The right to vote is automatically granted once the share is acquired. There are no obstacles or limits for institutional and legal representatives'

voting rights. Voting procedure is included in the articles of association and announced before the general shareholders' meeting.

Nevertheless, there are voting privileges for the nomination of board members. Group A shareholders nominate all 6 of the board members, two of them serving as independent member.

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

Egeli & Co.'s dividend policy is clearly defined and complies with the Turkish Commercial Code. It is submitted to the shareholders at the general shareholders' meeting and made public through company's website. We are not able to comment on application of this policy, since the company reported loss in recent years. The articles of association of the company do not include provisions regarding any advance dividend payments.

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

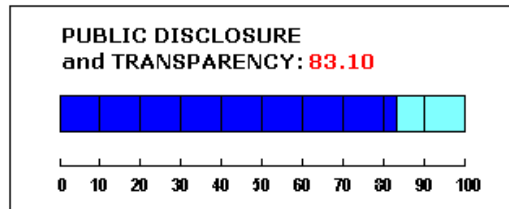
Neither the articles of association nor the decisions of the General Shareholders meeting have a provision or enforcement in connection with certain limitations over the transfer of the shares.

#### **1.8. Equal Treatment of Shareholders:**

As a result of our examinations of the conduct, execution and minutes of the general shareholders' meetings, the articles of association, and interviews with company officials, we have observed that the shareholders are treated equally and fairly.

We did not come across to a sign of any shareholder acting with the intention of harming other shareholders and the company, unless aimed at protecting his/her own justified interest.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Dividend policy disclosed in the annual report
+	Insider list is published
+	Disclosure about developments that may affect the value of the company complies with the legislation
+	Minutes of important board meetings and the list of participants are on the web site
+	Information policy established, and presented to the shareholders at the general shareholders' meeting

- Unilateral declaration of the board of directors, which covers information about whether or not the Principles are being properly applied is not included in the Corporate Governance compliance report
- No detailed list of ultimate controlling individual shareholders
- English version of the website is inadequate
- Remuneration of executives and employees not disclosed to public
- Declaration of the board of directors confirming that the financial statements fully confirm the financial situation of the company does not take

place at the annual report  
Social rights of workers and issues on training and environmental protection is not mentioned in the Annual Report

At Egeli & Co., Shareholder Relations Division carries out the public disclosure duties.

A comprehensive information policy is established, submitted to the attention of the shareholders at the general shareholders' meeting, and disclosed to public on the company's website.

Any developments that may affect the value of Egeli & Co.'s capital market instruments are disclosed to the public without any delay and within the time period required by the current legislation.

Within the framework of the information policy of Egeli & Co., the dividend policy and ethical rules are disclosed to public on the website of the company.

Transactions with Egeli & Co. and its shareholders, board members, and executives are duly disclosed to public.

The annual report as well as the periodical financial statements and footnotes are prepared in accordance with the current legislation and IFRS.

The unilateral declaration of the board, which covers information about whether or not the principles are being properly applied, and the company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-

owners does not take place in the company's annual report.

Also, declaration of the board of directors confirming that the financial statements fully confirm the financial situation of the company, and the company fully complies with the legislation is not mentioned at the annual report.

The independent audit of Egeli & Co. is performed by a reputable institution in compliance with the CMB legislation.

### **2.1. Principles and Means for Public Disclosure:**

The shareholder relations division is responsible for material disclosures and monitoring all related issues associated with the disclosures. Personnel of this division are assigned solely to monitor and supervise all issues pertaining to public disclosure. Investors, financial analysts, media officers and other related inquirers are directed to this unit.

In compliance with the transparency principle, the company accurately discloses its accounting policy and operational financial results to public. The board prepared collective principles to be used in the information policy of the company, presented them to the shareholders at the general shareholders' meeting and disclosed it to the public on its website.

This information policy covers category of information to be disclosed to the public in addition to the requirements of the relevant legislation; form and methods of disclosure; the method to be adopted in order to answer the questions submitted to Egeli & Co.; the type of information to be discussed at the general shareholders' meeting; and any forward looking information.

Any developments that may affect the value of the company's capital market

instruments are disclosed to public without any delay and within the time period required by the current legislation. Should there be a significant change in the financial status and/or operations of the company, or in case of an expectation of such a significant change in the financial status and/or operations in the future, the information is disclosed to public without prejudice to the provisions of the related regulations. These disclosures are updated according to any subsequent changes and developments.

However, a unilateral declaration of the board, which covers information about whether or not the principles are being properly applied, is not incorporated in the annual report.

Within the framework of the information policy of the company, the dividend policy and ethical rules are disclosed to public on the website of the company.

Financial statements and reports as well as all other public disclosures do not consist of any exaggerated provisions or misleading information that would lead to false interpretations about Egeli & Co.'s financial status and operational results.

The preparation or revision of financial statements, a compliance audit by the external auditor, and the method of public disclosure to be adopted for disclosing forward looking information is in compliance with international standards.

Egeli & Co.'s website is actively used as a means of public disclosure. Even though it is easily accessible and user friendly, it is not available in English. The company ensures that the information disclosed to public is available on its website which is configured and designed accordingly, and takes all necessary precautions in

order to prevent any modifications on the information displayed on the site.

The website includes trade register information; detailed information about the shareholder and management structure; the final version of the company's articles of association together with date and numbers of the trade register gazettes in which amendments are published; disclosure of special events, annual reports, periodical financial statements; agendas of the general shareholders' meetings and list of participants and minutes of the meeting; a proxy voting form; and frequently asked questions including requests for information, queries, notifications, and responses thereof.

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

Egeli & Co.'s web address is printed on the company's letterhead. The criteria regarding the use of the company's website are included in the company's information policy.

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

In case the shareholding or voting rights percentage of an individual or a group reaches, exceeds, or falls below the thresholds designated by the regulating authority, the company discloses such information immediately upon being informed thereof, except otherwise required under relevant legislation. Egeli & Co.'s public disclosure policy is in accordance with

the current CMB and ISE rules and regulations.

On the other hand, the company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are neither disclosed to public, nor mentioned in the company's annual report.

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

Commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders possess at least 5% and more of shareholding or having the control of the latter are disclosed to public within the framework of the CMB and ISE norms.

## **2.3. Periodical Financial Statement and Reports in Public Disclosure:**

Egeli & Co.'s periodical financial statements and footnotes are prepared in accordance with the CMB legislation and IFRS and applied accounting policies are also included in the footnotes of the financial statements.

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

The annual report includes the scope of activities of Egeli & Co.; information about the sector in which the company operates and the company's status within this sector; the board of directors' evaluation and analysis of financial status and operational results; analysis of significant transactions carried out during the preceding year with the related persons and institutions; and the dividend policy of the company.

Whereas, curriculum vitas of the board members; the company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners, indicated on a shareholding structure chart; opinion of the external audit firm on company's internal control system; statistical and graphical information; remuneration, bonuses and other benefits offered to employees are not provided in the annual report.

Declaration of the board of directors confirming that the financial statements fully confirm the financial situation of the company, and the company fully complies with the legislation is also not mentioned in the annual report.

#### **2.4. Functions of External Audit:**

The operations and the contents of the contract signed with Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Pricewaterhouse Coopers) which is the firm selected to audit the financials for the year ending 2010 are in compliance with the CMB legislation.

There has been no legal conflict between the company and the external audit firm. The nomination and election process of the external audit firm starts with a proposal from the

audit committee to the board and ends with the board's choice being presented and approved by the general shareholders' meeting.

#### **2.5. The Concept of Trade Secret and Insider Trading:**

It is our observation that stakeholders are sufficiently informed about the company's policies and procedures, which aim to protect stakeholders' rights. A list of the names of executives and other persons/institutions that can potentially possess price-sensitive information is prepared and disclosed to public.

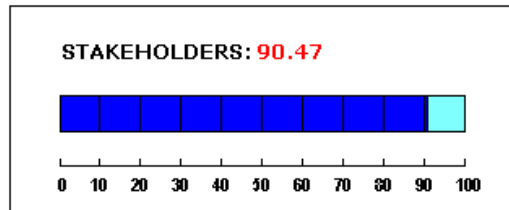
The concept of trade secret is defined in the ethical rules of the company.

#### **2.6. Significant Events and Developments That Must Be Disclosed to the Public:**

Egeli & Co. fully complies with CMB and ISE legislations when disclosing important events and developments.

All "Significant Developments That Must Be Disclosed to Public" as per the corporate governance principles of the CMB and their possible implications on the financial status and operational results of the company are disclosed immediately to public via the "disclosure of special events".

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Ethical rules specified by the board and presented to the shareholders' meeting
+	Written performance and remuneration criteria of employees
+	Emphasis on protection of company assets
+	Information on customers and suppliers protected
-	Representation of employees in the board not specified in regulations
-	No provision in the articles of association regarding participation of stakeholders in the management of company

With regard to relations between the company and all related public and private parties (stakeholders) other than shareholders and the board of directors, over 40 sub-sections have been analyzed under the following headings:

- Company policy,
- Participation in the company management,
- Protection of company assets,
- Human resources policy,
- Relations with customers and suppliers,
- Ethical rules, and
- Social responsibility.

Our conclusions are particularly positive with respect to company policy about stakeholders, protection of company assets, human resources policy, and protection of stakeholders' trade secrets.

The company has a well established Human Resources policy that ensures training opportunities, performance and remuneration criteria for employees.

There is no trade union within the company. Egeli & Co. is not big enough for a trade union to be active.

Provisions facilitating the participation of stakeholders in the management of the company are not incorporated in the articles of association.

### 3.1. Company Policy Regarding Stakeholders:

Egeli & Co.'s corporate governance practices guarantee and preserve stakeholders' rights, which are either regulated or not by the legislation. The corporate governance structure of the company allows for and protects the rights of the stakeholders, including employees and their representatives to convey their concerns to the management. Although there have been no infringements regarding the stakeholders' rights that are protected by legislation and contracts, company officials declare that effective and swift compensation is offered in case the stakeholders' rights, that are governed under the relevant legislation and protected by contracts, are violated. All necessary facilities, such as compensation applicable under the legislation, are utilized in order to help the stakeholders benefit from mechanisms, and in case the rights of



the stakeholders are not regulated by the relevant legislation, the company preserves the interest of stakeholders under good faith principles, and within the capabilities of the company, without permitting any damage to the brand image.

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

There are no provisions in the articles of association of the company promoting the participation of stakeholders in management. However, the number of employees is very low and each of them has access to CEO and the board.

Employees are not represented at the board of directors.

### **3.3. Protection of Company Assets:**

There is no evidence of negligence or wrong doing either by the board or the top management that caused the company assets loose value and led to a deliberate loss for stakeholders.

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

The company has a comprehensive human resources policy, and the criteria of recruitment, performance evaluation, remuneration, and job description are in written form. All the criterias are announced to employees.

We have detected that there is no discrimination between employees regarding race, religion, ethnic origin, nationality or sex; equal opportunity is offered to people with equal working conditions; remuneration and wages are based on performance evaluation, work environment, and conditions are designed to maximize safety and efficiency, and improved regularly. No complaints of discrimination have been received from any employee in recent years.

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

Egeli & Co. takes some measures in order to ensure that its customers are fully satisfied with its goods and/or services it offers. The requests of customers are handled in a quick and efficient manner, and any delay in handling customers' requests and the reasons thereof are acknowledged. We have personally observed the relevant contracts which include above mentioned clauses. Within the scope of trade secret, confidentiality of information relevant to customers and suppliers is respected. Records of customer demands and complaints are kept within the company.

### **3.6. Ethical Rules:**

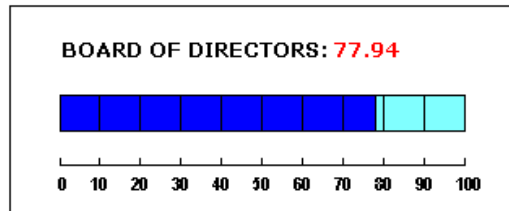
Egeli & Co.'s ethical rules are prepared by the board and have been announced on the corporate website. The ethical rules are also approved at the general shareholders' meeting.

### **3.7. Social Responsibility:**

Egeli & Co. carries out good relations with public administrations. Company officials confirmed that there were no legal disputes with the customers, employees, auditors, banks, and public authorities; and no major conflicts with the tax office, regulatory authorities and other government organizations in recent years. There are no in-house lawyers, and legal services are provided by an independent legal firm.

The company carries out its activities in accordance with nature and environmental protection within the framework of its environmental policy. With respect to this policy, Egeli & Co. has inspection reports on mining and manufacturing areas. Company does not have any additional work on social responsibility and environmental issues.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The Company's vision, mission and strategic goals are clearly defined
+	The board is staffed with effective and highly qualified members
+	1/3 of the board consists of independent members
+	Board chairman and chief executive officer is not the same person
+	Provisions for executives to compensate the losses incurred by the company and third persons as a result of not performing their duties duly
+	Ethical rules of the company dictate that members of the board should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains
=	An audit committee is established, but a corporate governance committee does not exist
-	No cumulative voting method
-	Privilege on nominating board members
-	No provisions in the Articles of Association defining procedures for shareholders or stakeholders to invite the board to convene
-	No signed compliance and liability statement by board members

The board of Egeli & Co. has defined the mission and vision of the company and is made up of qualified and experienced persons maintaining high moral standards and fully capable of endorsing the required tasks to direct the company. The board closely monitors and supervises whether or not the company's operations comply with the relevant legislation, articles of association, in-house regulations and policies. Company officials confirm that there are no members of the board who engage in transactions or compete with the company. The board's duties and responsibilities are clearly defined in the articles of association of the company in consistence with its functions.

Ethical rules of the company dictate that members of the board should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains. However, there is no written declaration of the board members that they will comply with the legislation, articles of association, in-house regulations and policies, and in case of incompliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders.

The board meeting and decision quorum are included in the articles of association of the company, but a secretariat is not established under the responsibility of the board chairman in order to serve the board and to keep documents related to the board meetings in order.

Egeli & Co.'s board of directors is made up of six members of whom none is executive. The chairman and

the CEO is not the same person. The board comprises two independent members who have the ability and the potential to execute their duties without being influenced under any circumstances. Independent members of the board have provided a written "declaration of independence" to the board. This declaration defines the process in case of an event that harms the independence of independent board members.

Cumulative voting system is not embraced by the company and none of the committees are composed of only independent members.

At Egeli & Co., only independent board members are compensated for their board duties. Existence of a dividend payment clause to the board members at the articles of association is adopted as a policy of reward, related with the performance of the members in connection with the performance of the company.

Only an Audit Committee is formed from within the board of directors of Egeli & Co. There is no Corporate Governance Committee. The Audit Committee is comprised of two members. Committees' records are kept in writing. The scheduling for committee meetings is compliant with that of the board meetings.

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

Egeli & Co. defined the mission and vision of the company and disclosed it to the public on its web site as well as in its annual report. The board also approves the strategic goals constituted by the executives.

The board constantly and effectively revises the company's level of success in achieving its goals, operations and past performance in order to reveal the degree of achievement of the

company's operations, approved annual financial and business plans; compliance with legislation and international accounting standards and identify the degree of accuracy of the company related financial information.

The board established internal control and risk management mechanisms that are appropriate for the company to minimize adverse effects of the risks that the company may face, which would also negatively affect the shareholders and stakeholders. The board also takes all necessary measures for sound functioning of such mechanisms implemented.

The board assesses whether the executives are well qualified to suit the demands of their positions and seeks measures that would encourage the qualified employees to work for the company over a long period of time.

Similarly, the board closely monitors and supervises whether or not the company's operations comply with the relevant legislation, articles of association, in-house regulations and policies and acts as a pioneer in resolving and settling disputes that may arise between the company and shareholders.

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

The board's duties and responsibilities are clearly defined in the articles of association of the company in consistence with its functions and beyond any doubt so as to distinguish from the authorities and responsibilities of individual board members, executives and general assembly. Authority and responsibility for each board member and executive are defined, but not included in the annual report of the company. Company officials confirm that there are no members of the board who

engage in transactions or compete with the company.

In order to ensure that the board members perform their duties fully, they are provided with easy access to all kinds of information in a timely manner. If deemed necessary, required executives attend the board meetings. Members of the board are jointly liable should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general assembly.

Ethical rules of the company dictate that members of the board should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains. The Board takes measures to ensure that all employees abide thereby. We did not detect any occurrence of any member of the board exploiting confidential and publicly unavailable information in favor of him or others; providing information or extending news or making comments that are false, untrue, misleading, and unfounded information about the company.

On the other hand, there is no written declaration of the board members before commencing their work that they will comply with the legislation, articles of association, in-house regulations and policies, and in case of non-compliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders.

Beyond its basic functions, the board of directors of Egel & Co. approves the annual budget and business plans of the company; prepares the annual report and to finalizes the same for presentation at the general shareholder meeting; ensures that the general shareholder meeting is conducted in accordance with the

legislation and the company's articles of association and fulfills the general shareholder meeting decisions; controls the company's material expenditures exceeding 10% of the total assets value in the most recent balance sheet of the company; approves the career plans and remuneration of executives; determines policies for shareholders, stakeholders and the public relations; determines the information policy and ethical rules of the company; determines the working principles of the committees and ensures that they work effectively and efficiently; and takes all required measures to assure that the organization of the company meets environmental conditions.

All decisions of the board are incorporated in the minutes of the meeting. Each member is entitled to a single vote at the board meeting. Board members are not granted with weighted voting rights or positive/negative veto rights.

The board meeting and decision quorum are included in the articles of association of the company. However, there is no secretariat established under the responsibility of the board chairman in order to serve the board and to keep documents related to the board meetings in order.

#### **4.3. Formation and Election of the Board of Directors:**

The board of Egel & Co. is structured to optimize effect and efficiency. In principle, candidates with high level of knowledge and skills, and with qualified specific experience and background are appointed. However, general rules in this respect are not incorporated in the articles of association of the company. None of the board members have been convicted or sentenced for non-conformity with the capital markets legislation or the Turkish penal code.

All members are qualified and experienced persons maintaining high moral standards and are fully capable of endorsing the required tasks to direct the company.

Egeli & Co.'s board of directors is made up of six members of whom none is executive. The chairman and the CEO is not the same person.

The board comprises two independent members who have the ability and the potential to execute their duties without being influenced under any circumstances. Before commencing work, independent members of the board have provided a written "independence declaration" to the board. This declaration defines the process in case of an event that harms the independence of independent board members.

Cumulative voting system is not embraced by the company and none of the committees are composed of only independent members.

#### **4.4. Remuneration of the Board of Directors:**

At Egeli & Co., only independent board members are compensated for their board duties.

Existence of a dividend payment clause to the board members at the articles of association is adopted as a policy of reward, related with the performance of the members in connection with the performance of the company.

#### **4.5. Number, Structure and Independence of the Committees Established by the Board of Directors:**

Only an Audit Committee is formed from within the board of directors of Egeli & Co., which is comprised of two members. Committees' records are

kept in writing. The scheduling for committee meetings is compliant with that of the board meetings.

The audit committee took all necessary measures in order to ensure that internal and external auditing are carried out adequately and transparently. The audit committee supervises execution and efficiency of the accounting system of the company, disclosure of financial information to the public, external audit of the company and internal control system thereof. The committee also scrutinizes full compliance of financial information to the CMB regulations as well as to the IFRS standards.

Appointment of an external audit firm and the services to be provided thereby are submitted to the board and to the general shareholders' meeting upon the preliminary approval by the audit committee. However, there is no report prepared to indicate if there is an issue which might harm the independence of the external audit firm.

There is no corporate governance committee established in order to monitor the company's compliance with the corporate governance principles and perform improvement studies and offer any possible suggestions to the board.

#### **4.6. Executives:**

We have observed that the company executives are operating in accordance with the company's vision, mission and strategic goals and in compliance with the financial and operational plans approved by the board. It is also our observation that the company executives are delegated with adequate authority and equipped with the professional qualifications required. None of the executives have been reported to have gained

illegitimate or dishonest benefits at the expense of the company. The company officials stated that there are no executives that had ever been sentenced for crimes against the capital markets legislation or the Turkish penal code.

Company officials also declare that the executives obey the legislation, articles of association, in-house regulations and policies while performing their duties; and submit a report regarding the conformity of the performed works with these to the board periodically. Additionally compensation for losses incurred by the company, and third parties, as a result of not performing the executives' duties duly, is covered by liability insurance.

On the other hand, employment agreements does not indicate that the executive may not be permitted to work for a competitor of the company in case the executive renounces from his/her duty, to protect the interests of the company for a certain period of time and describe the sanctions to be implemented in case of violation.

## Rating Definitions

Rating	Definition
<b>9 - 10</b>	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.
<b>7 - 8</b>	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.
<b>6</b>	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. 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.
<b>4 - 5</b>	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.
<b>&lt;4</b>	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.