

## Corporate Governance Rating Report



2 October 2020

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## Rating and Executive Summary

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

**SAHA**  
Corporate Governance Rating:

**9.58**



**MAIN SECTIONS: Avg. 95.78**

**Shareholders: 95.53**



**Public Disclosure & Transparency: 97.24**



**Stakeholders: 99.51**



**Board of Directors: 93.32**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

The Corporate Governance Rating of 9.50 that has been assigned to Türkiye Petrol Rafinerileri A.Ş. ("Tüpraş" or "the Company") on October 3, 2019 is hereby revised as **9.58**. SAHA's rating methodology is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" ("the Communiqué") released on January of 2014.

SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Tüpraş is analysed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on October 8, 2019 can be accessed at <http://www.saharating.com>.

Tüpraş is rated with **9.55** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Tüpraş carries out the investor relations obligations through Investor Relations Department. There is no upper limit or privileges on voting rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation. There is a consistent dividend policy of the Company and it is disclosed to the public. There are no restrictions on transfer of traded shares. There is a provision in the articles of association on holding general shareholders' meetings open to public. On the other hand, prescribed rate of minority rights for public joint stock companies (5%) is adopted as it is in the articles of association of the Company.

Tüpraş attained **9.72** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site which includes all information listed in the CMB Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul A.Ş. (BIST) rules and regulations. Company's web site is also prepared in English for international investors. However, the fact that the names of the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners are not disclosed to the public and again non-disclosure of the benefits provided to board members and senior management on individual basis are areas in need of further refinement.

On the topic of **Stakeholders**, Tüpraş scored **9.95**. The exercise of stakeholders' rights has been facilitated. A written compensation policy for the employees is established and disclosed to the public on the corporate web site. During the rating period, the Company was not held liable by any public authority for any punishment/sanctions. Code of ethics is publicly available through the Company's web site. The mechanisms that support the stakeholders' participation in the Company management have been documented through internal regulations. The Company has a written human resources policy. Sustainability policy and practices are found satisfactory. Social responsibility activities are at top level.

From the perspective of the principles regarding the **Board of Directors**, Tüpraş's tally is **9.33**. There is a well communicated Company mission and vision. The board consists of eleven members and none of them holds executive duties. CMB criteria are complied with for the appointment of independent members. Corporate Governance, Audit, Risk Management, and Executive Committees are established within the board of directors. The working principles of the Committees are disclosed to the public. Principles of remuneration of board members and senior executives are available on the Company's web site. The Company does not provide any loans or extend any credit to the board members or senior executives. There is a manager liability insurance that meets the conditions specified in the Communiqué. On the other hand, the lack of a female membership policy approved by the board of directors and the fact that the conduct of the board of directors meetings has not been put in writing through internal regulations are identified as areas open for improvement.

## Rating Methodology

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

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

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in

future should be mentioned in the annual report and disclosed to public.

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

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

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.22).

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

Shareholders: **25%**

Public Disclosure and Transparency: **25%**

Stakeholders: **15%**

Board of Directors: **35%**

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

## Company Overview

| TÜPRAŞ-Türkiye Petrol Rafinerileri A.Ş.  |  |
|--|--|
|   | <p><b>Chairman of the Board</b><br/>Mehmet Ömer KOÇ</p> <p><b>General Manager</b><br/>İbrahim YELMENOĞLU</p>   |
| <p>Güney Mah., Petrol Cad., No:25,<br/>41790 Körfez, Kocaeli<br/>Tel: (0262) 316 30 00<br/><a href="https://www.tupras.com.tr">https://www.tupras.com.tr</a></p> | <p><b>Assistant General Manager<br/>Responsible of Investor Relations</b><br/>Doğan KORKMAZ<br/>Tel: (0262) 316 31 09<br/><a href="mailto:dogan.korkmaz@tupras.com.tr">dogan.korkmaz@tupras.com.tr</a></p> |

Founded in 1983, Tüpraş has been established to procure and refine all types of crude oil, petroleum products and chemical products and to engage in storage and transportation of the crude oil, oil and chemical products produced or imported at the production and sales stages, including exportation and associated commercial activities, and to install and operate oil refineries in Turkey and abroad.

Tüpraş has an annual processing capacity of 30.0 million tons of crude oil with its 4 refineries located in Kocaeli, Izmir, Kırıkkale and Batman. As in 2018, the Company was again ranked 1<sup>st</sup> on the "Turkey's Top 500 Industrial Enterprises" ("ISO 500") list published by the Istanbul Chamber of Industry in 2019.

Since 2006, the management and capital control of the Company has been carried out by Koç Holding A.Ş. Koç Group, which dates back to the 1920s, mainly operates in the energy, automotive, finance and consumer durables sectors. Ranked 423<sup>rd</sup> in 2019 in the "Fortune Global 500" list, which lists the world's largest companies, the Koç Group is the only Turkish company to find a place on this list.

According to the independent audit report data; the current capital structure of the Company, which has 6,158 employees as of June 30, 2020 (December 31, 2019: 6,098), is given below:

| Capital Structure                           |                       |            |
|---|-----------------------|------------|
| Shareholder                                 | Share Value (TL)      | Share %    |
| Enerji Yatırımları A.Ş.*                    | 127,713,792.22        | 51         |
| Free Float                                  | 122,705,407.77        | 49         |
| Directorate of Privatization Administration | 0.01                  | -          |
| <b>Total</b>                                | <b>250,419,200.00</b> | <b>100</b> |

\* The main shareholder of the company, Enerji Yatırımları A.Ş., is controlled by Koç Holding A.Ş., Koç Family and the companies owned by them.

The Company shares are traded under "TUPRS" code at BIST Stars Market – Group 1 and Tüpraş is a constituent of BIST 100 (XU100), BIST 50 (XU050), BIST 30 (XU030), BIST Liquid 10 Ex Banks (X10XB), BIST Dividend (XTMTU), BIST Dividend 25 (XTM25), BIST All Shares (XUTUM), BIST Industrials (XUSIN), BIST Chemical, Petroleum, Plastics (XKMYA), BIST Stars (XYLDZ), BIST Sustainability (XUSRD) BIST Kocaeli (XSKOC) and BIST Corporate Governance (XKURY) indices.

As of the date of our report, the structure of the board of directors and the Committees established within the board of directors under the Communiqué numbered II-17.1 are as follows:

| <b>Board of Directors</b> |                          |
|---------------------------|--------------------------|
| <b>Members</b>            | <b>Title</b>             |
| Mehmet Ömer KOÇ           | Chairman of the Board    |
| Yıldırım Ali KOÇ          | Vice-chairman            |
| Mustafa Rahmi KOÇ         | Board Member             |
| Semahat Sevim ARSEL       | Board Member             |
| Levent ÇAKIROĞLU          | Board Member             |
| Erol MEMİOĞLU             | Board Member             |
| Yağız EYÜBOĞLU            | Board Member             |
| Zafer SÖNMEZ              | Independent Board Member |
| Muharrem Hilmi KAYHAN     | Independent Board Member |
| Kamil Ömer BOZER          | Independent Board Member |
| Ayşe Canan EDİBOĞLU       | Independent Board Member |

\* No member has executive duty in the board of directors consisting of 11 members.

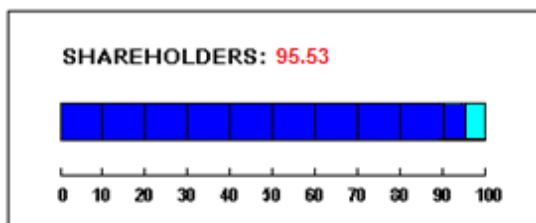
| <b>Corporate Governance Committee</b> |              |
|---------------------------------------|--------------|
| <b>Members</b>                        | <b>Title</b> |
| Muharrem Hilmi KAYHAN                 | Chairman     |
| Yağız EYÜBOĞLU                        | Member       |
| Doğan KORKMAZ                         | Member       |

| <b>Audit Committee</b> |              |
|------------------------|--------------|
| <b>Members</b>         | <b>Title</b> |
| Muharrem Hilmi KAYHAN  | Chairman     |
| Kamil Ömer BOZER       | Member       |

| <b>Risk Management Committee</b> |              |
|----------------------------------|--------------|
| <b>Members</b>                   | <b>Title</b> |
| Ayşe Canan EDİBOĞLU              | Chairman     |
| Erol MEMİOĞLU                    | Member       |



## SECTION 1: SHAREHOLDERS



### SYNOPSIS

|   |   |
|---|---|
| + | Active Investor Relations Department.   |
| + | Policy on donations and grants is established and submitted to the general shareholders' meeting for approval.          |
| + | General shareholders' meetings are conducted in compliance with the legislation.  |
| + | No privileges on voting rights, other than the veto right granted by legal obligation.                                  |
| + | Specific and consistent dividend distribution policy.   |
| + | No restrictions on transfer of publicly traded shares.  |
| + | Articles of association contain a provision permitting general shareholders' meetings to be held open to public.        |
| - | Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital. |

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

The Company carries out the shareholder relations obligations through Investor Relations Department structured under the Assistant General Manager Responsible for Investor Relations and Corporate Governance Committee member Mr. Doğan KORKMAZ and Investor Relations Unit Manager Mr. Levent Baykan BAYAR. It has been observed that the

Department officials possess the qualifications specified in the Communiqué.

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

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

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities. Reports prepared during the rating period has been submitted to us.



We have come to the conclusion that information and explanations that may affect use of shareholders' rights is available up to date on the corporate web site. The fact that no such related penalty/warning was received during the period supports our opinion.

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

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

All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this direction within the rating period.

The Company has established a disclosure policy and disclosed it to the public on the corporate web site.

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

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on April 1<sup>st</sup> 2020 covering 2019 fiscal year is performed through all means of communication available to the Company on March the 2<sup>nd</sup> 2020 in accordance with the Corporate Governance Principles.

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

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

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

Shareholders are informed of the total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure and whether there are any privileged share groups within the Company capital via the corporate web site.

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

Due to the Covid-19 pandemic, our observers did not attend the general shareholders' meeting held in 2020, and the statement of the Company officials was referred for some of the control points highlighted by us in the past years. In this context, it has been declared that items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The Company statement is in line with the opinion we have reached over the past years.

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

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

The Company has established a policy on donations and submitted to the general shareholders' meeting for approval. Shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries at this meeting.

The general shareholders' meetings are held open to public including stakeholders and the media without the right to vote, and there is a provision in this regard in the guidelines of the general shareholders' meetings.

General shareholders' meeting is attended by the representative of the external auditor.

#### **1.4. Voting Rights:**

Tüpraş's issued capital is TL 250,419,200.00 which is fully paid. The issued capital is divided into

25,041,920,000 shares, each with a nominal value of One Kurus (TL 0.01), divided into two groups as (A) and (C).

As stated in the Company's articles of association; a total of 1 (C) group share has a veto right on decisions regarding merger, division or liquidation of the Company which will restrict and/or prevent fuel need of the Turkish Armed Forces.

In addition, one registered (C) group share belonging to the Republic of Turkey Prime Ministry Privatization Administration has the privilege to nominate a candidate to the board of directors.

Apart from the stated regulations, there are no privileges regarding voting rights.

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

#### **1.5. Minority Rights:**

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

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

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

The dividend policy of the Company is clearly defined and disclosed to the public on the corporate web site and submitted to the shareholders for approval at the general shareholders' meeting.

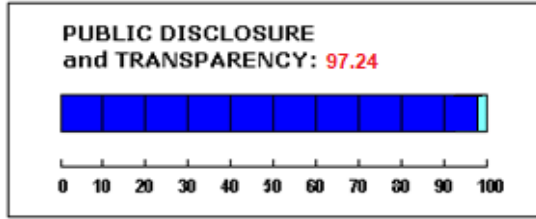
The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. It has been evaluated that a balanced policy is followed between the interests of the shareholders and that of the Company.

Since there was no profit reported on financial statements prepared in accordance with the provisions of the Tax Procedure Law in fiscal year 2019, a non-distribution of dividend was approved by a majority vote at the ordinary general shareholders' meeting.

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

Neither the articles of association of the Company nor any resolutions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares which are publicly traded. There is a provision in the articles of association of the Company stating that "the Capital Market Board regulations shall be applied in connection with the transfer of the registered shares of the Company transacted in the stock exchange".

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

|   |  |
|---|--|
| + | Comprehensive web site, actively used for public disclosure.                                   |
| + | Annual report complies with the legislation, comprehensive and informative.                    |
| + | Important events and developments disclosed in accordance with the legislation.                |
| + | English version of the web site for international investors.                                   |
| - | Ultimate controlling individual shareholders over 5% are not disclosed to public.              |
| - | Benefits provided to board members and senior management is not mentioned on individual basis. |

### 2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the Company's web site includes; trade register information, information about latest shareholder and management structure, information on inexistence of any privileged shares, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information,

annual reports, periodical financial statements, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions including requests for information, questions and notices, and responses thereof.

The information contained on the web site exists also in English (exactly same with the Turkish content) for the benefit of international investors.

The Company's web site also includes; investor presentations, working principles of the Committees, important board decisions under the heading of material disclosures, the vision/mission of the Company established by the board, information on capital increases and dividend payments, general shareholders' meeting internal guidelines, news, social responsibility activities, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, and the human resources policy.

As per the CMB decision dated January 10, 2019 and numbered 2/49 published on the Bulletin no: 2019/2, The Corporate Governance Compliance Report prepared in accordance with the Corporate Governance Communiqué number II-17.1 must be disclosed through the PDP in The Corporate Governance Compliance Report (CRF) and the Corporate Governance Information Form (CGIF) templates. Tüpraş realized its CGIF

and CRF notifications via PDP on March 4, 2020, within the specified notification period.

On the other hand, although the shareholding structure of the Company is available on the corporate web site, the fact that the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is not disclosed, is an area open for improvement.

## **2.2. Annual Report:**

It has been evaluated that the annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company. It covers information such as;

- Period covered by the report, the title of the Company, trade register number, contact information,
- The names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- The sector in which the Company operates and information on its position in the sector,
- Qualifications of the departments within the Company, general explanations regarding the activities during the year and developments witnessed,
- Progress on investments,
- CGIF and CRF templates,
- Information on related party transactions,
- Other issues not included in the financial statements, but are beneficial for users,
- Company's organization, capital and ownership structure and any changes in the related accounting period,
- All benefits provided to staff and workers, information on number of personnel,
- Explanation on privileged shares and their amount,
- Research and development activities,
- Dividend distribution policy,
- Basic ratios on the financial position, profitability and solvency,
- Company's financing resources and risk management policies,
- Information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

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

- External duties of board members and executives,

- Members of the Committees within the board and the frequency of meetings held, assessment of the board of directors regarding the working principles and the effectiveness of the Committees, including the activities carried out,
- Number of board meetings held during the year and status of participation of the members,
- Changes in legislation which could significantly affect the Company's operations,
- Major court cases against the Company and possible consequences,
- Information on shareholding in excess of 5% of the capital,
- Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results,
- Rating results,
- Corporate Governance Compliance Declaration.

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

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

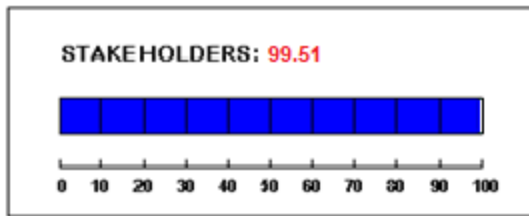
The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

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

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period.

Neither a consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

|   |   |
|---|---|
| + | Measures to safeguard stakeholders' rights are facilitated.   |
| + | A set of code of ethics is prepared and disclosed to the public.  |
| + | A written compensation policy for employees established and disclosed to the public.                      |
| + | There are mechanisms supporting stakeholders' participation in the Company management.                    |
| + | Company is not held liable by any public authority for any punishment/sanctions within the rating period. |
| + | Sustainability policy and practices are satisfactory.   |
| + | Social Responsibility activities are at top level.  |

### 3.1. Company Policy Regarding Stakeholders:

Tüpraş recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and expeditious compensation is provided in case of violation of the rights.

It has been evaluated that the web site of the Company is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

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

In addition, a written compensation policy is established and disclosed to the public.

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

Tüpraş has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company. These models adopted are included in the internal regulations of the Company and the documents have been seen by us.

### 3.3. Company Policy on Human Resources:

The Company has a written human resources policy and in general, public disclosure on human resources practices is included on the web site.

Within this scope, the Company offers equal opportunity to persons with the same qualifications in recruitment and career planning.

In cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is in place.



In addition, as per both the human resources practices disclosed by the Company to the public and the CRF and CGIF notifications made in 2020;

- The criteria for recruitment are determined in writing and adhered to,
- Employees are treated equally with regard to their rights. Training programs are organized and training policies are developed to enhance the knowledge, skills, and conduct of personnel,
- Meetings are held for employees on matters such as financial status of the Company, wage, career, education, health, and opinions are exchanged,
- Decisions taken or developments concerning employees are notified to employees or their representatives,
- Job descriptions, distribution of duties, performance and rewarding criteria are shared with employees,
- Productivity is taken into account in determining the wages and other benefits of employees,
- The Company does not discriminate among its employees in terms of their race, religious belief, language or gender, and takes precautions to protect employees against all kinds of physical, emotional or spiritual abuse,
- Safe working environment and conditions provided for employees.

Furthermore, In Tüpraş, which is subject to collective labor agreement, a union is organized and there are union workplace representatives in determined numbers within the framework of legal regulations.

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

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

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

Care is taken on the confidentiality of all trade secret data and information on customers and suppliers.

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

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

Ethical rules of the Company are disclosed to the public on the corporate web site.

Tüpraş's activities within the scope of social responsibility are generally considered to be at a top level by us.

The tenth of the Corporate Social Responsibility (CSR) report, which was first published in 2008, was published in 2020 by the Company. Tüpraş has adopted the G3 Reporting Principles of the Global Reporting Initiative (GRI) in its CSR Report.

The Company has not been subject to any significant sanctions by the public administrations during the course of the rating period.

In addition, the Company declared through the CRF disclosure that all kinds of corruption, including extortion and bribery, are being fought.

It has been concluded that Tüpraş complies with the regulations regarding the environment, the consumer, public health and ethical rules, and respects internationally recognized human rights.

### **3.6. Sustainability:**

The Company has policies and internal regulations on environment, nature, energy saving, recycling and education.

The Company statement declaring that Tüpraş evaluates sustainability as a management component and manages it systematically is in line with our observations. The sustainability report, which includes the social, economic and environmental impacts of the Company's activities in 2019 and the results it obtained from the work carried out in these areas, was disclosed to the public through the corporate web site. In this context, sustainability reports published annually since 2007 are available on the Company web site.

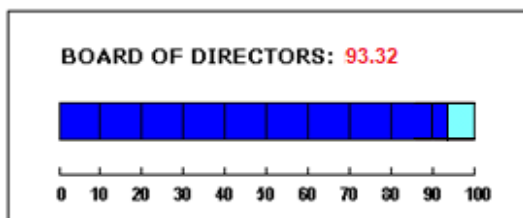
In all refineries of Tüpraş, Integrated Management Systems of ISO 14001 Environmental Management System, ISO 9001 Quality Management System, ISO 18001 Occupational Health and Safety Management Systems, ISO 27001 Information Security Management System, ISO 50001 Energy Management System and ISO 10002 Customer Satisfaction Management System have been implemented efficiently.

In addition, Tüpraş is included in the Corporate Governance (XKURY) and BIST Sustainability indices. The purpose of BIST Sustainability Index, established in November 2014, is to

create an index whose constituents are selected by the companies whose corporate sustainability performance is high level among the listed companies in Borsa Istanbul and in extent to increase awareness, know-how and hand-on practice of the companies about sustainability in Turkey, especially the ones listed in Borsa İstanbul. Index methodology includes evaluations under the topics of environment, biodiversity, climate change, board structure, anti-bribery, human rights, supply chain, health and safety, banking criteria and public disclosure.

There are no fines or any lawsuits filed against the Company for damages to the environment during the rating period.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

|   |  |
|---|--|
| + | The board of directors has been structured in accordance with the Communiqué.  |
| + | Four independent members on the board.   |
| + | Audit, Corporate Governance, Risk Management and Executive Committees established and working efficiently.                     |
| + | Principles of remuneration of board members and senior executives are established and disclosed to the public.                 |
| + | There is manager liability insurance with the policy amount exceeding 25% of the capital.                                      |
| = | Although there are practices regarding conduct of the board of directors meetings, it has not been put in writing.             |
| - | There is no target of 25% female membership in the board of directors and no policy towards this target approved by the board. |

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

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

represents the Company within these parameters.

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

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

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

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

Distribution of tasks between the members of the board of directors is explained in the annual report. In addition, CRF and CGIF templates are included in the content of the decision to be taken by the board of directors regarding the approval of the financial statements and annual reports and the declaration to be made in this context.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the Committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year. The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman of the board and chief executive officer/general manager's executive powers are clearly separated in the articles of association.

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

There is a manager liability insurance on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly. The policy amount is in excess of 25% of the Company's capital as recommended in the Communiqué, and the related explanation is included in the annual report.

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

The Company's board of directors is composed of eleven members with no executive members. Among the non-executive board members there are four independent members who have the ability to execute their duties without being influenced under any circumstances.

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

There are two female members on the board of directors and currently represents 18% of the board. The principle of determining a policy or setting a timetable to reach the Communiqué's advisory target of minimum 25% female membership rate on the board of directors has not yet been complied with.

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

Board meetings take place with sufficient frequency. As per the notification made through CGIF, the board of directors held 3 physical meetings in 2019 and passed 30 resolutions. The participation rate of the members was 91%.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive officer.

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

On the other hand, although there are processes that have been consistently maintained in the Company for many years regarding how the board of directors meetings will be held, there is no documented internal regulation specific to this issue.

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

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

Functions of the Committees, their working principles, and its members

are designated by the board of directors and disclosed to the public on the Company's web site.

All members of the Audit Committee and the chairmen of the other Committees are elected among the independent board members. The chief executive officer/general manager is not on the Committees. In accordance with the Communiqué, the majority of the members of the Committees are non-executive members. With the exception of the independent members, care is taken to avoid appointment of a board member on multiple committees.

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

The frequency of Committee meetings is found sufficient. According to the CGIF disclosure, in 2019 the Corporate Governance and the Audit Committees met 7 times each and the Risk Management Committee held 6 meetings.

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

In accordance with the Communiqué, Assistant General Manager Responsible for Investor Relations, Mr. Doğan

Korkmaz is a member of the Corporate Governance Committee.

The Audit Committee;

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

Audit Committee members possess the qualifications mentioned in the Communiqué.

The annual report contains information on working principles of the Audit Committee, number of written notices given to the board of directors in the fiscal year and the meeting results. The Committee held 7 meetings in 2019.

The nomination and election process of the external audit firm, taking into

account its competence and independence, starts with a proposal from the Audit Committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

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

In accordance with the Communiqué, the Corporate Governance Committee carries out the duties of the Nomination and Remuneration Committees, since they are not established yet.

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

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the corporate web site. The fact that the stock options or performance-based payments are not included in the remuneration package of the independent board members is evaluated positively by us.

As disclosed through the CRF notification, the Company does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

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

There is an insurance policy on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

Orientation process for newly appointed managers is determined in writing in the Company's internal regulations.



## 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. Deserved to be included in the BIST Corporate Governance Index on the highest level.  |
| <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. Deserved to be included in the BIST Corporate Governance Index.  |
| <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. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated. |
| <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.  |



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