

**KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş**  
**CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**

**SECTION I – CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT**

Within the context of Capital Markets Board’s (CMB) Decision numbered 2/35 dated 27.01.2014 and CMB’s Corporate Governance Communiqué II-17.1, the base format for companies obliged to prepare Corporate Governance Principles Compliance Report has been re-determined, and our Company has prepared Corporate Governance Principles Compliance Report for 2017 in accordance with the said format.

In this context, our Company has complied with mandatory principles of CMB Corporate Governance Principles and put its maximum efforts to comply with non-compulsory principles, and compliance efforts are on-going. Below are the major Corporate Governance Principles that are not mandatory under the relevant regulation, and with which full compliance has not been achieved yet. The principles that have not been implemented yet have not created any conflict of interests between the stakeholders.

- As regards principle no. 1.5.2., minority rights have not been defined in Articles of Association to those holding less than one in twentieth of the capital, and the rights that are granted comply with the general practice stipulated in the Turkish Commercial Code.
- As regards principle no. 4.2.8., the Company is insured against any damage that could be incurred as a result of fault of the members of board of directors when performing their duties, and the insurance amount is less than 25% of the capital of the Company.
- Regarding the principle no., 4.3.9, 2 female board members are available among 9 Board Members of our Company, and the ratio of female members, who shall be included to the Board of Directors, reached to 22% with Ms. Fatma Füsün Akkal Bozok, our Board Member, who was elected for the first time in 2017. Our Company has not yet determined a target rate, provided that it is not less than 25% and a target time for membership of women in the board of directors and form a policy for this target.
- As regards principle no. 4.4.5, Articles of Association of the Company describes how meetings of the Board of Directors are held, and there is no other internal regulations issued solely for this purpose.
- As regards principle no. 4.4.7, members of Board of Directors are not restricted from assuming other duties outside the Company since their experience in the industry contributes significantly to our Company.
- As regards principle no. 4.5.5., some of the members of board of directors are assigned to more than one committee based on their expertise and experience.
- As regards principle no. 4.6.5., remunerations provided to Members of the board of directors and executives with administrative responsibilities are disclosed to the public in annual reports. Payments that are made are disclosed to the public collectively in parallel to the general practice.

**SECTION II – SHAREHOLDERS**

**2.1. Investor Relations Department**

Investor Relations Department directly reports to the Deputy General Manager in charge of Financial Affairs and Finance Mr. Arif Vefa Özşimşek. The report prepared on activities that have been carried out was submitted to the Board of Directors on 1 February 2018.

<b>Investor Relations Department</b>	<b>Relations</b>	<b>Title</b>	<b>License Type</b>
Deniz Özer		Investor Relations Administrator	Capital Market Activities Level 3 License (License No: 204658); Corporate Governance Rating License (License No: 700469); Derivative Instruments License (License no: 305184)
Burcu Günhar		Investor Relations Responsible	Capital Market Activities Level 3 License (License No: 208752); Corporate Governance Rating License (License No: 701698); Derivative Instruments License (License No: 307368); Credit Rating License (License No: 603618)

Investor Relations Department aims providing accurate, timely and consistent information to existing and potential investors on the Company, decreasing the Company's cost of capital by complying with Corporate Governance Principles, and ensuring two-way communication between Board of Directors and the capital markets participants. The Department works in coordination with relevant Company units to immediately respond to questions and inquiries of shareholders, excluding confidential information and trade secrets. In 2017, 59 questions were received in total, 26 by e-mail and 33 by telephone, which were replied by writing and verbally in accordance with the principle of 'equality in information'. Also, 17 meetings were held with institutional investors and 4 meetings were held with analysts; 1 question received from an institutional investor by e-mail was answered.

The Company Disclosure Policy requires treating all capital market participants equally in terms of exercise of their right to be informed and to review; and making announcements simultaneously and with the same content. In case of occurrence of any event, which may affect the exercise of shareholders' rights, the Company immediately makes an announcement to the public on the Public Disclosure Platform; and any information that is provided is based on the content already disclosed to the public. Such information and disclosures are made available to investors up-to-date on the corporate website.

Investor Relations Unit Contact information:

Telephone No : +90 224 484 21 80

Fax No : +90 224 484 21 69

Email : [yatirimciliskileri@karsan.com.tr](mailto:yatirimciliskileri@karsan.com.tr)

## **2.2. Exercise of the Shareholders' Rights to be Informed**

Taking into account that each shareholder is entitled to investigate and receive information; when any shareholder requested information other than the information we have presented and disclosed during the year, the Investor Relations Department assessed whether the requested information constituted trade secrets or not and whether its disclosure would comply with the CMB legislation, and responded in writing and verbally. Additionally, our shareholders who attended the last General Assembly Meeting were informed about financial and administrative issues.

Any development, which may affect exercise of shareholder rights, is announced with material event disclosures, right exercise statements and quarterly reports disclosed on the Public Disclosure Platform. All disclosures that have to be made to shareholders according to the applicable CMB legislation were also made available to the investors on the corporate website [www.karsan.com.tr](http://www.karsan.com.tr).

Although there are no special provisions in the Articles of Association of the Company regarding the right to demand a special audit, in accordance with Article 438 et seq. of the Turkish Commercial Code, this right is available to shareholders, notwithstanding whether it exists within the Articles of Association or not. Our Company is managed in accordance with the rules of transparency, and all potential requests from shareholders are evaluated with utmost care. The shareholders did not demand appointment of a special auditor throughout the year.

Company operations are periodically audited by the Independent External Auditor (DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. for 2017 accounting year) elected by the General Assembly Meeting for 1 year upon the proposal of the Audit Committee and the decision of the Board of Directors in accordance with the Turkish Commercial Code and the CMB legislation.

## **2.3. General Assembly Meetings**

During the period, the Ordinary General Assembly Meeting for 2016 operations was held on 13 April 2017 at the Company headquarters. The meeting quorum was reached at the Ordinary General Assembly Meeting with representation of 65.9% of the shares.

### **Announcement of the meeting;**

- Following our Board of Directors' meeting where the date of the General Assembly Meeting was decided, a material event disclosure was made on the Public Disclosure Platform (PDP) to notify of the date, venue, time and agenda of the meeting in due period; at least 3 weeks before the General Assembly Meeting. Announcements inviting shareholders to the meeting (agenda, copy of proxy statement) were published on the Public Disclosure Platform, Turkish Trade Registry Gazette, a national newspaper (Milliyet) and a local newspaper (Bursa Olay) as well as on the corporate web site: [www.karsan.com.tr](http://www.karsan.com.tr).

- Announcement of the general assembly meeting, and other announcements and disclosures required by the Company under the applicable legislation were posted on the corporate website in addition to the General Assembly Meeting Information Document prepared according to mandatory Article 1.3.1 of the Corporate Governance Principles, and the Material Disclosures made on the Public Disclosure Platform. The General Assembly Meeting Information Document was published on the Electronic General Assembly Meeting System of the CRA in addition to the corporate website.
- The general assembly meeting was held at the Company headquarters, in a room with a seating capacity of 200 people. In order to provide the necessary information, Board Member and one of the Independent Members of the Board of Directors of the Company and its Executive Board Member and CEO, Assistant General Manager responsible for Financial Affairs and Finance, individuals responsible for preparation of financial statements, and Company auditor attended the General Assembly Meeting. The General Assembly Meeting was held publicly, and a group of plant employees also attended the meeting.

Our Company's Consolidated Financial Statement and the Footnotes therein and Independent Audit Report, the Board's proposal to not to distribute dividends with respect to 2016 financial period, Annual Report of the Board of Directors, accompanied by the Corporate Governance Principles Compliance Report and the information notes including explanations required for compliance with the Corporate Governance Principles the Capital Market Legislation regarding the agenda items were made available to shareholders at the Company headquarters three weeks before the date of the General Assembly Meeting, and availability of these documents was also mentioned in the announcements made relating to the General Assembly Meeting.

Proposals made by the shareholders during the negotiation of the agenda items were also discussed, and the agenda items were negotiated and decided as a result of the voting in accordance with these proposals. At the end of the General Assembly, the questions asked by the shareholders were discussed pursuant to the CMB legislation and the shareholders were responded to as appropriate. Therefore, there are no questions, which could not be answered at the General Assembly Meeting and therefore directed to the Investor Relations Unit. The questions asked at the General Assembly Meetings and answers given to these questions are posted on the corporate website.

No shareholder proposed any agenda item in writing while the agenda for the general assembly meetings held during the period was being drafted.

The Company's Donations and Charitable Contributions Policy was approved at the 2016 Ordinary General Meeting of Shareholders dated 13 April 2017 with Agenda Item No. 9 and disclosed to the public by posting on the Company website.

The minutes of the meeting were published on the same day on the PDP in the form of a material disclosure, and were also made available at the Company headquarters to be reviewed by shareholders.

The latest version of the Company's articles of association, Agenda of the General Assembly Meeting and the Lists of Attendants for the last 5 years are available on the investor relations section of our website.

In the Ordinary General Assembly Meeting for 2016 operations, which was held on 13 April 2017, shareholders were informed about the following issues and given the opportunity to comment:

- The total sum donated and granted within the period, and its users (with a separate agenda item);
- The fact that there are no guarantees, pledges or mortgages created by the Company in favor of third parties
- The fact that shareholders controlling the management, members of the Board of Directors, executives with administrative responsibilities and their spouses and second degree relatives/kin did not perform any transaction in 2016 that might cause a conflict of interest with the Company or its affiliates and/or perform any commercial transaction within the field of activity of the Company or its affiliates on their behalf or on behalf of others, or become a partner with unlimited liability in any company engaged in the same kind of trade with the Company and about the Compensation Policy for Employees (pursuant to Article 1.3.6 of the CMB Corporate Governance Principles).
- About the policy on compensation towards the corporation's employees

## 2.4. Voting Rights and Minority Rights

The Company's Articles of Association do not feature a privilege relating to the exercise of voting rights. There is no cross-shareholding relationship between the companies.

In the General Assembly Meeting, voting rights are exercised in accordance with the rules on representation and voting (Articles 20 and 21 of the Articles of Association). Proxy voting is carried out in accordance with the regulations of the Capital Markets Board.

Additionally, within the context of secondary legislation enacted under Article 1527 of the Turkish Commercial Code No. 6102; the general assembly meetings are also carried out on Electronic General Assembly Meeting System (EGMS) provided by CRA simultaneously with the actual meeting.

Company Articles of Association provides that the exercise of minority rights requires representation of five percent of the capital. In our Company's Articles of Association, Group A preferred Shareholders have privilege of nominating 5 members to the Board of Directors consisting of 7 members and 6 members to the Board of Directors consisting of 9 members. One of the members nominated by Group A Shareholders is determined according to rules on independence that are defined in principles of Corporate Governance Principles published by the Capital Markets Board.

Due care is shown for the exercise of minority rights in our Company. No criticism or complaint has been received by our Company in this respect in 2017.

## 2.5. Dividend Rights

There are no privileges regarding participation in the Company's profit and distribution of dividends.

The Company's Dividend Policy was approved at the 2013 Ordinary General Meeting of Shareholders dated 27 June 2014 with Agenda Item No. 8 and disclosed to the public by posting on the Company website.

### "Dividend Policy

There are no privileges regarding participation in the Company's profit and distribution of dividends. Our Company distributes profit in accordance with the Turkish Commercial Code, Capital Market Legislation, Tax Legislation and other applicable legislation as well as the provisions of the Articles of Association governing profit distribution. When deciding on distributing the dividends, applicable regulations, financial position, long-term strategy, investment and financing policies, profitability and cash flow of our Company are taken into account, and our shareholders are distributed maximum amount of profit in cash and/or in the form of bonus shares to the extent that the net distributable period profit calculated according to Capital Market Regulations, is covered in our statutory records. It is aimed to perform dividend distribution in maximum 3 months after the relevant General Assembly Meeting, at the latest the end of the accounting period in which the distribution decision is made, and the dividend distribution date is determined at the General Assembly Meeting. Dividends may be paid in equal or different installments in compliance with applicable legislation, provided that it is decided at the same General Assembly Meeting in which dividend distribution is decided. Dividends shall be distributed pro rata to all of the shares existing as of the distribution date, notwithstanding date of issue and acquisition of such shares. The Board of Directors aims to take all measures in respect of place, time and method to ensure the transfer of annual profit to shareholders within the shortest time possible, in accordance with the legislation. Pursuant to the Articles of Association of the Company, the Board of Directors may distribute advance dividends, provided that it is authorized at the General Assembly Meeting, and Capital Market Regulations are complied with."

The consolidated profit amounting to TL 2,082,943 was incurred as a result of our Company activities in 2017 and after the deduction of the last year's loss, there are no distributable profits.

## 2.6. Transfer of Shares

On the grounds that the shares of our Company are bearer shares, there are no provisions within the Articles of Association that restrict share transfer.

## SECTION III- DISCLOSURE AND TRANSPARENCY

### 3.1. Corporate Website and its Contents

Our Company has a dynamic and up-to-date web site accessible at. The majority of the content of the website has an English version, and it is aimed to complete translation of the entire website into English in the future.

The website contains various information about our Company that may be requested, and there is also an “Investor Relations” section which is updated from time to time according to current events and covers the following issues as prescribed by the CMB.

Important highlights from our website can be outlined as follows:

- General and detailed information regarding the field of activity
- Vision, mission and main strategies
- Evaluation by the senior executives
- Corporate Governance Principles,
  - Trade registry information,
  - Shareholding structure,
  - Members of the Board of Directors
  - Committees of the Board of Directors and their working principles
  - Information related to preferred shares,
  - Articles of Association,
  - Corporate Governance Principles Compliance Report
  - Credit rating
  - Reports on the General Assembly Meeting (Agenda of the general assembly meetings, information documents, minutes of meetings and lists of attendants questions asked at the general assembly meeting and answers to that questions, general assembly internal directive),
  - Proxy voting form,
  - Bonds issue
  - Prospectus and IPO circulars
  - Purchase and sale transactions of the members of the Board of Directors
  - Policies and Rules on Corporate Governance (Disclosure Policy, Stakeholders Policy, Remuneration Policy, Dividend Policy, Ethical Rules, Donations and Charitable Contributions Policy, **policy on compensation towards the corporation’s employees**)
- Reports
  - Current and past Annual Reports,
  - Current and past periodic financial statements and Independent Auditor’s Reports,
- Current and past Material Event Disclosures,
- Frequently asked questions,
- Links related to stock and stock performance
- Contact information for investor relations
- Press releases

Our website contains the necessary information required under Article 2.1 of the Corporate Governance Principles as the investor relations section of this website contains Articles of Association, Annual Reports, Corporate Governance Principles Compliance Report, Independent Audit Report, agendas of General Assembly Meetings, and Information Documents for General Assembly Meetings.

### **3.2. Annual Reports**

Annual reports are prepared in accordance with international standards, Capital Market legislation and the legislation in force, and include information specified in the CMB Corporate Governance Principles. Annual Reports approved by the Board of Directors are disclosed to the public in Turkish and English languages when posted on the corporate website. Printed copies can also be obtained from the Investor Relations Unit. Our Company ensures that the Board of Directors' Interim Reports are prepared in accordance with the CMB Corporate Governance Principles. The annual reports of our Company prepared since 2004 are available on the corporate website.

## **SECTION IV - STAKEHOLDERS**

### **4.1. Informing the Stakeholders**

Our Company is committed to abiding by the principles of equality, accuracy, impartiality, and accurate timing in relation to informing its shareholders and stakeholders. Accordingly, announcements and disclosures are made timely, accurately, completely, and in a comprehensible and accessible manner to ensure that the rights and interests of our Company are protected.

Our stakeholders are informed with material event disclosures, minutes of the general assembly meetings, annual and interim reports, financial reports that are posted on the Public Disclosure Platform and the corporate website. An open communication approach is adopted, and accordingly, employees are informed on the objectives and activities of the Company in the assessment and information meetings.

Karsan Assistant General Manager of Financial Affair and Finance and Investor Relations Unit are responsible for informing the stakeholders in compliance with the information policy of our Company, and our information policy is posted on the corporate website: [www.karsan.com.tr](http://www.karsan.com.tr). The Board of Directors is authorized and responsible for following up and developing the information policy.

Karsan Otomotiv Sanayii ve Ticaret A.Ş. Ethical Rules was submitted to the shareholders in the 2011 Ordinary General Assembly Meeting held in June 2012 under Agenda Item No. 17, and it is also available on the corporate website. Duties and Working Principles of the Corporate Governance Committee were determined with the decision of the Board of Directors following the Ordinary General Meeting of Shareholders and posted on the corporate website and the Public Disclosure Platform, and accordingly it is the responsibility of the committee to create the necessary mechanisms to inform the stakeholders of any transaction of the Company which is in violation of the applicable legislation and against ethical rules. It is among the duties and responsibilities of all executives and in particular the Human Resources Department, to ensure that each employee adopts and is committed to the Ethical Rules. All Karsan employees including members of the Board of Directors, Board of Auditors and executives are obliged to comply with the Ethical Rules.

Karsan Otomotiv Sanayii ve Ticaret A.Ş. Stakeholders Policy was submitted to the shareholders in the 2014 Ordinary General Assembly Meeting held in July 2015 under Agenda Item No. 16, and this policy is also available on the corporate website.

Karsan Otomotiv Sanayii ve Ticaret A.Ş. policy on compensation towards the corporation's employees was submitted to the shareholders in the 2016 Ordinary General Assembly Meeting held in April 2017 under Agenda Item No. 17, and the said policy on compensation towards the corporation's employees is also available on the corporate website.

### **4.2. Participation of the Stakeholders in the Management**

Articles of Association of our Company do not contain a provision, which allows participation of the stakeholders in the management of the Company. However, there are independent members of the Board of Directors to ensure that rights of the minority shareholders and other stakeholders are observed equally in the decision-making process.

An Employee Satisfaction Survey is conducted to learn about the expectations of the employees from the company and the management, and suggestions made by employees for improvement of the business and working conditions are recognized. Also, employees are encouraged to suggest new improvements during the internal communication and information meetings.

In the weekly coordination meetings, the opinions of all medium and senior level managers are considered in decision-making. The lean management system adopted Company-wide allows employees to make and implement proposals, and the proposals of employees are collected for potential improvements. Various meetings are held with the customers, suppliers, unions and potential and current investors.

Our shareholders' right to participate in the management is protected in compliance with the applicable legislation and articles of association.

#### **4.3. Human Resources Policy**

In every step of production and management our Company adopts a "People-Oriented Approach" and is committed to growing together with its employees, customers and shareholders and undertakes that;

- It will meet the workforce needs in accordance with the existing and future human resources planning
- It will create a transparent and reliable communication environment which supports teamwork and enhances corporate awareness
- It will invest in human resources, adopting practices aiming continuous development in line with Company strategies and objectives and monitor this development
- It will ensure adoption of a fair performance system where employees are recognized and rewarded
- It will continuously improve satisfaction levels in line with expectations of the employees and the organization, and measure satisfaction perceptions of employees and performance indicators
- It will assess all processes related to employees in an integrated manner, structure, report, and continuously develop process management
- It undertakes to launch and monitor innovative practices and systems with a solution- and result-oriented approach.

Accordingly, below are the basic competencies expected from our associates;

- Communication skills
- Stress management and Inner Motivation
- Being Result-Oriented
- Teamwork and Cooperation
- Time Management and Prioritization
- Taking Initiatives
- Corporate Awareness
- Cost and Efficiency Consciousness
- Analytical Thinking
- Process Knowledge
- Negotiation Skills

The representative appointed for employee relations is the Human Resources Manager Ms. Yasemin Şahin.

#### **JOB DESCRIPTION:**

- Contributing to the development of the Company's human resources policy in order to increase dynamism, communication, performance and promote continuity in Karsan, ensuring that this policy is adopted by Company employees and implemented effectively; providing expertise and **acting as a pioneer** in the implementation of these policies and continuously improving them, as he is directly responsible for the management of the Company's human resources.

- Working on various human resources topics, including staffing analysis, job analysis, remuneration, performance evaluation, career development, recognition and rewarding, measurement and evaluation of employee satisfaction, creating funds for needed employees and promoting the corporate culture.
- With respect to Personnel and Administrative Affairs; carrying out recruitment, personnel affairs, accrual & assessment procedures and remuneration and fringe benefits, coordinating security, cleaning, building maintenance, communications (cargo, mail), switchboard, social activities, sports, and protocol events for improving employee satisfaction.
- With respect to industrial relations; taking appropriate actions to ensure a work environment complying with occupational health and safety legislation; and performing procedures related to personnel movements as well as relations with the union;
- With respect to training; determining, planning, evaluating employee training policies related to human resources; contributing to the development and performance of a training master plan; taking part in the establishment of relations with training organizations; developing in-house training and communication activities.

Our Company has not received any complaints about discrimination. As part of our process-based organization, department managers carry out and inform the employees about the distribution of tasks. There is a performance evaluation and a subsequent rewarding scheme, and any changes to this scheme are communicated to employees.

#### **4.4. Ethical Rules and Social Responsibility**

Karsan Otomotiv Sanayii ve Ticaret A.Ş. Ethical Rules was submitted to the shareholders in the 2011 Ordinary General Assembly Meeting held in June 2012 under Agenda Item No. 17, and it is also available on the corporate website. In January 2004, Karsan Otomotiv Sanayii ve Ticaret A.S. obtained an ISO 14001 Environmental Management System Certificate for the first time, and its ISO 14001 certificate was extended until August of 2018 with zero defects identified in the document renewal inspection conducted in 2017, which ensured sustainability of the certificate.

It is planned to move to ISO 14001: 2015 revision in 2018. Karsan established an Environmental Management System in order to control and minimize the environmental effects, and to continuously improve environmental performance through compliance with all environmental laws and regulations in order to protect the environment and ensure its permanence. With its Environmental Management System efforts, KARSAN aims to reduce the use of energy and natural resources, and to minimize the amount of waste by supporting recovery operations. After physical and chemical treatment, the wastewater is sent to the BOSB and HOSAB Centralized Sewage Treatment Plant, to be reduced and kept at a level below the receiver's discharge standards, and the output water analysis and controls are made regularly by the competent authorities. The waste management system ensures that the wastes requiring recycling, recovery and disposal resulting from production and other activities are collected separately, and some of them are contributed to the national economy, and those requiring disposal are treated in accordance with the regulations without causing environmental pollution. Our waste management system with zero landfill waste is continuously improving by setting new objectives and targets, consistent with Karsan Otomotiv A.Ş. Environmental Policy, to reduce the use of energy and its new environmental impacts. Karsan aspires to enhance the environmental consciousness of the neighboring community around its head office, the supplier industries and all employees, and organizes trainings and meetings for raising awareness, with an emphasis on continuous training. In line with its Environmental Policy, Karsan is committed to protecting and sustaining the environment by complying with all environmental laws and regulations, keeping environmental impact under control, reducing adverse effects, continuously improving environmental performance, increasing environmental awareness and, by reaching "Operational Excellence" in all production operations, leaving a clean environment behind for future generations.

No action has been filed against Karsan due to environmental damages. Karsan Otomotiv successfully passed the integrated environmental audits conducted by the Provincial Directorate of Environment and Urbanization in 2017 and received Environmental Permits for both of its plants and established its Environmental Management Unit.

## SECTION V - BOARD OF DIRECTORS

### 5.1. Composition and Proceedings of the Board of Directors

Board of Directors	Position – Executive/Non-Executive/Independent Member
İnan KIRAÇ	Chairman – Non-Executive
Giancarlo BOSCHETTI	Vice-Chairman – Non-Executive
Okan BAŞ	Board Member – Executive Director – Executive
Nadir ÖZŞAHİN	Board Member – Independent
Mehmet Altan SUNGAR	Board Member – Independent
İpek KIRAÇ	Board Member – Non-Executive
Antonio Bene	Board Member – Non-Executive
Sadettin Sait BİNGÖL	Board Member – Non-Executive
Fatma Füsün AKKAL BOZOK (*)	Board Member – Non-Executive

(\*) Fatma Füsün AKKAL BOZOK was selected as a Board Member in the place of Oğuz Nuri BABÜROĞLU in the Ordinary General Assembly dated 13 April 2017.

Additionally, our Independent Members' declarations of independence are included in Annex 2.

The Corporate Governance Committee performs functions of the Nomination Committee and the Remuneration Committee in compliance with the Corporate Governance Communiqué. Nadir ÖZŞAHİN and Mehmet Altan SUNGAR were nominated as the Independent Board Members by the Corporate Governance Committee, and the report indicating whether candidates meet independence criteria was submitted to the Board of Directors on 17 March 2017. In line with the Board of Directors decision no. 2017/19 dated 17 March 2017, together with the announcement of the general assembly meeting on the Public Disclosure Platform, Nadir ÖZŞAHİN and Mehmet Altan SUNGAR were nominated to the Board of Directors as Independent Members to the approval of the General Assembly Meeting, and résumés of the candidates were included in the General Assembly Meeting Information document. In the Ordinary General Assembly Meeting of the Company held on 13 April 2017, Nadir Özşahin and Mehmet Altan SUNGAR were elected as the independent Board Members.

2 female board members are available among 9 Board Members of our Company, and the ratio of female members, who shall be included to the Board of Directors, reached to 22% with Ms. Fatma Füsün Akkal Bozok, our Board Member, who was elected for the first time in 2017. Our Company is working on determining a target rate provided that it is not less than 25% and a target time for membership of women in the board of directors and forming a policy for this target, as specified in the CMB Corporate Governance Principles.

### 5.2. Operating Principles of the Board of Directors

The agenda of the meeting is drafted following a consultation among the Chairman, Vice Chairman and/or Executive member of the Board of Directors. Suggestions by members are taken into account. Agenda items and topics regarding the resolutions of the Board of Directors are drafted periodically or whenever necessary.

The Board of Directors convened 19 times in 2017 and passed a total of 33 resolutions in these meetings. Board members participated in a majority of the Board meetings. Board of Directors is convened whenever it is necessary for the Company business.

Meetings of the Board of Directors are carried out according to Article 10 of Articles of Association of the Company:

"Board of Directors shall convene whenever required for Company business. The meetings are held at the Company headquarters. However, with the decision of the Board of Directors, the meeting may also be held at a different venue. Any person, entitled to participate in a meeting of the board of directors may participate in these meetings using electronic media under Article 1527 of the Turkish Commercial Code. In accordance with the Communiqué on Meetings Held via Electronic Media in Trade Companies excluding General Meeting of Shareholders, the Company may establish an Electronic Meeting System which would allow right holders to participate and vote via electronic media, or purchase such services. In the meetings, right holders shall be able to exercise their rights granted in the applicable legislation using the system, which is established, or services that are purchased as described in this provision, in accordance with the Communiqué. At the meetings, each member shall have one vote. This voting right shall be exercised in person. It shall be possible to participate in the meeting of the board of directors using any technology allowing remote access. Unless any member requests an actual meeting, the board may decide on a proposal made by a member when other members agree in writing. The quorum for meetings of the Board of Directors shall be minimum 4 (four) members if the Board is composed of 7 (seven) members, and minimum 5 (five) members if the Board is composed of 9 (nine) members, and decisions shall be made with the majority of participants in the meeting. In case of equality of the votes, the relevant topic shall be postponed to the next meeting. If the votes are again equal, the proposal is deemed to be rejected. In the board of directors, votes shall be used as 'accept' or 'reject'."

Telephone and/or e-mail are used to invite the members to a meeting. The Executive Board Member is responsible for drafting the agenda of meetings of Board of Directors, informing the Members, and ensuring communication.

So far no necessity for a separate secretariat has arisen.

During the period, no counter votes have been exercised because of difference of opinion.

Any question directed by any member during the meeting is recorded in the resolution depending on the diversity of the topics, and is not recorded in a Q&A form since the format of resolutions of the Board of Directors' does not allow to do so. The members of the Board of Directors are not granted weighted voting right and/or right to veto; everyone has equal vote.

Any damage that could be incurred as a result of fault of the members of board of directors when performing their duties is covered by an "Executive Liability Insurance", and the total amount of the insurance is 20 million USD. There is also an additional coverage of USD 1,000,000 for each of the non-executive Board Members.

### 5.3. Number, Composition and Independence of the Committees Formed in the Board of Directors

<b>Members of the Audit Committee</b>	<b>Position in Committee – Powers (Executive/Non-Executive/Independent Member)</b>
Nadir ÖZŞAHİN	Chairman of Committee – Independent Board Member
Mehmet Altan SUNGAR	Member of Committee – Independent Board Member

<b>Members of the Corporate Governance Committee</b>	<b>Position in Committee – Powers (Executive/Non-Executive/Independent Member)</b>
Mehmet Altan SUNGAR	Chairman of Committee – Independent Board Member
Fatma Füsün AKKAL BOZOK	Member of Committee – Non-Executive

Deniz ÖZER (*)	Member of Committee – Executive
----------------	---------------------------------

(\*) Head of the Investor Relations Department was assigned to the Corporate Governance Committee under Article 11 of the Communiqué No. SPK II-17.1.

<b>Members of the Committee on Early Detection of Risks</b>	<b>Position in Committee – Powers (Executive/Non-Executive/Independent Member)</b>
Nadir ÖZŞAHİN	Chairman of Committee – Independent Board Member
Fatma Füsün AKKAL BOZOK	Member of Committee – Non-Executive

The duties and working principles of the Committees of the Board of Directors were disclosed to the public when posted on the Public Disclosure Platform and in the investor relations section of the corporate website: [www.karsan.com.tr](http://www.karsan.com.tr).

In this financial period, the Audit Committee worked in accordance with the CMB legislation and its Duties and Working Principles in relation to selection of an independent audit firm, capital increase use of fund report, disclosure of financial statements to the public, and issued 8 reports. In this financial period, the Corporate Governance Committee worked in accordance with the CMB legislation and its Duties and Working Principles in relation to preparation of Corporate Governance Compliance Report, supervision of activities of Investor Relations Unit, and nomination of candidates to become Independent Board Members as a part of its function as the Nomination Committee; and carrying out remuneration committee activities as a part of its function as the Remuneration Committee, and issued 5 reports. During this period, the Committee on Early Detection of Risks worked in accordance with the CMB legislation and its Duties and Working Principles, and issued 6 reports.

Since our Company is in the Third Group pursuant to the list published by the Capital Markets Board within the context of the Corporate Governance Communiqué, it is sufficient to have 2 Independent Members in the Board of Directors. Therefore, our Company has 2 Independent Members in the Board of Directors. Since the head of each committee must be an independent board member, Mr. Nadir Özşahin is the head the Audit Committee and, the Committee on Early Detection of Risks, whereas Mehmet Altan Sungar is the head of the Corporate Governance Committee.

#### **5.4. Risk Management and Internal Control Mechanism**

The Corporate Risk Management Department that was established in 2014 was reorganized as the Corporate Risk Management and Internal Auditing Department as of 1 October 2015. Risks that are identified as a result of activities carried out by the Corporate Risk Management and Internal Auditing Department in accordance with a plan approved by the Committee on Early Detection of Risks, are evaluated taking the corporate risk taking profile into account, and organization of an effective internal control system structuring is aimed with action plans that are created as a result of risk oriented Internal Auditing activities.

#### **5.5. Strategic Objectives of the Company**

**MISSION:** To provide creative, sustainable and inspiring solutions and recommendations for customer needs in World land transport market.

**VISION:** Firstly with being preferred in the global market, to become the most valuable company in its sector in our country.

The General Manager / CEO announces the corporate mission and vision to the public via various media channels and the corporate website.

Strategic objectives identified by the General Manager / CEO in consultation with the management team in line with the vision and the mission, are announced to the employees. Every year, the chairman of the board of directors gives an overview of the operations and performance of the Company in the previous year in the annual report.

## 5.6. Financial Rights

The Remuneration Policy for Members of the Board of Directors and Executives with Administrative Responsibilities was submitted to the attention of the Ordinary General Assembly Meeting dated 27 June 2014 as a separate agenda item and shareholders were given an opportunity to comment on the policy, and the remuneration policy was also published on the corporate website. The total amount of rights, benefits and fees provided to the members of the Board of Directors and executives in 2017 was TL 2,614,891 and this amount is reported in footnotes to the financial statements, and these footnotes are included in the annual report and on the corporate website. At the Ordinary General Assembly Meeting held on 13 April 2017, it was decided that as of the first day of the month following the General Assembly Meeting, Independent Members of the Board of Directors would be paid TL 6,000 (gross) per month and other members of the Board of Directors would be paid TL 4,000 (gross) per month. The fee amount determined at the Ordinary General Assembly is equal to the fee amount approved in the previous year and imposed at the General Assembly.

The Company did not lend any funds or grant any loans to any Board Member or Executives or allow the use of credit through third parties in the form of an individual loan or issue any guarantees such as a surety.

## ANNEX 1 – Résumés of the Members of the Board of Directors and the CEO

### İnan Kır a  – Chairman

İnan Kır a  began his career as a Sales Officer in 1961 at Ormak A.Ş., a division of Ko  Group. In 1966, he was promoted as General Manager of Otoyol, the manufacturing company of Fiat trucks and midibuses. He later became the general manager of Tofa  Oto Ticaret, the sales and distribution company of Fiat cars produced in Turkey. Kır a  was then promoted to vice presidency and later on, presidency of the Ko  Holding Automotive Group. He served as the CEO of Ko  Holding until his retirement in 1998. İnan Kır a  was privy to every development in the Turkish automotive industry and left his signature on many great automotive factories.

### Giancarlo Boschetti – Vice-Chairman

After studying mechanical engineering and economics, Giancarlo Boschetti started to work for the Fiat Group in 1964. After serving in different positions in the Fiat Group for almost 40 years, he became the Global CEO of Iveco S.p.A. between 1991 and 2001, and the Global CEO of Fiat Auto S.p.A. between 2002 and 2003. Giancarlo Boschetti continues to serve as a board member in many international companies.

### Okan Ba  – Executive Board Member

Mr. Ba  graduated from Bogazici University with a Bachelor's degree in Mechanical Engineering and he received his Master's degree in Mechanical Engineering Department in Clemson University(USA). He began his career in 1987 as Mechanical Engineer in the Engineering Support Department at TOFA  Bursa Plant and has undertaken different tasks within TOFA  until June 2016.

Between 1991-2002, he worked in TOFA  Bursa Plant as Workshop Production Supervisor, Engine Production Unit Manager, Body Production Unit Manager, Assembly Production Unit Manager and Doblo Product Responsible. In 2002-2016, he worked in Tofa  Head Office in Istanbul as Aftersales Director, Mini Cargo Project Supervisor, Aftersales Spare Parts Director, FIAT Business Unit Director, Aegea Project and Business Development Director.

### Antonio Bene – Board Member

Antonio Bene trained as a mechanical engineer started working in Alfa Romeo S.p.A. in 1972. He served as Mirafiori Plant Director, Platform Director, and Industrial Director at Fiat Auto S.p.A. Later, he served as the Industrial General Manager in Ferrari S.P.A., plant manager in Tofa  T rk Otomobil Fabrikası A.Ş. between 1998-2002 and as Tofa  CEO between 2002 - 2004, and Senior Vice President and Global Manufacturing Director in Fiat Auto S.p.A. between 2002-2005.

### İpek Kır a  – Board Member

İpek Kır a  graduated from Ko  High School in 2002 and received her undergraduate degree from Brown University's Biology Department in 2007, and is continuing her graduate studies at the same university in the field of Public Health. İpek Kır a , founder member of Suna and İnan Kır a  Foundation Culture and Art Enterprises, also performs below tasks; Board Member of Ko  Holding A.Ş., executive board member of Ko  High School, Board Member of

Temel Ticaret ve Yatırım A.Ş., Board Member of Kök Ziraat Turizm Sanayi Ticaret A.Ş., Board Member of Moment Eğitim Araştırma Sağlık Hizmetleri ve Ticaret A.Ş., Board Member of Sirmar Denizcilik Sanayi ve Ticaret A.Ş., and Board Member of Zer Merkezi Hizmetler A.Ş. etc. As of March 2012, İpek Kırac was appointed to CEO for Sirena Marine Denizcilik ve Ticaret A.Ş.

#### **Nadir Özşahin -Independent Board Member**

Nadir Özşahin graduated from the Economics Department of İstanbul University in 1965. He started working as an accountant at the Ministry of Finance in 1965 and worked in this position until 1974. In 1974, he switched to the private sector and served as the Coordinator, Vice President and President of Audit and Financial Group in Koç Holding A.Ş. He retired in 2003. Nadir Özşahin worked as certified financial advisor in 2004-2005 and Member of Board of Directors in Döktaş Döküm A.Ş. between 2005 and 2008. Özşahin acted as a member of the Board of Trustees of Alumni Foundation of İstanbul University Economics Faculty from 2000 to February 2013, and served at the Board of Directors of Ram Diş Ticaret A.Ş. between 2008 and February 2012.

#### **Mehmet Altan Sungar – Independent Board Member**

Mehmet Altan Sungar started to work as an intern at Royal Lastikler Tevzi A.Ş., a Koç Holding company, while he was still a student in Academy of Economics and Commercial Sciences. In addition to his post in the accounting department, he also worked as an Assistant Regional Director in the marketing department in the same company, and took part in the establishment of the dealer network while he was serving as a Regional Director in various regions across Turkey. Taking part in the foundation of Otoyol Pazarlama in 1975, he worked as a Marketing Manager, Assistant General Manager and Deputy General Manager in the same company. He also served as a General Manager and Board Member in İstanbul Oto A.S., a Tofas Group company, between 1985 and 2001. During the same period, he worked as a member of the automotive professional community of İstanbul Chamber of Commerce and as a court expert. He served as a General Manager and Board Member in Karsat A.S. from 2001 to 2004. Mehmet Altan Sungar worked as a shareholder and counsel in TURAVEL (Tourism, Education and Consultancy) between 2004 and 2012.

#### **Sadettin Sait Bingöl - Board Member**

Sayın Bingöl, born in 1962 in Ankara, graduated from Galatasaray High School in 1982 and then graduated from Economics Department of Uludağ University. S. Sait Bingöl, who has been serving as Chairman of the Board of Directors of Butem Mimarlık Mühendislik A.Ş. and General Manager of Maryapı A.Ş. for the last decade, is serving as General Secretary in Kıraca Holding A.Ş. since November 2015. S. Sait Bingöl is married and father of two children.

#### **Fatma Füsün Akkal Bozok - Board Member**

Fatma Füsün Akkal Bozok, completed her academic studies by obtaining a master's degree from the Faculty of Administrative Sciences, Boğaziçi University, and by obtaining a doctoral degree from the Faculty of Business, İstanbul University. After her graduation, she began her business career at Arthur Andersen Audit Company in 1980. She joined Koç Group in 1983, and she initially served as Audit Specialist and Assistant Coordinator in the Audit and Financial Group Department within the body of the Holding. She was appointed as the Audit and Financial Group Coordinator in 1992, and she served in this position for 11 years. Akkal, who served as the Director of Financing Group between 2003 and 2006, is an academic member of Sabancı University, and serves as a Board Member in Yapı Kredi Bankası since September 2005. Akkal is also an Independent Board Member of Akis GYO, Independent Board Member of Bizim Toptan Mağazaları A.Ş. and Board Member of Koç Finansal Hizmetler.

#### **Tasks Performed By the Members of the Board of Directors Outside the Company**

<b>Board Members</b>	<b>Current Positions other than Partnership</b>
İnan KIRAÇ (Chairman)	Karsan Otomotiv Sanayi Mamulleri Pazarlama A.Ş. - Chairman Kök Ziraat Turizm Sanayi Ticaret A.Ş. - Chairman (*) Kıraca Holding. A.Ş. - Chairman Karland Otomotiv Ürünleri San. ve Tic. A.Ş. - Chairman

	<p>Kök Finansal Yatırımlar A.Ş. - Chairman (*)</p> <p>Kök Enerji Yatırımları A.Ş. - Chairman (*)</p> <p>Silco S.A. - Board Member (*)</p> <p>Sirena Marine Denizcilik Sanayi ve Tic. A.Ş. - Chairman</p> <p>Sirmar Denizcilik Sanayi ve Ticaret A.Ş. - Chairman</p> <p>Adabey Turizm Sanayi ve Ticaret A.Ş. - Chairman (*)</p> <p>Vaniköy Gayrimenkul Yatırım A.Ş. - Chairman (*)</p> <p>Vaniköy Gayrimenkul Yatırım ve Danışmanlık A.Ş. - Chairman of the Board of Managers (*)</p> <p>Kepi Turizm Danışmanlık Gayrimenkul Yatırımları ve Ticaret A.Ş. - Chairman (*)</p> <p>Kepi Gayrimenkul Danışmanlık ve Ticaret Ltd. - Chairman (*)</p>
Giancarlo Boschetti (Deputy Chairman)	<p>Diasorin S.p.A - Board Member (*)</p> <p>Finde S.p.A. - Board Member (*)</p>
Okan Baş (Executive Board Member)	<p>Karsan İç ve Dış Ticaret A.Ş. - Vice Chairman</p> <p>Karsan Europe SRL - Chairman</p>
Nadir ÖZŞAHİN (**) Independent Board Member	-
Mehmet Altan SUNGAR (Independent Board Member)	-
Antonio BENE (Board Member)	-
Sadettin Sait BİNGÖL (Board Member)	<p>Kıraça Holding A.Ş. - Secretary General</p> <p>Karsan Otomotiv Sanayi Mamulleri Pazarlama A.Ş. - Board Member</p> <p>Karsan İç ve Dış Ticaret A.Ş. - Board Member</p> <p>Başak Tarım Aletleri Sanayi ve Ticaret A.Ş. - Board Member</p> <p>Kar İnşaat Taahhut Sanayi ve Ticaret A.Ş. - Deputy Chairman (*)</p> <p>BBB Enerji Yatırım Danışmanlık ve Turizm Ticaret Ltd. Şti. - Manager (*)</p>

	<p>Kök Enerji Yatırımları A.Ş. - Board Member (*)</p> <p>Karland Otomotiv Ürünleri San. Ve Tic. A.Ş. - Board Member</p> <p>Karsat Otomotiv Pazarlama ve Tic. A.Ş. - Board Member</p>
<p>İpek KIRAÇ (Board Member)</p>	<p>Koç Holding A.Ş. - Board Member (*)</p> <p>Koç Özel Lisesi- Executive Committee Member (*)</p> <p>Temel Ticaret ve Yatırım A.Ş. - Board Member (*)</p> <p>Kök Ziraat Turizm Sanayi Ticaret A.Ş. - Board Member (*)</p> <p>Zer Merkezi Hizmetler A.Ş. - Board Member (*)</p> <p>Sirena Marine Denizcilik San. ve Tic. A.Ş. - CEO</p> <p>Moment Eğitim Araştırma Sağlık Hiz. ve Tic. A.Ş. - Board Member (*)</p> <p>Sirmar Denizcilik Sanayi ve Ticaret A.Ş. - Board Member</p> <p>Vaniköy Gayrimenkul Yatırım A.Ş. - Deputy Chairman (*)</p> <p>Vaniköy Gayrimenkul Yatırım ve Danışmanlık Ltd. - Deputy Chairman of the Board of Managers (*)</p> <p>Kepi Turizm Danışmanlık Gayrimenkul Yatırımları ve Ticaret A.Ş. - Vice-Chairman (*)</p> <p>Kepi Gayrimenkul Danışmanlık ve Ticaret Ltd. Şti. - Deputy Chairman of Board of Managers (*)</p>
<p>Fatma Füsun Akkal Bozok (Board Member)</p>	<p>Yapı ve Kredi Bankası A.Ş. - Board Member (*)</p> <p>Akis GYO - Independent Board Member</p> <p>Bizim Toptan Mağazaları A.Ş. - Independent Board Member (*)</p> <p>Koç Finansal Hizmetler - Board Member (*)</p>

(\*) Non-group companies.

**Annex 2 – Declarations of Independence of the Independent Members of the Board of Directors****KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş****DECLARATION OF INDEPENDENCE BY THE CANDIDATE FOR BOARD MEMBERSHIP**

- I hereby accept and declare that I do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, I do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or I have not established a significant commercial relation between Karsan Otomotiv Sanayi ve Ticaret A.Ş (Company)., companies on which the Company holds control of management or significant effect and shareholders who hold control of management of the Company or have significant effect in the Company and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree
- I have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the Company purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the Company, at the time period when the Company purchases or sells services or goods,
- I have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member.
- As of the day of my nomination I am not and in the event I am elected, for the term of my duty I will not be a full time employee at public authorities and institutions except being an academic member at university that is in compliance with the relevant legislation.
- I am deemed to be residing in Turkey according to the Income Tax Law No.193 of 31/12/1960
- I can make positive contributions to the operations of the Company, maintain my objectivity in conflicts of interests between the Company and the shareholders, and I have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders.
- I will be able to allocate time for the company business sufficient to follow up operations of the Company and to duly fulfill the assigned duties
- I hereby acknowledge and agree that I have not been serving as a member in the Board of Directors of the Company for more than six years in the last decade,
- I am not an independent board member in more than three of the companies whose management is controlled by the Company or the controlling shareholders of the Company and in more than five companies in total which are traded on the stock exchange
- I have not been registered or announced on behalf of the legal entity selected as the member of Board of Directors,
- I shall immediately inform the Board of Directors and resign in case of occurrence of any event which conflicts with my independence.

**Nadir ÖZŞAHİN**

**17.03.2017**

**KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş****DECLARATION OF INDEPENDENCE BY THE CANDIDATE FOR BOARD MEMBERSHIP**

- I hereby accept and declare that I do not have a relationship in terms of employment at an administrative level to take upon significant duty and responsibilities within the last five years, I do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or I have not established a significant commercial relation between Karsan Otomotiv Sanayi ve Ticaret A.Ş (Company)., companies on which the Company holds control of management or significant effect and shareholders who hold control of management of the Company or have significant effect in the Company and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree
- I have not been a shareholder (5% and more), an employee at an administrative level to take upon significant duty and responsibilities or member of board of directors within the last five years in companies that the Company purchases or sells goods or service at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the Company, at the time period when the Company purchases or sells services or goods,
- I have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member.
- As of the day of my nomination I am not and in the event I am elected, for the term of my duty I will not be a full time employee at public authorities and institutions except being an academic member at university that is in compliance with the relevant legislation.
- I am deemed to be residing in Turkey according to the Income Tax Law No.193 of 31/12/1960
- I can make positive contributions to the operations of the Company, maintain my objectivity in conflicts of interests between the Company and the shareholders, and I have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders.
- I will be able to allocate time for the company business sufficient to follow up operations of the Company and to duly fulfill the assigned duties
- I hereby acknowledge and agree that I have not been serving as a member in the Board of Directors of the Company for more than six years in the last decade,
- I am not an independent board member in more than three of the companies whose management is controlled by the Company or the controlling shareholders of the Company and in more than five companies in total which are traded on the stock exchange
- I have not been registered or announced on behalf of the legal entity selected as the member of Board of Directors,
- I shall immediately inform the Board of Directors and resign in case of occurrence of any event which conflicts with my independence.

**Mehmet Altan SUNGAR**

**17.03.2017**