



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

# **Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directors**

**December 2002**

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# FOREWORD

*TÜSİAD (Turkish Industrialists' and Businessmen's Association), which was founded in 1971, according to the rules laid by the Constitution and in the Associations Act, is a non-governmental organisation working for the public interest. Committed to the universal principals of democracy and human rights, together with the freedoms of enterprise, belief and opinion, TÜSİAD tries to foster the development of a social structure which conforms to Atatürk's principals and reforms, and strives to fortify the concept of a democratic civil society and a secular state of law in Turkey, where the government primarily attends to its main functional duties.*

*TÜSİAD aims at establishing the legal and institutional framework of the market economy and ensuring the application of internationally accepted business ethics. TÜSİAD believes in and works for the idea of integration within the international economic system, by increasing the competitiveness of the Turkish industrial and services sectors, thereby assuring itself of a well-defined and permanent place in the economic arena.*

*TÜSİAD supports all the policies aimed at the establishment of a liberal economic system which uses human and natural resources more efficiently by means of latest technological innovations and which tries to create the proper conditions of for a permanent increase in productivity and quality, thus enhancing competitiveness.*

*"Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directors" was prepared under the auspices of Corporate Governance Working Group of Company Affairs Committee, with the coordination of Haluk Alacaklıoğlu and by the contribution of all Corporate Governance Working Group members with special thanks to Cem Uşaklı and Özlem Denizmen. The study dwells upon the question of how Turkish*

*companies should align themselves with the four fundamental principles of corporate governance – transparency, accountability, fairness and responsibility – which will help them to reach a well-deserved place in the global markets. With this perspective, the study focuses on the composition, independence and agenda of board of directors which bears the greatest responsibility and has the strategic importance in the formation and practice of corporate governance.*

*This study will have served its purpose if it can be a catalyst for deliberations on the topic and trigger best practices for corporate governance in Turkey.*

**December 2002**

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# INTRODUCTION

## **Definition of Corporate Governance, Worldwide and in Turkey**

Corporate governance, which can be defined in many different ways, is in its broadest sense, the organization and management of a modern institution established for a specific goal. A narrower definition comprises all rules, regulations, codes and practices enabling long term economic value creation for shareholders, while respecting social values and attracting human and financial capital (World Bank, Corporate Governance Manual). The universal principles of corporate governance are *fairness, accountability, transparency* and *responsibility*. Corporate governance aims at high performance, profitability, productivity and competitiveness.

Corporate governance should be perceived as a holistic approach which intersects with several domains such as ethical rules, law abidance and environmental protection. Corporate governance principles that aim at long-term maximization of the performance of a corporation constitute the framework uniting all the above-mentioned concepts. Ethical attitudes or protection of the environment on their own, lacking the synthesis provided by this framework, will not be sufficient to ensure the success of a company. The high performance achieved by corporate governance principles, and the responsibility driven by it, will enable a company to contribute to the well being of future generations and satisfy all shareholders and stakeholders.

Since 1930s, corporate governance has gained importance in countries where free competition became institutionalized. In the past two decades, with the driving forces of the OECD, the World Bank, institutional investors, stock exchanges, national and international capital markets, it has started to determine how the corporations are managed in many countries.

In industrialized western economies and in some Asian countries such as Singapore, Hong Kong and South Korea, it is impossible to conceive a public company not applying corporate governance procedures. The fact that corporate governance is quite a new concept in Turkey, an OECD member country striving to increase its share in global markets, is a thought-provoking situation.

The recent macroeconomic restructuring efforts of Turkey will bring profound changes to the public and private sectors alike. TÜSİAD believes that the realization

of corporate governance principles will play an important role in helping Turkish companies to reach a well deserved place in the global markets.

We believe that welfare for Turkey and her citizens can only be attained through sound corporate governance. In a shrinking world where borders are disappearing, the performance of a country is measured by the competitiveness and success of its institutions. Corporations striving for success must protect the interests of various stakeholders and as well as those of future generations. Within this context, corporate governance principles constitute the cornerstones of this premise.

TÜSİAD has established a Corporate Governance Working Group functioning under the TÜSİAD Company Affairs Committee, whose task is to examine the importance of private sector restructuring within the framework of transparency, accountability, fairness and responsibility principles for increasing worldwide competitiveness.

The Corporate Governance Working Group has been working extensively during the past year on the appraisal of corporate governance principles and codes adopted by industrialized and developing countries in tandem with the current practice of the Turkish corporations and the articles of the Turkish Commercial Code. This study has resulted in a report entitled Corporate Governance Code of Best Practice: *Composition and Functioning of the Board of Directors*. This study is focused on the composition, independence and agenda of the boards of directors which bear the greatest responsibility in the formation and practice of corporate governance within the framework of its fundamental principles. We hope that the basic principles in this code will serve as a starting point for the implementation of best practices in corporate governance in Turkey.

Our analysis of various countries suggests that basic principles of corporate governance are adopted according to the individual requirements of each country. There are even sector specific codes developed for each sector's needs such as those for Hong Kong's finance sector and the US institutional investors. We hope this code will be the starting point for corporate governance implementations in Turkey. In order for widespread corporate governance practices in Turkey, this study needs to be followed by subsequent studies and supported by the positive results of its implementation.

The non-binding principles on the composition and functioning of the board of directors constitute guidelines for all companies and particularly those going public. These guidelines will be devised according to the individual needs of each company in conformity with their unique structural, cultural and strategic values and processes. Corporate governance in Turkey will improve with the experiences from implementation of these basic principles in line with the companies' individual requirements as well as with future comprehensive studies. As seen in examples from other countries, corporate governance can only be achieved over time and national legislation is critical to compel companies to adopt these new principles.

Without any doubt, the voluntary code of practice will not be sufficient to create desired corporate governance regime without a proper legal backing. For this reason, in order to establish corporate governance in Turkey, it is essential to create the kind of regulatory environment that will allow for the precise functioning of the world-wide accepted OECD principles of corporate governance.\*

This study will have served its purpose if it can be a catalyst for deliberations on the topic of best practices for corporate governance in Turkey.

*Corporate Governance Working Group*

*TÜSİAD, September 2002*

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(\*) The comparison of TÜSİAD Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directors with the OECD Principles of Corporate Governance is presented in **Annex 1**. OECD Kurumsal Yönetim İlkeleri, 2000, TÜSİAD.

CORPORATE GOVERNANCE  
CODE OF BEST PRACTICE:  
COMPOSITION AND FUNCTIONING  
OF THE BOARD OF DIRECTORS

## 1. The Board and its Responsibilities

The board of directors is the most important strategic body of a company.

The board, in order to create sustained financial returns to its shareholders, actively directs the company as the top level decision making, execution and representative authority. The board of directors manages and represents the company with this perspective. In addition to this fundamental duty, the board is accountable to its customers, employees, suppliers and other stakeholders.

The responsibilities of the board of directors are the following:

- Setting short and long term goals of the company;
- Reviewing the strategies leading to the organizational goals, guiding and ensuring their implementation;
- Monitoring the strategic and financial performance of the company and ensuring corrective measures;
- Recruiting the chief executive officer (CEO)<sup>1</sup>, monitoring his performance according to the pre-established criteria, determining his remuneration, reviewing and approving the proposals of the CEO for other key executives;
- Ensuring the administrative and financial control of the company;
- Ascertaining that the composition and functioning of the board, board committees and the senior management are conducive to efficient and productive work and setting the performance criteria;
- Defining the communication strategy with shareholders and other stakeholders;
- Developing and monitoring the implementation of the code of business ethics;
- Ensuring legal compliance of the internal and external practices, activities and behavior of the company.

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(1) As stated in the main contract of the company, the CEO is the highest responsible officer for all activities. In the absence of a CEO, the same function is performed by the general manager.

## **2. Board Membership Criteria**

The board is the most important body for the effective implementation of the corporate governance mission. The board member must work to protect the interests of the company, hence of the shareholders. The qualifications and independence of the appointed board members have a direct impact on the success of companies. Therefore, it is necessary to pay the utmost attention to the minimum capabilities, core competencies and experience required for board members, and to the principles for the functioning of the board.

The minimum qualifications for appointments to the board are as follow:

1. Having the ability to understand and analyze the basic financial reports including balance sheets, profit-loss or cash flow statements;
2. Familiarity with legal rules and regulations necessary for a company's daily and long term operations and actions;
3. Having the commitment and best effort to attend at least 75% of the board meetings on the agenda in each fiscal year;
4. Having the potential to contribute with different specialization, viewpoints, creativity and etc. to the board.

In case a member is deemed worthy of board membership due to his or her outstanding qualities, but lacks attributes 1 and 2, the company must provide the necessary training within a 6-month period.

The board of companies and institutions managed according to corporate governance principles should be comprised of members who are able to contribute the required experience, skills and specialized knowledge/opinions.

Board members should be as independent as possible from shareholders, other stakeholders that could materially interfere with the exercise of the independent judgement and even from persons having nominated or supported their appointment to the board. In this context, members of parliament or public servants on active duty or those who are subject to the law regarding retired public servants, cannot be appointed as board directors.

### 3. Composition of the Board

The prerequisite for corporate governance to ensure an efficient and impartial practice is to have a majority of independent members on the board. Independent members, by nature, have the advantage of being impartial in their judgment and more likely to give priority to the interests of the company.

The criteria for an "independent member" are listed below:

- To function exclusively as a board member, and (if any) have a maximum of 5% of the company's shares to which he has a right as a part of his remuneration package;
- Not to be employed within the previous two years by the company or any one of its affiliates;
- Not to be working for any firm providing major services or goods to the company (main supplier, customer, consultant, legal counsel, etc.);
- Not to be related by marriage or first-degree family tie to any person working as a director in the company, or holding substantial shares (5% or more of the company's total capital) or holding any position of control;
- Not to receive any income from the company apart from his/her board membership fee; if s/he is a shareholder due to his board membership, s/he should own shares below minority shareholders and have no other income from the company apart from dividend and his/her fees as a board member.

It is a must to establish reciprocal checks and balances, increase accountability and prevent possible conflicts of interest between the board and the corporate management. For this reason, CEO must be the only board member who has an executive role within the corporate management and all other board members should be non-executive directors.

The composition of the board of directors can be summarized as shown in **Table 1**, taking into consideration the independence of board members and the criteria whether they have an executive or non-executive role.

**Table 1. Composition of Board Membership**

	<b>Executive</b>	<b>Non-executive</b>
<b>Independent</b>	_____	Members having no relationship with the company except membership of the board of directors
<b>Non-Independent</b>	Chief Executive Officer	<ul style="list-style-type: none"> <li>• Family members</li> <li>• Suppliers of goods and services</li> <li>• Professional directors working in one of the company affiliates</li> <li>• Executives employed in the company within the previous two years</li> </ul>

### **3.1 Ratio of Independent Directors**

- In all corporations, the ratio of independent directors should be at least 25% initially, and should be increased to at least 50% at the earliest possible time.
- Absolute majority of board members of holding companies and companies listed on the stock exchange should comprise of independent directors. If these proportions cannot be met, during the first year, the board of directors must determine the time for attaining the threshold in a binding decision written in the official minutes.
- Absolute majority of board members in the financial sector or in a corporation with a public share should comprise of independent directors. If these proportions cannot be met, during the first year, the board of directors must determine the time for attaining the threshold in a binding decision written in the official minutes.

### **3.2 Obligation of Independent Board Members to State their Independence**

Upon appointment, each outside member will submit a written statement to the board to the effect that s/he owns no shares nor has any interests in the company or in any of its investments and that s/he fulfills all the conditions of "independence." S/he must immediately advise the board in writing of any changes that might influence his/her independence and such information will be distributed to the shareholders. At this point, the board must immediately restore the independency ratio. The member who has lost his/her independence can continue to sit on the board only on this condition. Otherwise, the member will immediately resign and a new outside member will be appointed.

### **4. Election, Invitation and Orientation of New Board Members**

Members of the board of directors are elected in the general assembly in accordance with a procedure that is known to shareholders and in a way reflecting the views of the different shareholders. The election, invitation and orientation of members of the board is the responsibility of the *corporate governance committee*, under the board of directors.<sup>2</sup> The candidates nominated by *the corporate governance committee* are assessed by the board of directors and an open vote is taken. Candidates approved by the board as well as candidates nominated by shareholders are submitted to the approval of the general assembly.

The information on board members, including their resumes, experience and reasons for their nominations must be circulated to all shareholders in written form together with the agenda and have been received at least 15 working days before the general assembly. Given that minority shareholders wish to nominate a member to the board, all the members must receive the names of these candidates together with the invitation to the general assembly. All the information regarding the election of members of the board (statements of independent members and the resumes of all members) must be included in the yearly reports to be given to the Capital Markets Board and to shareholders.

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(2) The structure, aims and duties of the Corporate Governance Committee are set forth in article 13.2.

The *corporate governance committee* undertakes a detailed orientation program after the appointment of the members of the board. Care must be taken to complete the orientation program swiftly and efficiently.

This program should comprise at least the following:

- strategic goals of the company, current situation and issues
- past performance and estimated values of market and financial performance indicators
- resumes of senior managers and performance evaluation
- visits to main premises of the company and meetings with senior managers

## **5. Separation of the Duties of the Chairman of the Board and the CEO**

The board of directors is the most important body in a company, where the management is reviewed and criticized. In accordance with the main contract of the company, the CEO is the highest responsible executive officer. If there is no CEO in the organization, then the general manager assumes that function.

The CEO is accountable to the board of directors and submits reports on company activities to the board. It is absolutely imperative that the chairman of the board and the CEO **be separate persons** to ensure an objective examination and appraisal of the performance of the company and the managers. It is the only way to prevent conflicts of interest and to ensure objectiveness.

## **6. Role of the Chairman of the Board**

In addition to his duties as a board member, the Chairman of the Board conveys the Board of Directors' evaluation on CEO's performance and remuneration decision made at the end of the year to the CEO. Together with the CEO, s/he prepares the agenda of the board meetings. Together with the *corporate governance committee*, s/he evaluates the performance of the board of directors and takes measures for improvement.

## **7. Size of the Board and Decision Making Mechanism**

The Corporate Governance Committee determines the number of board members according to the company's needs. The changes that are made are

submitted to the approval of the board; if the board approves the changes, the required modification of the statutes is submitted for the approval of the shareholders at the general assembly. The number of board members should not be less than 5 and no more than 15 so as to ensure the necessary contribution and the effectiveness of the decisions. If the company statutes assumes a range of 5 to 15 for the number of board members, it will then be possible to align the number of board members to the company's needs by a board decision without having to resort to a change of statutes.

The quorum required for the board to make a decision is three fourths of the total board members. In companies where independent members make up at least one more than half the number of members, in addition to the quorum, the number of independent members must be equal to or greater than the number of non-independent members.

Each member of the board has a single vote, regardless of share majority. In order to have performance-oriented impartiality, no member has the right to a special vote or a veto. This rule applies to all board members, including the chairman of the board. When a quorum is reached, decisions are made according to the majority of votes.

## **8. Term and Meetings of the Board of Directors**

The term of the board of directors should be set at 2 years. The board should meet regularly, not less than six times a year.

Sufficient assistance should be made available to ensure efficient functioning.

- *Board of Directors Secretary:* A secretariat should be set up to handle meeting preparations for the board and board committees, to collect the required documentation and to take notes during the meetings. The secretariat should provide services to all the members of the board and work under the board of directors.
- *Meeting Minutes of the Board of Directors:* The board meeting agenda items, the decisions made and all details concerning statements and clarifications should be recorded by the secretary and be available to any member of the board during working days and hours, provided prior notice is addressed to the secretary. Concerning issues on which independent members are in

disagreement with other members during board meetings, the objections and concerns of the independent members must be included in the minutes. The questions directed to the board by the shareholders, the answers provided and the steps taken must also be clearly indicated.

- *Budget of the Board of Directors:* The budget to meet the travel/meeting expenses of the board of directors, as well as any other work expenses should be determined.
- *Agenda of the Yearly Meetings of the Board of Directors:* The board of directors must set down the agenda of its yearly meetings. The agenda must also include special meetings (e.g., evaluation of senior management performance) besides the meetings for the examination of the periodic performance. The chairman of the board and the CEO should cooperate in preparing the agenda. The other board members should be given the opportunity to suggest changes or additions to the agenda before the meeting.
- *Documents Required for the Meeting of the Board of Directors:* All issues to be discussed at the meeting of the board and related documents and reports should be circulated to members of the board at least 7 working days<sup>3</sup> prior to the meeting. Before extraordinary meetings where it is not possible to adhere to the annual schedule, the board of directors should take utmost care to ensure equal information flow to board members. Priority should be given to postpone the board meeting if a board member objects to the date of the extraordinary meeting.
- *Communication between Board Members and the Company:* The CEO should coordinate all requests of the board for information/reports, visits to operating units of the company, meetings with senior managers and similar activities. Moreover, from time to time, other executives besides the CEO should attend board meetings. This will help further elaboration of issues and will give board members the opportunity to meet other executives.

## **9. Re-Election and Retirement**

All members of the board must be subjected to the yearly official performance review by the board of directors. A member may be a candidate for re-election at

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(3) Working days are the days other than Saturday, Sunday, religious holidays and other official holidays.

the end of the 2-year term. However, re-election is never automatic and the procedure mentioned above will be implemented for the election.

The retirement age of board members should be 65 based on international standards. However, the board may waive this rule for special members such as the founding members, who may be capable of making long-term contributions to the company past the age limit, and grant them privilege for this rule.

## **10. Board Compensation**

Board members may be remunerated in two ways:

### **a. Fees**

In principle, fees should be determined to compensate at least the member's time devoted and costs of his/her participation in his/her obligations as a board member. The normal fee of the board members must theoretically be approximately the CEO's hourly fixed retainer. This should be calculated on the basis of the time a board member spends for the company in meetings, in preparations before and after meetings and for special projects.

### **b. Premiums and Other Types of Remuneration**

Premiums and other types of remuneration should be determined to reflect as much as possible the real performance of the board member and hence be related to the performance and success of the company.<sup>4</sup>

Based on the principle of transparency, the number of shares held by board members and managers must be disclosed in the annual report.

## **11. Evaluation of the Performance of the Board of Directors and CEO**

The board of directors has the primary responsibility for the attainment of performance goals (financial and other) set by the company. For this reason, the Board members, both individually and as a whole, should annually make a transparent self-assessment of their performance in line with the rules set down by the committee entrusted with this duty. The remuneration or dismissal of the board members must be linked to these principles.

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(4) As the necessary modifications are made in the Turkish Commercial Law, it will be possible for managers to be remunerated in a manner similar to developed countries by giving them company shares or options.

The board of directors sets the performance goals of the company and hence of the CEO each year. In line with the financial and other goals set forth, the board of directors evaluates the performance of the CEO at the end of the year and determines his remuneration accordingly.

## **12. Relations of the Board of Directors with Shareholders, Investors, the Press and Customers**

The stakeholders of the company (shareholders, employees, media, etc.) require information about the company to be able to make correct assessments regarding the company's financial performance and progress. It is, however, impossible for the company to inform the stakeholders actively at any moment. Therefore, every company should establish a transparent and accessible information mechanism and, in addition to official reporting, create adequate communication systems to ensure transmission of information to different interest groups.

Corporate governance requires the timely disclosure and simultaneous dissemination of adequate, accurate, clear and comparable information about the company without any discrimination among the shareholders.

All companies listed on the stock exchange should have an accessible Internet web site. Press releases, interim reports and annual reports for at least the past three years should appear on this web site. Shareholders should be informed about general assemblies through the web site or via e-mail besides the conventional information channels.

Every company should establish "investor relations" and "media relations" units or entrust one person with each one of these subjects where the creation of separate units is not feasible. Investors and members of the media must be channeled to these units or responsible persons. A board member must be entrusted for contacts with media members and an open system must be created to allow for direct contact of major shareholders with the board of directors.

## **13. Number, Structure and Independence of Board Committees**

The Committees ensure that the board of directors works professionally so that it functions in accordance with the principles of corporate governance. For the proper implementation of corporate governance, it is imperative that the majority of committee members be independent and selected in a transparent manner.

The number of committees required for the functioning of the board may change from company to company in accordance with its present state of affairs and requirements. However, the committees listed below are considered necessary in the framework of corporate governance in almost every country.

### **13.1 The Audit Committee**

#### **Objectives and Composition:**

The audit committee ascertains that internal or external audits are performed in a satisfactory and transparent manner as per the principles of corporate governance. The internal auditor is also accountable to the audit committee. The audit committee must be provided with the assistance required to carry out its tasks and must enjoy the full support of the company's management. This committee must be able to include every manager, internal or external auditors it considers necessary in its meetings.

The audit committee must be comprised of at least three members. The majority of the members and the chairman of this committee must be independent directors. It is imperative that the members have sufficient knowledge of finance, accounting and basic company management.

#### **Responsibilities:**

- Ensuring that the financial reporting is conducive to accurate and fair evaluation of the company's performance;
- Giving advice on the appointment of certified financial consultants and independent external auditors, verifying the accuracy of independent auditing, and repeating the audit if necessary;
- Checking that the internal audit is done competently and in accordance with business ethics;
- Ensuring direct communication between both external and internal auditors and, if necessary, finance directors and the board of directors.

### **13.2 Corporate Governance Committee**

#### **Objectives and Composition:**

A transparent system and policies are required for monitoring the operation of the board of directors, for the nomination of qualified board members, their

torientation, performance review and remuneration. These policies must be independent of conflicts of interest among the shareholders, the board members and the corporate managers. Shareholders must be informed of any remuneration provided to members of the board. The board of directors forms this committee in order to perform these tasks in a comprehensive and systematic manner.

This committee is comprised of at least three members apart from the CEO. The majority of the committee members must be independent members.

### **Responsibilities:**

#### **1. Nomination of Board Members**

- Determining the candidates who can best contribute to the company and the board of directors, using the necessary systematic search and evaluation criteria;
- Providing board members and especially new members the required training, technical support and counseling for their orientation, familiarization with the company and for enabling them to execute their tasks.

#### **2. Remuneration**

Determining the principles and details of the remuneration methods of board members (fees, premiums, shares, pension, etc.) and submitting them to the board for approval.

#### **3. Corporate Governance Practice**

- Monitoring the functioning of the board of directors, ascertaining whether internal policies are applied and main principles of corporate governance are practiced by the board of directors, providing required information, advice and criticism to the board and to shareholders in the general assembly;
- Taking note of any shareholder criticism and concerns and providing the adequate answers;
- Through communications with the Capital Markets Board and the stock exchanges, ascertaining that corporate governance principles are implemented stating the reasons for deviations if any and adequate

corrective measures, transmitting all these to the concerned parties in writing;

- Reviewing periodically all the systems and policies regarding the above mentioned issues, advising for corrective measures.

### **13.3 Senior Management Training, Career and Remuneration Committee**

#### **Responsibilities:**

- This committee works primarily on the remuneration of senior directors starting with CEO, their fees, premiums, shares, etc. and the assessment of the CEO's performance. The committee also checks the CEO's principles and practice of the performance evaluation and remuneration of the other senior directors;
- The board of directors must always have an up-to-date management plan for the CEO and other senior directors. In this context, another task of this committee is to provide career planning for senior directors. To this aim, the committee works in cooperation with the CEO to determine the person(s) having the potential to take the place of the CEO and to prepare them for the position.

## **14. Committee Meeting Frequency, Duration and Agenda**

The committees' term must be parallel to that of the board of directors, i.e., when the time comes for the re-election of the board of directors, all the committees must be formed again. The corporate governance committee is an exception to this rule and will be re-established upon the completion of the orientation period of the new board members.

Committee chairmen decide for the frequency and duration of meetings in consultation with committee members.

The comments and proposals of committee members are vital to the efficient functioning of the board of directors. The meeting calendar of the committees must therefore be in harmony with the meeting calendar of the board of directors.

It must be noted that final decisions are to be made by the board of directors. The committee's responsibility is limited to board meeting preparations and inputs.

The agenda issues and program are examined by the committee and included in the by-laws of each committee. Committee chairmen, in consultation with the CEO, prepare an agenda for committee meetings, but committee members and other board members may also add items to the committee meeting agenda. Committee chairmen, in consultation with the CEO, can invite corporate managers to attend committee meetings.

Issues to be discussed during committee meetings and information regarding these issues must be sent to committee members in due time, using all possible communication channels.

After the committee meeting, the committee chairman reports to the board on the activities of the committee and a summary of the committee meeting is circulated to all the board members.

## **15. Other Important Issues Regarding the Functioning of the Board of Directors**

### **15.1 Statements and Discussions during Board Meetings**

Board members should not misuse their positions by giving partial or biased information on issues and suggestions they do not support. Views must be openly discussed.

Any question from any board member must be answered in due diligence, information on developments relating to the issue must be communicated and included in the minutes.

If there are differences of opinion on any issue under discussion during the board meeting, these must be clearly noted in the minutes.

Any issue connected with the company's strategy, proprietary commercial information and plans discussed during board meetings is confidential. Any issue of discussion to be transmitted to any shareholder must be communicated to all shareholders at the same time and with the same details.

### **15.2 Content and Nature of Disclosure**

In reference to the principle of transparency, financial reporting essentials such as accounting policies, financial situation, operating results and cash flows should

be disclosed in conformity with reality. These accounting policies must be consistent with International Accounting Standards, with the exception for companies whose shares traded in an international stock market and therefore are subject to its respective rules.

All shareholders must be informed accurately and timely of any changes likely to have an impact on the price of the company's shares (change of management, merger, acquisition, dividend policy, etc.).

The following must be included in the annual report:

- *Financial Statements*: Performance of the shares, profit/loss, assets, etc.
- *Statements Regarding Company Structure and Policies*: Ownership structure, management structure, corporate goals and strategy, dividend policy, investment policy, code of business ethics, environmental issues etc.<sup>5</sup>
- *Information Regarding Board Members*: Information concerning CVs of board members, length of appointment, statements of independent members, attendance of board members to board and committee meetings, remuneration policy, fees, remuneration and company shares of board members and senior directors.
- *Important Issues Concerning Employees and Other Stakeholders*: Changes in legislation having positive and negative impact on the company, foreseeable risk factors, etc.
- *Statement on Corporate Governance Implementation*: Information on corporate governance practices in the company

### **15.3 Rights and Voting Power of Shareholders**

According to corporate governance principles, the board of directors must protect shareholder rights and ensure equitable treatment of all shareholders including the minority and foreign shareholders.

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(5) All company policies do not have to appear in the annual report. However, summaries on these subjects and note that detailed reports on company policy and various issues (e.g., environmental issues) can be obtained from the company must appear in the annual report.

All shareholders of the same class should be treated equally. Within any class, all shareholders should have the same voting rights and all investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote.

The rights of all shareholders, compensation and defense of rights in case of abuse are protected under Turkish Commercial Code and other related laws (capital market laws and regulations). In addition, concession rights, together with the capital and ownership structure of the company should be indicated in the main contract of the company.

Partial or complete changes to be made on the articles of the main contract of the company can be done through the approval of the shareholders at the general assembly following the legal applications made and permissions obtained.

Irrespective of his/her shares, all the shareholders have the right to take part in decision-making about profound changes concerning the company and to receive timely and adequate information about these decisions. These decision may, for example, concern changes such as the ones made in the main contract or the by-laws or the main documents of the same kind of the company, power of issuing additional shares, and exceptional transactions resulting in the sale of the company.

It is possible to seek a decision of the general assembly when selling and purchasing shares, assets, brands and rights of this kind that will have a major impact on the company's operations, income and overhead. For this, a clear provision must exist in the main contract. In this respect, some preferential shares can be determined and their consent be made conditional.

As the shareholders may be present at the regular and extraordinary general assembly meetings of the company, they may also be represented and appoint representatives for voting by proxy.

Decisions relating to dividends are regulated by law and can be taken at the general assembly on the condition of approval of the proposals made by the board or the shareholders.

#### **15.4 General Assemblies**

The general assembly is the place for the board to be released by and have an open dialogue with the shareholders. The general assembly is a very important

structure for the release of board members, for approval of accounts and for the shareholders to examine the previous period; and in this framework, every shareholder has rights defined by laws.

According to Turkish Commercial Code, shareholders must be informed of general assemblies 15 working days in advance and receive the agenda of the meeting. In case there is any change in the date and/or venue of the general assembly, shareholders must be informed timely and adequately to allow them to use their voting rights.

Processes and procedures for general assembly meetings should allow for equitable treatment of all shareholders and company procedures should not make it unduly difficult or expensive to cast votes.

Just as the shareholders have the right to ask questions and communicate their opinions before the general meeting, they also have the right of disapproval or refusal during the general assembly itself.

All board members must attend general assembly meetings and be ready to answer shareholders' questions.

# ANNEXES

# ANNEX I

## **Comparison of Corporate Governance Code of Best Practice: *Composition and Functioning of The Board of Directors* and OECD Principles of Corporate Governance**

<b>Corporate Governance Principles</b>	<b>Corporate Governance Code of Best Practice: <i>Composition and Functioning of The Board of Directors</i></b>	<b>OECD Principles of Corporate Governance</b>
<b>Transparency</b>	Articles 3, 12, 13, 15	Article 4: Disclosure and Transparency
<b>Accountability</b>	Articles 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14	Article 5: The Responsibilities of the Board
<b>Responsibility</b>	Articles 1, 4, 13	Article 3: The Role of Stakeholders in Corporate Governance
<b>Fairness</b>	Articles 4, 15	Article 1: The Rights of Shareholders Article 2: The Equitable Treatment of Shareholders

### **Definitions\*:**

#### **Transparency:**

Timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership

#### **Accountability:**

Clarifying governance rules and responsibilities, ensuring the alignment of managerial and shareholder interests as monitored by boards of directors

#### **Responsibility:**

Ensuring compliance of corporate practices and activities with laws, social and ethical values.

#### **Fairness:**

Ensuring the protection of shareholders rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers.

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(\*) Egon Zehnder International, 2000, Board of Directors Global Study, p: 3

## ANNEX II

**Corporate Governance Code of Best Practice:  
*Composition and Functioning of the Board of Directors***

**TÜSİAD Company Affairs Committee  
Corporate Governance Working Group**

**Chairman of Company Affairs Committee**

Cem DUNA

**Corporate Governance Working Group**

**Chairman**

Haluk ALACAKLIOĞLU

**Members**

Adnan AKAN

Ayşen TOPAY

Cem UŞAKLI

Fuat ÖKSÜZ

Güneş TETİK

Kayra ÜÇER

Melsa ARARAT

Murat SANCAR

Musa Galip EROĞLU

Necla ZARAKOL

Özge ESEN

Özgül UYSAL

Özlem DENİZMEN

Servet TOPALOĞLU

Talat ÇİFTÇİ

Ümit HERGÜNER

Ümit İZMEN

**Rapporteur**

Güneş TETİK

