

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

## CHAPTER I- STATEMENT FOR COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

ASELSAN, in scope of the Corporate Governance Principles which has been implemented by Capital Markets Board (CMB) since 2003, has been making efforts to work in compliance with the principles under the titles shareholders, public disclosure and transparency, stakeholders and Board of Directors.

ASELSAN, adopting the corporate governance understanding as a principle, was rated with a grade of 8,77 out of 10 as the result of the Corporate Rating Studies realized by SAHA Corporate Governance and Credit Rating Services Inc (SAHA) in 2012 and therefore was included in the Borsa İstanbul Corporate Governance Index. As a result of the efforts carried out through 2013 in order to improve the compliance with corporate governance principles to the maximum level; according to the report of SAHA which was published on 13/12/2013, ASELSAN's corporate governance rating grade was updated to 9,07 out of 10 points.

Corporate governance rating grade shows to what extent the companies comply with the corporate governance principles set out by the CMB and the Company's compliance level with the principles is defined with a methodology measuring under the main titles Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors.

SAHA has revised the corporate governance ratings of all its customers on 03/03/2014, regarding the resolution of CMB's meeting numbered 4/105 held on 01/02/2013. The update is caused by the revision of 2013 corporate governance ratings within the context of renewed rating principles and is a result of change in methodology.

As per the new methodology, in case the company fulfills all the mandatory requirements of a principle, the maximum rate it can achieve shall be 85 over 100, and according to the additional good corporate governance practices regarding the related principles, the rate shall be converged to the maximum rating, 100. Within this context, our rating has been revised as 8,57 over 10.

As a result of the efforts made for improving Corporate Governance Rating during 2014, ASELSAN's corporate governance rating was updated as 9,09 over 10 on 12/12/2014 by SAHA A.Ş.

The ratings of 2013 and 2014 and the sub titles are given below:

<b>2013 Rating Distribution</b>	<b>2014 Rating Distribution</b>
Shareholders : <b>82,70 / 100</b>	Shareholders : <b>83,30 / 100</b>
Public Disclosure And Transparency : <b>85,30 / 100</b>	Public Disclosure And Transparency : <b>98,21 / 100</b>
Stakeholders : <b>94,80 / 100</b>	Stakeholders : <b>93,78 / 100</b>
Board of Directors : <b>84,34 / 100</b>	Board of Directors : <b>90,00 / 100</b>
<b>Average 8,57</b>	<b>Average 9,09</b>

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ASELSAN Corporate Governance Ranking Reports published by SAHA can be accessed at the company website: [www.aselsan.com](http://www.aselsan.com).

The compliance with all the mandatory principles of Corporate Governance Principles was achieved. The titles regarding the arbitrary principles where compliance has not been achieved yet are given below and are explained in detail through the Compliance Report. There are no conflicts of interest arising because of the arbitrary principles where compliance has not been achieved.

- No recognition of minority rights to those who own less than twentieth of the capital indicated in the Articles of Association,
- Non-existence of a judgement in the Articles of Association; declaring that shareholders may individually demand the investigation of certain incidents from the General Assembly even if it is not on the meeting agenda, under the condition that the right to ask for information and investigation has been used before and if the appliance of shareholders rights is necessary,
- The article "Group A shares shall not be sold or transferred without the consent of the Board of Directors because of the Company's operations in security and defence industry; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records" in the Articles of Association of the company,
- Not disclosing the remuneration of Board Members and executive managers or the benefits provided to them per each individual,
- Non-existence of models supporting the participation of stakeholders, mainly the company personnel to the management of the company without interfering with the company's operations,
- Non-existence of female members in the Board of Directors and not setting a policy, target rate which is a minimum of 25% or a target date for female members' ratio.

Corporate Governance Committee will carry on the necessary efforts in order to achieve full compliance with Corporate Governance Principles.

Oral ERDOĞAN

Independent Member of Board of Directors  
Corporate Governance Committee Chairman

Ahmet Can ÇEVİK

Member of Board of Directors  
Member of Corporate Governance Committee

Mustafa Murat ŞEKER

Member of Board of Directors  
Member of Corporate Governance Committee

Pınar ÇELEBİ

Investor Relations and Subsidiaries Manager  
Member of Corporate Governance Committee

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## CHAPTER II - SHAREHOLDERS

### 2.1. Investor Relations Department

The information regarding Investor Relations and Subsidiaries Department responsible for the relations with shareholders is given below.

Levent AKKOYUNLU..... Chief Financial Officer / Vice President

Aykan ÜRETEN..... Finance Director

Pinar ÇELEBİ ..... Investor Relations and Subsidiaries Manager

Bâni Betül GÖKÇE ..... Investor Relations and Subsidiaries Department/Senior Specialist

Başak YÜCEKAYALI..... Investor Relations and Subsidiaries Department/Specialist

#### Contact Information

Phone: (312) 592 12 33 - 42 - 45 - 70

e-mail: ortaklar\_servisi@aselsan.com.tr

Investor Relations Department has submitted the report regarding the tasks carried during 2013, to Board of Directors on 27/02/2014.

Pinar ÇELEBİ, Investor Relations Manager, has Capital Markets Transactions Advanced Level and Corporate Governance Rating Expertise Licenses.

Main operations carried out by Investor Relations Department during 2014 are as follows:

- Maintenance of exercise of partnership rights of shareholders, updated and safe records regarding shareholders,
- Coordination of public disclosure of material events,
- Answering the written inquiries of shareholders regarding the company excluding the information considered as private and trade secret not disclosed to public,
- Ensuring the execution of General Assembly meeting in compliance with the regulation in force, Articles of Association and other company regulations, records being kept regarding the ballots and the results being reported to shareholders,
- Monitoring of every issue regarding the public disclosure including the regulations and company policies on information,
- Execution of tasks assigned by Corporate Governance Committee,
- Operation of transactions regarding capital increase, dividend distribution, amendments on Articles of Association and works of Corporate Governance Principles,
- Coordination of updating the list of people who have access to insider information; informing those people in purpose of protecting the insider information and obeying the privacy rules until financial and operational results are disclosed to public,
- Coordination of preparation and publishing of Sustainability Report.

Within the period, approximately 100 of our shareholders' questions regarding exercising their rights, public disclosures made, financial tables and etc. were answered either written or verbally.

The information and explanations, which may affect the exercise of shareholders rights, are provided in the company website.

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## 2.2. Exercising of Information Acquisition Rights of the Shareholders

Investor Relations Department has taken care of every written and verbal inquiry of all shareholders, particularly of Turkish Armed Forces Foundation (TAFF), in 2014 with the most accurate and fastest way. It is paid attention to respond to all the information demands of shareholders with complete and comprehensible responses.

Investor Relations Department has been using the English website [www.aselsan.com](http://www.aselsan.com) and Turkish website [www.aselsan.com.tr](http://www.aselsan.com.tr) actively in order to inform the ASELSAN's investors on a timely and accurate basis and has been updating the information given on the web constantly. The electronic platform is being effectively used regarding the issues that may effect exercising of the shareholders rights. The material event disclosure and other notifications made through Public Disclosure Platform (KAP) incorporated under Borsa İstanbul, are being published on our corporate website in Turkish and in English on the same day. In general, any changes occurred in the Company structure are immediately announced on our website and the investor presentations are constantly updated. Capital increases and dividend distribution information are also submitted to our investors' knowledge on the website. In addition, notifications regarding the attendance of shareholders to the General Assembly and electronic general assembly principles within the context of the new Turkish Code of Commerce are being made.

Full compliance of both Turkish and English chapters on "Investor Relations" on the website with the regulations was achieved.

Within the context of regulations of CMB, in 2014;

- General Assembly documents were published on the website in Turkish and English within legal deadlines,
- General Assembly minutes and participants list were published on the website in Turkish and English,
- 2013 Annual Report was uploaded to the website in Turkish and English,
- The report for the 1<sup>st</sup> six months' period for 2014 has been uploaded on the website in Turkish and English,
- The investor presentations which are updated every 3 months were published on the website in Turkish and English,
- Disclosures of material events made in 2014 were published on the website in Turkish and English,
- "Analyst Coverage" page was updated,
- Corrections were made on "Capital Increases" page,
- "Investor Calendar" page was added on the website and the important dates for the investors were published,
- "Key Board Resolutions" page was added on the website,
- "Chronology of Amendments on Articles of Association" was published,
- Stakeholders Policy was formed and published on the website in Turkish and English,
- Corporate Governance Rating Report was published on the website in Turkish and English.

Due to the reason that a regulation is present within the Turkish Code of Commerce (TCC) numbered 6102 according to which the shareholders will be able to request from the General Assembly the assignment of a private auditor for the inspection and disclosure of the financial status of the shareholders and due to the reason that the law and the relevant legislation are considered for the issues not present in the Articles of Association of the Company, there is no

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respective provision with regard to this issue in the Articles of Association. There was no request of any shareholders with respect to the assignment of a private auditor in 2014.

### **2.3. General Assembly Meetings**

The agenda and invitation related to the 39th Ordinary General Assembly Meeting dated 31/03/2014 with regard to 2013 operations realized at the Company headquarters were duly announced comprising all the necessary information in the Turkish Trade Registry Gazette dated 05/03/2014 along with five daily newspapers in Turkey and on the website. Furthermore the invitation was sent to the main shareholders and the shareholders attended to the previous meeting by post two weeks before the General Assembly. The General Assembly was held with the attendance of 91 shareholders, 14 physically, 77 electronically representing 45.455.182.577 shares (TL 454.551.825,77 nominal) of 50.000.000.000 total shares. Media members did not participate in the General Assembly Meeting which was held simultaneously both physically and electronically.

In scope of the Communiqué on Corporate Governance numbered II.17-1 of CMB, three weeks before the Ordinary General Assembly on date 05/03/2014, the Ordinary General Assembly Meeting agenda, place, time, copy of the power of attorney, total number of shares as of 05/03/2014 and the voting rights, the number of shares representing the privileged shares and their voting rights, the reasons for the changes by the election of the members of Board of Directors, which is present in the agenda, the decision of the Board of Directors related to the amendment to the Articles of Association, the old and new versions of the Articles of Association with the approvals of the CMB and the Ministry of Customs and Trade, the list of independent members of the Board of Directors, the proposal of the Board of Directors with respect to the 2013 year dividend distribution, the CV's of the independent members of the Board of Directors and their statements of independence were published on our Company website. The annual report was made available for the review of the shareholders at the headquarters 15 days before the General Assembly and handed to the shareholders to participate in the General Assembly and to the ones who made requests.

For the facilitation of physical attendance to General Assembly Meeting in 2014, transportation from central spots to our Akyurt facility was provided for our shareholders, and our shareholders who attended the General Assembly had a site visit.

In the Ordinary General Assembly Meeting in 2014, the shareholders were informed regarding the presence of managing members, all the Board of Directors members and auditors at the meeting. No proposals were set forth by the shareholders during the meeting regarding the agenda. The shareholders exercised their rights to ask questions regarding the topics in the agenda and the answers to the questions took place in the General Assembly Meeting minutes. There are no questions which has not been answered in the Ordinary General Assembly Meeting and answered by the Investor Relations Department later on. Within the period, there have not been any transactions of which their resolutions were submitted to General Assembly because the confirmative vote of the majority of the independent members are required where as they have voted negatively. The minutes of the General Assembly Meeting held in 2014 can be accessed from the website of our Company.

No Extraordinary General Assembly Meeting was held during the year 2014.

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The shareholders were informed that no donations and aids were made in 2013, with a separate agenda item. Our Company's policy regarding the donations and aids, which was revised by the Board of Directors pursuant to the CMB legislation, was put to shareholders' vote with a separate agenda item at the ordinary general assembly meeting and the revised policy was accepted by the majority of votes.

### **2.4. Right to Vote and Minority Rights**

In article 25 of the Articles of Association titled "Right to Vote", there is a provision stating that "the Shareholders and their representatives who are present at the Ordinary and Extraordinary General Assemblies shall have one right to vote for each share" and there is no privilege or no upper limit pertaining to the numbers of votes. The right to vote arises as soon as the share is acquired and there is no regulation setting forth that the vote shall be used when a certain time passes after the acquisition date of the share.

The regulations regarding the voting of the shareholders through their representatives are followed by; in the event of a legal representation, it is certified and the open proxy rule is applied.

Particular attention is paid in exercising the minority rights in our Company and the provisions of Turkish Code of Commerce and the relevant legislation regarding minority rights are applied as is. All shareholders are treated equally in our Company, including the minority and foreign shareholders.

There are no prevailing partners in our Company. In the Articles of Association, there is no provision with respect to the representation of the minority shares in the management and their accumulated casting of votes. Due to the voluntary implementation of this issue regarding the capital market legislation, provision with respect to the current General Assembly quorum is applied.

### **2.5. Dividend Rights**

There are no privileges with respect to the participation in the profit gained by the Company. The dividend distribution policy was revised in 2014 and was submitted to General Assembly meeting. The dividend distribution policy published separately in the annual report on our website is given below.

"The dividend amounts which shall be calculated considering the sustainable growth rate, market values and cash flows, the company equity, with the relevant legislation and the provisions of the articles of association over the distributable profit amount calculated taking the period profit as the basis which is shown on the financial statements of our Company prepared pursuant to the existing legal regulations (after the mandatory legal reserves are reserved and the taxes, funds and financial liabilities and losses of the previous year, if any, are deducted and the donations are added). The dividend distribution proposal which shall be prepared by the Board of Directors in order for the shares which shall be issued by means of adding the cash or the dividend on the capital on the date(s) determined pursuant to the regulations of the CMB to be distributed in cash in the defined amounts or as bonus shares or bonus shares in defined amounts, shall be submitted to the approval of the General Assembly. Following the approval of the General Assembly, the determined profit share distribution

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amounts are distributed to the shareholders within the legal periods on the date determined by the General Assembly.

There is no privilege to participate to the profit of our Company. The profit shares are distributed equally regardless of all the existing shares and their issue and acquiring dates.

In case of a revision made on the Dividend distribution Policy, the resolution of Board of Directors regarding this revision and the reason for revision shall be publicly announced with respect to the legislation of CMB.”

As per the decision taken in the General Assembly pursuant to the provisions of the Articles of Association and to the Capital Market Law and other legal regulations in 2014 and within the legal periods, out of the profit gained from 2013 operations, the gross amount of TL 25.000.000,- (TL 0,05 per TL 1 of share, gross 5% over the capital) (net TL 21.250.000,- TL 0,0425 per TL 1 of share, net 4,25% over the capital) was distributed to our shareholders as cash dividend.

### **2.6. Transfer of Shares**

The transfer of the nominated Group A shares representing majority part of the capital and which are not traded in Borsa İstanbul has been restricted with the provision of article 6 of the Articles of Association stating “Group A shares shall not be sold or transferred without the consent of the Board of Directors; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records without stating a reason”. The amendment of this article was put to vote of our shareholders in the 2014 general assembly meeting as “Group A shares shall not be sold or transferred without the consent of the Board of Directors because of the Company’s operations in security and defence industry; in the event that these shares are transferred or sold to third parties partially or completely without the consent of the Board of Directors, the Board of Directors is entitled to abstain from recording this sale in the records.” and was accepted with the majority of votes.

## **CHAPTER III - PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1. Company Website and its Content**

In order to inform our shareholders in a timely and accurate manner within the context of public disclosure and transparency; the website of the Company at the address [www.aselsan.com.tr](http://www.aselsan.com.tr) in Turkish and [www.aselsan.com](http://www.aselsan.com) in English is actively used and the information published on the web are updated regularly. In 2014, full compliance acquired to related regulations and judgments under “Investor Relations” section in both the Turkish and English versions of our Company’s website.

The section “Investor Relations” is included on our website also comprising the issues listed in article 2.1.1 of the corporate governance principles of Communiqué on Corporate Governance numbered II-17.1 issued by CMB on 03/01/2014.

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Under “Investor Relations” section;

1. Corporate Governance
  - 1.1 Shareholder Structure
  - 1.2 Board of Directors
  - 1.3 Key Resolutions of Board of Directors
  - 1.4 Board Committees
  - 1.5 Articles of Association
  - 1.6 Company Profile
  - 1.7 Policies
  - 1.8 Ethical Principles
  - 1.9 Corporate Governance Rating
  - 1.10 General Assembly Meeting
  - 1.11 Compliance with Corporate Governance Principles
2. Sustainability
3. Stock Info
  - 3.1 Stock Info
  - 3.2 Non-Deposit Shares
  - 3.3 Capital Increases
  - 3.4 Analyst Coverage
  - 3.5 Registration Statement and Public Offering Circular
  - 3.6 Dividend Info
4. Investor Calendar
5. Annual Reports
6. Financial Data
  - 6.1 Financial Reports
  - 6.2 Financial Highlights
  - 6.3 Investor Presentations
  - 6.4 BoD Reports
7. BİST Disclosure
8. Frequently Asked Questions
9. Contact

chapters exist. Necessary records and information are included under these titles. The information given on the Turkish website under “Investor Relations” section is included entirely on the English website.

## **3.2. Annual Report**

The Board of Directors prepare the annual report in detail regarding the operations of the Company and which enable the public to reach complete and accurate information that can be comprehensive. The 2014 annual report of our Company was prepared as per the Turkish Code of Commerce numbered 6102, the Regulation Regarding the Determination of the Minimum Content of the Annual Reports of Companies issued by the Ministry of Customs and Trade, the Communiqué Regarding the Principles Related to Financial Reporting in the Capital Market and the Communiqué Regarding the Determination and Implementation of the Corporate Governance Principles, both issued by the CMB.



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## CHAPTER IV - STAKEHOLDERS

### 4.1. Informing the Stakeholders

The information requests of stakeholders are keenly handled and attention is paid in responding these accurately and in an understandable manner. Our employees are informed with a personnel hand book and informing presentations over the intranet. As for our suppliers, strategic cooperation and certified suppliers policy is followed and our suppliers are informed via internet or e-platforms and face to face meetings are held through visits. The studies are being carried on in order to establish "ASELSAN Suppliers Portal" in order to enrich the content, efficiency and quality of our communication with the suppliers. While web-based electronic purchase platform is already used in the internet, the platform will be upgraded to a more comprehensive content. In the suppliers' portal, it is targeted for the suppliers to reach and govern the information regarding them.

Our Company's main principle is the continuous development, improvement and verification of processes, services and products and to provide its customers with services and products without any defects in order to meet all their requirements. For this purpose, a quality system has been established where the Quality Handbook, directives, quality plans, standards, audit and test directives are documented, exercised and constantly improved.

Our core principle related to customer satisfaction is to deliver products/services meeting the expectations and requirements of the customers. For this purpose, requirements are defined in an accurate and complete manner and products tailored for these requirements are designed and produced and the logistics support is provided accordingly. Customer satisfaction evaluations are open to access of every director within the context of Management Reports and the results and tendencies of customers are evaluated on a yearly basis by the upper management.

Our products are designed and produced in accordance with the military, civil and international standards. Starting with the design phase, these quality standards are fulfilled throughout the life-cycle of our high-end technology products and strict tests and controls are applied in every stage of production starting at the material procurement stage in order to guarantee that all products are produced in the same quality. Our products and services have been certified by internationally accepted standards such as AS9100, ISO 9001, AQAP and CMMI. The conformity of our products and services are approved every year with the audits performed.

To minimize quality problems, the suppliers are subject to commercial, technical and qualitative evaluations in order to assure that, materials and software or related services are supplied from reliable suppliers. The result of the evaluation is submitted to the suppliers and qualified ones are chosen to work with. Within this context, in 2014 orders, nearly 2.000 of which were domestic orders, were given to 3.736 suppliers.

The quotations of the suppliers and the written communications are deemed confidential and not disclosed to third parties or unauthorized people. With the directives formed, provision and implementation of unfair benefit with respect to the relations between the customers and the suppliers have been prevented.

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ASELSAN Magazine published every 4 months provides information regarding the activities, technical issues and up-to-date social events. Hardcopies of ASELSAN Magazine is delivered to the end users of ASELSAN products, shareholders who participated to the General Assembly Meeting, company employees and other related parties and uploaded to the website right after it is published.

The Compensation Policy can be accessed from our company's website under Corporate Governance title.

The members of the Board of Directors and the executives do not perform any activities that may cause shareholders to incur losses or may diminish the Company assets.

It is resolved that the actions to be taken with regard to the article of Corporate Governance Principles "The company builds the necessary mechanisms through which the stakeholders may inform the corporate governance committee or audit committee about the transactions of the company which are in contradiction with the related regulation and are ethically inappropriate." shall be coordinated by the Audit Committee and the studies regarding this issue are carried on.

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

In the Articles of Association, there are no provisions regulating the participation of the stakeholders in the management. However, their participation to management shall be supported provided that it does not corrupt the Company activities.

The corporate governance structure of the Company gives the opportunity to all stakeholders including the employees and representatives to convey their worries with regard to transactions which are inappropriate in terms of legality and ethics.

The Company employees have the opportunity to convey their expectations and requests through the representatives. The Company employees are informed about their financial and social rights over the intranet. Besides, there is an Employee Representative Agency in the Company where 45 representatives are present and which is formed by the Company personnel to enable the contact between the Company personnel and the management.

The periodical meetings held with the employee representatives are the platforms where employers and employees exchange their wishes, requests and opinions regarding the implementations. The meeting minutes formed as the result of these meetings are announced to all personnel through the employee representatives' page on the intranet. The presidency of the employee representative is performed by Yasin Zengin and the coordinator role is carried out by Mert Kovuk. The duties and authorizations of the Employee Representative Agency is to convey the wishes, proposals and problems of the group personnel represented and to share the received opinions with the group personnel and to pay efforts to provide an open and efficient communication between the personnel and the management.

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

The human resources policy of our Company is to adopt an understanding which adds successful and dynamic talents to ASELSAN family required pursuant to the vision of ASELSAN,

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which contributes to the sustainable success of ASELSAN with employee oriented approaches, adds value and which takes side of its employee at all times.

Within this scope and pursuant to the vision, mission and the principles of the Company, regulations have been set out pertaining to the working conditions of the personnel, their qualifications, recruitment, promoting, remuneration, rewarding, dismissal, disciplinary treatments, rights, tasks and liabilities and other personal rights.

56% of our employees stand for the engineering group, 31% for the technician group 7% for the administrative group, 3% for the office personnel and 3% of the worker group.

Among the company personnel, there are 1 chief engineer, 1 leader, 17 personnel representing the engineers, 20 personnel representing the technicians, 2 personnel representing the bureau personnel and 4 personnel representing the workers, which make up a total of 45 personnel representatives.

There were no complaints related to discrimination from the employees in 2014. Performance and rewarding policies are announced to all of our employees through Company directives.

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

The ethical rules of our Company have been written and were published on our website. Furthermore, in order to integrate and develop the ethical rules with the implementations, an Ethical Committee was established to meet the evaluation, direction, consulting and recommendation requirements and create shared knowledge.

“Ethical Principles and Behaviour Rules” document is announced to all ASELSAN personnel with all its exhibits and the personnel makes a written commitment that s/he acknowledges the information and ethical values. When an amendment or an update is made on this document, the changes are made known to all the personnel and training programs about these changes are organized if deemed necessary.

Ethical Committee comprises of ten members, the chairmanship of the Committee is executed by the Human Resources Management Vice President and the secretariat is handled by Human Resources Director. Other members are the representatives indicated by sectors; the Law Department and Central Procurement Department charged by the CEO. If there are no changes in the organization, the Ethical Committee members serve at least for five years.

Ethical Committee meets 4 times a year unless an application or disobedience is present. CEO or any member of the committee can call a meeting. Beyond intervening in applications and disobedience, Ethical Committee represents reason and conscience of ASELSAN and works to increase the awareness in ASELSAN family. When there is an application, required research conclusions and necessary documents are forwarded to Ethical Committee. Committee Chairman presents these to the CEO and a parallel investigation is carried out. At the end of this investigation, necessary steps are taken in accordance with relative law and ASELSAN regulations. The applications and disobedience is reported periodically in Board of Directors meeting.

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The setting and execution with respect to confidentiality principles of a mechanism, where the complaints regarding our Company's transactions which are against legislation and unethical, is the responsibility of Audit Committee. Committee's efforts regarding this issue are in progress.

An independent British institution, Carbon Disclosure Project (CDP) which reports how the risks of climate changes are managed by the companies announced the 2014 results of the Turkey Carbon Transparency Project. ASELSAN, who attended the project for the second time, has increased its previous rating and conducted successful activities regarding climate change. ASELSAN, being proud to work to leave a better world for the future generations, shall continue to take place in the national and international platforms with respect to sustainability and climate change matters with its leading applications.

Our Company is sensitive on the social activities which are supported in favour of the public in general and are respectful towards its environment. The greenhouse gas emissions of our Company are calculated by taking the TS ISO 14064 and Green House Protocol as the reference and are monitored all the time. We have certifications for ISO 14001 Environmental Management System and OHSAS 18001 Work Health and Safety Integrated Management System. In addition, since 2013 for each new personnel recruited a tree is planted.

In 2014 our Company sponsored; the activities of Turkish Armed Forces Rehabilitation and Care Center Handicapped Sports Club, the "Workshop of Microelectronic Technology, Signal Detection and Processing of Circuits and Systems for Defence and Space" which was organized by Sabancı University on 19/06/2014 - 20/06/2014 and has supported the competition "New Ideas New Jobs" organized by METU and METU Teknokent in 2014 in Defence Industry category.

### **CHAPTER V - BOARD OF DIRECTORS**

#### **5.1. Structure and Formation of Board of Directors**

In our Company, 3 members of 9 members of Board of Directors are independent members. The duties of Nomination Committee are executed by Corporate Governance Committee. The report regarding the evaluation of the list of Independent Members of Board of Directors prepared by Corporate Governance Committee on 26/02/2014 was presented to Board of Directors on 27/02/2014 and the CV's and independence declarations of 3 nominees were announced on our website to public on 05/03/2014. As a result of the voting at the General Assembly Meeting on 31/03/2014, 3 nominees were elected as Independent Members of Board of Directors. There were no cases to eliminate the independency of the Independent Members of the Board of Directors in 2014.

The CVs of the Members of the Board of Directors are included in the 2014 annual report and the information with respect to their duty terms is provided in the table below.

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<b>Name Surname</b>	<b>Duty</b>	<b>Election Date</b>	<b>Termination Date</b>	<b>Responsibilities other than the Company</b>
Hasan CANPOLAT	Chairman / Managing Member	March 2014	March 2015	Consultant of Ministry of National Defence
Murat ÜÇÜNCÜ	Vice Chairman / Managing Member	March 2014	March 2015	-
Ziya AKBAŞ	Independent Member	March 2014	March 2015	Turkish Patent Institute – Brand Representative, Public Supervision Institute – Independent Auditor, R.T. Ministry of Labour Social and Security – Official Mediator, TURMOB – Expertise on Author’s Rights and Financial Matters
Ahmet Can ÇEVİK	Member	March 2014	March 2015	-
Celalettin DÖVER	Independent Member	March 2014	March 2015	Consultant of the CEO of Türk Telekomünikasyon A.Ş.
Oral ERDOĞAN	Independent Member	March 2014	March 2015	Rector of Piri Reis University, Consultant of Chamber of Shipping, Consultant of Turkey Ship Building Businessman Union, Member of the Board of Istanbul Maritime R&D Publishing and Consultant Inc., Member of the Board of Turksat Satellite Communication and Cable TV Operating Inc.
Ahmet KESİK	Member	March 2014	March 2015	Lecturer in Yıldırım Beyazıt University Faculty of Politics Public Finance Theory Department
Sedat NAZLIBİLEK	Member	BoD Decision on 25/06/2014	First General Assembly Meeting to be held	Lecturer in Atılım University Mechatronics Engineering Department
Mustafa Murat ŞEKER	Member	March 2014	March 2015	Head of Department of Naval Platforms in Undersecretariat for Defence Industries
Faik EKEN	CEO	May 2014	-	-

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In article 13 of the Articles of Association titled “Duties and Authorization of the Board of Directors”, the duties and authorization of the Board of Directors have been defined. Besides, the Board of Directors Working Directive also describes the Duties and Authorization of the Board of Directors. With the article 14 of the Articles of Association titled “Assignment of the Authorization to the CEO”, the assignment of the authorization of the Board of Directors to the CEO has been set out. The duties and authorization of the executives are described in the “Duties and Responsibilities Directive” formed within the Company.

The duties of the Members of the Board of Directors and of the CEO carried out outside the Company, information regarding the term of office and the statements of the board of members with respect to their independencies:

- There are no members of Board of Directors carrying out an executive duty.
- The statements of independence of the Independent Members of the Board of Directors have been provided at the annex of the Compliance Report.
- The Members of the Board of Directors fulfill their duties without any interest or benefit and pursuant; to the liabilities and authorizations undertaken by the Board of Directors and to the regulations of the Turkish Code of Commerce and CMB.
- Members of the Board of Directors are liable not to enter into any commercial treatments directly or indirectly with the Company that coincides with the Company objectives, on their behalf or on behalf of others without the consent of the General Assembly.

### **5.2. Principles of Activity of Board of Directors**

Board of Directors carries out its duties and responsibilities determined with reference to Turkish Commercial Code (TCC), Capital Market Law and Articles of Association. In this context, the basis of duties and operations are indicated in details in ASELSAN Board of Directors Working Directives.

The agenda of the Board of Directors meetings is formed with the proposals of the Members of the Board of Directors and the committees and the CEO, it is afterwards evaluated by the Board of Directors Chairman and finalized. The subjects emerged as urgent and which are considered worthwhile to discuss may be added to the agenda during the Board of Directors meeting.

As per article 10 of the Articles of Association, the Board of Directors assemble when required and at least once a month. The number of Board of Directors Meetings in 2014 was 49, where 34 of the decisions in the meetings are interim decisions. All of the Members of the Board of Directors attended 78% of the meetings.

The place, date, time and agenda of the next meeting is decided at the Board of Directors Meetings. Documents pertaining to the meeting agenda are sent to the members of Board of Directors at least 3 work days before the meeting by the Presidency.

The Members of the Board of Directors attend the meetings and fulfill their duties as per their authorization and responsibilities. The members who do not attend the meetings submit their excuses.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

Board Office is established under Board of Directors in order to coordinate necessary issues in the name of the Board, particularly the relationships with the Presidency and TAFF, to execute planning and support the Board of Directors' operations.

All members have one right to vote, including the chairman. If the numbers of votes are equal, the vote of the chairman does not change the result. Abstaining is not possible, either rejection or acceptance is voted. The vote of the abstaining member is considered as a rejecting vote. The member casting a reject vote states the ground for this in the meeting minutes and undersigns it. According to the article 11 of the Articles of Association titled "Quorum of Meeting and Decision Making"; "The provisions of the TCC, Capital Market Law, regulations of the Capital Markets Board in connection with corporate governance and other relevant legislation are taken into account with respect to the meetings and decision making quorums of the Board of Directors as well as with respect to any Board of Directors members assuming duties and positions outside the Company. Any action and resolutions taken by the Board of Directors without complying with the Corporate Governance Principles, which are made mandatory as to be complied by the Capital Markets Board, are invalid and considered as in contrary to the Articles of Association". There were no related party transactions or any other significant issue, which had to be submitted to the approval of the general assembly, since they were not approved by the Independent Members of the Board of Directors.

The signed decisions are made available to the follow up of the Members of the Board of Directors and Executive Committee Members in the electronic platform.

In accordance with the article 4.2.8 of Capital Markets Board Corporate Governance Communiqué; Executive Liability Insurance Policy was signed for Board of Directors members on 18/07/2014 with the total liability amount of USD 60.000.000,- which corresponds to more than 25% of the paid-in-capital of our Company, with a validity period of 1 year.

### **5.3. Number of Committees Formed in the Board of Directors with Their Structures and Independency**

As per the title "Committees Formed in the Board of Directors" in the Communiqué Regarding Determination and Implementation of Corporate Governance Principles by the Capital Markets Board, our Company's Board of Directors, in the meeting dated 10/04/2012, formed an Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee and announced this to the public. There are no Nomination and Remuneration Committees within the Board of Directors and the duties of these are carried out by the Corporate Governance Committee.

The directives of Audit Committee, Corporate Governance Committee and Early Detection and Management of Risk Committee are made available at the website of our Company. The Independent Members of the Board of Directors and four members of the Board of Directors have duties in more than one committee. This is because it is mandatory that all members of the Audit Committee and the chairman of the other committees should be Independent Members of the Board of Directors.

Boards of Directors have made the annual evaluation of the committees composed under its structure and the evaluation report is available in 2014 Annual Report.

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

### AUDIT COMMITTEE

Ziya AKBAŞ ..... Chairman/Independent Member of Board of Directors  
Oral ERDOĞAN ..... Member/Independent Member of Board of Directors  
Celalettin DÖVER..... Member/Independent Member of Board of Directors

The main duties of the Audit Committee that were set out in the “ASELSAN Audit Committee Work Directives” regulating the working principles of Audit Committee are as follows;

- To enable the disclosure of the financial data of ASELSAN, to pursue the operation and efficiency of the accounting system, independent audit, internal audit and internal control system of the company,
- To assemble at least every 3 months, to share the meeting minutes with the Board of Directors

Meetings were held by Audit Committee on dates 05/03/2014, 12/05/2014, 19/08/2014 and 10/11/2014 regarding the financial statements with the participation of the relevant independent audit company in 2014.

In order to maintain the efficiency of internal audit, attention was paid to strengthen the cooperation with Internal Audit Presidency and to the supervision of internal audit activities, direct and continuous communication was established between Audit Committee and Internal Audit Presidency. A dimension of this communication; Audit Committee- Internal Audit Presidency coordination meetings, were held five times on dates 12/05/2014, 24/09/2014, 22/10/2014, 27/11/2014 and 22/12/2014.

The Committee was active in two main topics in 2014.

#### **i. Independent Audit Activities and Works Regarding the Audited Financial Statements:**

“Communiqué on Financial Reporting in Capital Markets” Serial:II, 14.1 regulated the preparation of financial reports and their basis, principles of presentation to the relevant parties. December 2013, March 2014, June 2014 and September 2014 financials and Board of Directors reports were prepared in accordance with the communiqué numbered II, 14.1, and submitted to Board of Directors by Audit Committee and presented to the public via Public Disclosure Platform.

The procurement process for independent audit services was handled by the Procurement Department and the purchasing decision that the service shall be provided by Deloitte was made by Board of Directors. The resolution was submitted for approval on the General Assembly Meeting dated 31/03/2014 and was accepted.

#### **ii. Internal Audit Presidency:**

Within the scope of the internal audit activities of the Company, the relations between the Internal Audit Presidency and the Board of Directors have been carried out through Audit Committee. A direct and continuous contact between Audit Committee and Internal Audit Presidency is present.



## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

### **CORPORATE GOVERNANCE COMMITTEE**

Committee Members (2014 January - March)

Cumhur Sait Şahin TULGA.....	Chairman/Independent Member of the Board of Directors
Erhan AKPORAY.....	Member/Vice Chairman of the Board of Directors
Hasan CANPOLAT .....	Member/Member of the Board of Directors
Orhan AYDIN .....	Member/Member of the Board of Directors
Mustafa Murat ŞEKER .....	Member/Member of the Board of Directors
Murat ÜÇÜNCÜ .....	Member/Member of the Board of Directors

Committee Members (2014 March - June)

Oral ERDOĞAN .....	Chairman/Independent Member of the Board of Directors
Ahmet Can ÇEVİK .....	Member/Member of the Board of Directors
Nilüfer ÖZDOĞAN .....	Member/Member of the Board of Directors
Pınar ÇELEBİ .....	Member/Investor Relations and Subsidiaries Manager

Committee Members (2014 June - December)

Oral ERDOĞAN .....	Chairman/Independent Member of the Board of Directors
Ahmet Can ÇEVİK .....	Member/Member of the Board of Directors
Mustafa Murat ŞEKER .....	Member/Member of the Board of Directors
Pınar ÇELEBİ .....	Member/Investor Relations and Subsidiaries Manager

The main duties of the Corporate Governance Committee were set out in the “ASELSAN Corporate Governance Committee Work Directives” as follows:

- To carry out studies for the implementation of Corporate Governance Principles in the Company,
- To observe whether the Corporate Governance Principles have been implemented or not and if not implemented to determine the grounds for this and the conflicts of interest arising due to not complying with these principles and to make proposals for improving the status,
- To monitor the studies of the Investor Relations Department.
- Corporate Governance Committee assembles every 3 months and in every situation when necessary. The meeting minutes are submitted to the Board of Directors.

The Corporate Governance Committee assembled five times within the activity year 2014 on dates, 29/01/2014, 26/02/2014, 16/06/2014, 27/08/2014 and 24/12/2014. The meeting minutes of the Committee may be reached on our website. The committee was active in three respective tasks in 2014:

#### **i. Operations of Investor Relations Department:**

Investor Relations Department have attended all the meetings in 2014, performed secretariat procedures of the committee with regard to “ASELSAN Corporate Governance Committee Working Directive” and informed the committee periodically about the tasks carried by investor relations department.

The duty of monitoring the operations of Investor Relations Department was given to Corporate Governance Committee with respect to the Communiqué on Corporate Governance. In 2014, the tasks carried by Investor Relations Department which are; the

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

applications for amendment in Articles of Association, organization of General Assembly meeting for 2013, corporate governance rating process, independent board member election process, corporate governance rating report, corporate governance committee report, compliance with the corporate governance principles report, operations regarding the compliance to new Capital Markets Law and the revised Secondary Legislation, BiST Sustainability Index and sustainability tasks performed in ASELSAN, material event disclosures made with respect to Capital Markets Board, analyst and/or investor meetings the department attended and the tasks carried to keep "Investor Relations" page of our Company's website updated, have been monitored by the Committee.

### **ii. Corporate Governance Rating:**

The evaluation of corporate governance rating performed by SAHA Corporate Governance and Ranking Services on 13/12/2012 were concluded during the last quarter of 2013. According to the review, the score of 13/12/2013, 8,77 out of 10, was revised as 9,07 out of 10. SAHA has revised the 2013 corporate governance ratings of all its customers, regarding the resolution of Capital Market Board's meeting numbered 4/105 held on 01/02/2013. The update is caused by the revision of 2013 corporate governance ratings within the context of renewed rating principles and is a result of change in methodology. Within this context, our rating, which had been confirmed as 9,07 over 10 on 13/12/2013, has been revised as 8,57 over 10. Because of this revision, almost all the companies' ratings have been effected negatively. As a result of the efforts made for improving Corporate Governance Rating during 2014, ASELSAN's corporate governance rating was updated as 9,09 over 10 on 12/12/2014 by SAHA A.Ş. Our Company's share has been listed in the corporate governance index since the date 14/12/2012 which it first entered the index. Rating reports can be accessed on the company website.

### **iii. Election of Independent Board Members**

As given by Corporate Governance Principles, the responsibility of evaluating and reporting the nominations and their independency status is given to the Nomination Committee, in companies where this committee is not formed because of the structure of the Board of Directors, the responsibility is given to Corporate Governance Committee. Within this context, the evaluation of nominations which were made until the end of February 2014 was carried on by the Committee and the resulting nominee list was presented at the Board of Directors meeting on 27/02/2014. The list was proposed to shareholders' voting on General Assembly Meeting on 31/03/2014 and as a result, Ziya AKBAŞ, Celalettin DÖVER and Oral ERDOĞAN were elected as independent members to serve for 1 year.

### **EARLY DETECTION AND MANAGEMENT OF RISK COMMITTEE**

"Early Detection and Management of Risk Committee", which was established with the resolution of ASELSAN Board of Directors on 10/04/2012, 720/1 executes its operations within the framework of regulation ASY-01-066.

The Committee members have changed in accordance with the ASELSAN Board Resolution dated 31/03/2014 and numbered 809/1.e. The members are listed below:

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

### Committee Members (2014 January - March)

Lamia Zeynep ONAY.....Chairman/Independent Member of the Board of Directors  
Erhan AKPORAY.....Member/Board of Directors Vice Chairman  
Hasan CANPOLAT.....Member/Member of the Board of Directors  
Murat ÜÇÜNCÜ.....Member/Member of the Board of Directors  
Mustafa Murat ŞEKER.....Member/Member of the Board of Directors  
Orhan AYDIN.....Member/Member of the Board of Directors

### Committee Members (2014 April - December)

Celalettin DÖVER.....Chairman/Member of the Board of Directors  
Ahmet KESİK.....Member/Member of the Board of Directors  
Ahmet Can ÇEVİK.....Member/Member of the Board of Directors

The committee continues its studies in determining the risks which may prevent ASELSAN from reaching its goals; governing these risks in accordance with the company's risk handling profile, its reporting; consideration through decision mechanisms and establishment of internal control. In this respect, in 2014 the committee held 6 meetings on 18/02/2014, 29/04/2014 25/06/2014, 27/08/2014, 22/10/2014 and 25/12/2014. Committee's works are summarized below:

- "2013 Evaluation Report" was prepared and submitted to Board of Directors' information on February 2014.
- "Corporate Risk Evaluation Report" was completed and has been submitted to Board of Directors on February 2014, April 2014, June 2014, August 2014, October 2014 and December 2014. Within the context of the operations followed with the report;
  - Important risks beared by ASELSAN were identified and risk classification, explanation, rating, strategy, owner/responsible, current control operations and relevant indicators were included in the report.
  - Warning benchmarks for risk indicators were determined and it was targeted to draw the attention of Board of Directors to the risks which go beyond the benchmark at the end of the report.
  - In the meetings held by the committee, present developments regarding the risks began to be evaluated. In order to increase the operation of Corporate Risk Management System and reducing present risks to minimum, Committee suggestions and proposals are shared with related departments.

The secretariat formalities of the Committee were performed by Strategy Management Directorate for January and April 2014 periods, by Internal Audit Presidency for June and August 2014 reporting periods, and following the reorganization of ASELSAN, by Risk Measurement and Analysis Department of Strategy Management Directorate for the October and December 2014 reporting periods.

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

Internal audit operations and corporate governance are facilitated via risk management and development of efficiency of internal audit procedures in ASELSAN. The most important role of internal audit operations is assuring the Audit Committee and Board of Directors that the risks are being managed effectively. Annual audit plan and work programs are prepared on a risk basis and audit results are reported periodically to Audit Committee. Harmonization with legal

## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

and firm regulations, the status of application of ethical principles and the effectiveness of risk mitigation is evaluated by internal audit department.

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

The Board of Directors is the top level body to make strategic decisions and to execute and represent. As per the Articles of Association of the Company, the Board of Directors is responsible to determine the strategic plans and control their implementations.

Strategic management process is a part of Corporate Governance and is managed by the CEO in the name of Board of Directors, following the approval of the plans prepared by the Board of Directors with the coordination of Strategic Management Committee. Reaching ASELSAN's long term goals and sustaining success can be achieved through environment friendly strategies.

ASELSAN's vision is to become one of the biggest 50 defence industry companies globally and improving its position while strengthening it. In this respect, annually updated 5 year plans and business plans and 3 year budgets are prepared. With this methodology, short and middle term targets are specified by considering long term goals. The operations to be carried out for these targets are executed by Sectors Presidencies and performance evaluations are made based on Balanced Scorecard method, which is widely used in the world.

### **5.6. Financial Rights**

Remuneration procedures, which are set in written form in accordance with the Corporate Governance Principles, were submitted to the information of shareholders in the 39<sup>th</sup> Ordinary General Assembly Meeting under a separate item named Principles Regarding the Remuneration of Board of Directors Members and Managers with Executive Responsibility. Remuneration principles for Board of Directors Members and Managers with Executive Responsibility are published on our Company's website.

Monthly remunerations provided to our Members of the Board of Directors are determined by the General Assembly and no other benefits are granted apart from the monthly remuneration. Pursuant to the resolution taken at the 39<sup>th</sup> Ordinary General Assembly held on 31/03/2014, the Members of the Board of Directors are paid TL 3.000,- per month. As for the determination of the financial rights of the board members, no reward system is applied to reflect the Company performance and which is based on the performance of the Members of the Board of Directors.

No Member of the Board of Directors or executives has been provided with loans or credits by our Company, no credits were used as personal credits and no personal securities were granted with the intermediary of a third person.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

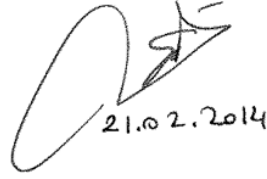
## Statement of Independence

To the Board of Directors of ASELSAN Elektronik Sanayi ve Ticaret A.Ş.;

I hereby agree, represent and undertake that I comply with the regulations of the Capital Market Board related to Independence Board Membership and with the criteria determined for Independence Board Membership within the scope of Corporate Governance Principles.

I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,  
Prof. Dr. Oral ERDOĞAN



21.02.2014

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2014

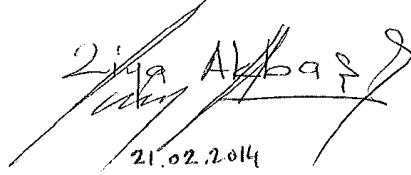
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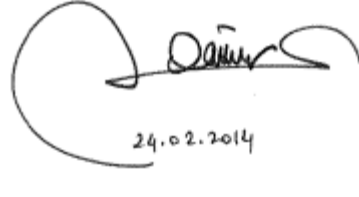
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I hereby submit this to the knowledge of the Board of Directors, shareholders and all relevant parties.

Sincerely yours,  
Celalettin DÖVER



24.02.2014