

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE COMPLIANCE REPORT

This Corporate Governance Compliance Report of Mavi Giyim Sanayi ve Ticaret A.Ş. (henceforth “Mavi” or the “Company”) was prepared in the format stipulated in the Capital Markets Board (henceforth “CMB”) regulation No. 2/35, published in the CMB’s *Weekly Bulletin* of 27 January 2014, No. 2017/2, and is presented below.

### 1. Declaration Of Compliance With Corporate Governance Principles

Mavi’s corporate culture is defined by remaining close to its customers, being passionate for its product quality, and reliable towards its employees. At Mavi, business partners are regarded as permanent and the company seeks to establish a deep connection with its customers. Mavi conducts its operations in accordance with the principles of transparency, fairness, responsibility, accountability and sustainability.

The Company began trading on Borsa Istanbul on 15 June 2017 (ticker symbol “MAVI”) and henceforth it has been subject to CMB regulations. As a matter of policy, Mavi fully complies with the mandatory principles stipulated under the Corporate Governance Communiqué Serial II No. 17.1. Mavi also aims to achieve full compliance with non-mandatory Corporate Governance principles and work is in progress on applying those principles Mavi has yet to implement. Once Mavi completes its implementation of the legal and technical infrastructure, the Company will be fully compliant with all Corporate Governance principles, mandatory or not.

The non-mandatory Corporate Governance principles Mavi has yet to implement are indicated below, including the reasons for non-implementation. Mavi has no conflict of interest arising from not having achieved full compliance with these principles.

Article 1.5.2. Under the Articles of Association, minority rights are not granted to shareholders who hold less than one twentieth of capital and, in accordance with general practice, minority shareholders hold rights accorded by the general provisions of law.

Article 4.2.5 The posts of Chairman of the Board of Directors and General Manager (CEO) are held by separate directors in Mavi and the Mavi’s Internal Directive clearly delineates their respective scope and limitation of authority. The differentiation between these roles will be detailed in the Articles of Association during the next reporting period.

Article 4.3.9 Mavi’s Board of Directors currently has one female member. Mavi is working towards increasing the number of female members on its Board of Directors.

Article 4.4.7 The members of our Board of Directors are trusted individuals due to their successful careers, and their competencies bring essential contributions within the principles of confidentiality. No restrictions were introduced regarding the duties of the board members outside the Company and likewise, in the General Assembly, the intra-group and non-group duties assumed by the candidate members and underlying rationales were not indicated specifically under the relevant agenda point. Such a restriction is not deemed necessary, particularly taking into account that the work experience and sector insights of independent members delivers an essential contribution to the Board of Directors.

Article 4.5.5 Mavi has determined the number of its independent Board members at two. In so doing, the Company considered various factors such as the volume of its operations and its administrative needs. Currently, the Board has three committees. In respect of the principle requiring committee chairs to be independent members, it is necessary to delegate multiple committee chairs to the independent members. This does not give rise to any conflict of interest within the Company.

Article 4.6.5 The General Assembly determines remuneration rates payable to members of Mavi's Board of Directors. In line with general practice, remunerations of Board members and senior executives are disclosed to the public in the Company's financial table footnotes.

## **2. Shareholders**

### **2.1 Investor Relations Department**

Shortly after its initial public offering, Mavi established an Investor Relations Department. Mavi's Investor Relations Department's function is to inform local and foreign investors in an accurate, consistent and timely manner (while protecting trade secrets and confidential information and with a view to ensuring equality in communicating information), raise the Company's profile and increase its credibility, ensure communication and information flow between the Board of Directors and the capital markets regulators and participants, compliance with legislation and the Articles of Association in respect of shareholders' rights, and to fulfil obligations of public disclosure in compliance with applicable legislation and the Company's Public Disclosure Policy. The Investor Relations Department reports to the CFO, Ms. Tuba Toprakçı Yılmaz. Ms. Duygu İnceöz was appointed Senior Director of Investor Relations on 26 July 2017. Ms. İnceöz holds a Capital Markets Activities Level III License and a Corporate Governance Rating License and she is a member of Mavi's Corporate Governance Committee. She is in charge of ensuring the Company's compliance with its obligations under Capital Markets legislation and coordinating corporate governance practices within the Company.

In 2017, the Investor Relations Department organized two analyst meetings to share Mavi's financial, operational and strategic developments, attended 10 investor conferences and roadshows, and held 87 teleconferences and meetings. At these events and meetings, the Company had contact with 237 unique investors and analysts from 160 local or international institutions. Additionally, over the year, the Department held three earnings webcasts aimed at investors and analysts, announcing quarterly financial results. For investors and analysts unable to participate in the webcast replays of the webcasts, presentations, and transcripts of the questions addressed to the management and the answers were posted on the Company's website.

Between 15 June 2017 and 31 January 2018, the Company received approximately 370 requests for information. Mavi replied to all of these in accordance with the Company's Public Disclosure Policy and in line with publicly available information. In addition to these emails, the Company informed many investors via telephone.

On 1 March 2018, the Investor Relations Department submitted a report on its activities to the Corporate Governance Committee and the Board of Directors. The Investor Relations Department constantly informs the Board of Directors on the developments in the business sector and the competition.

The Investor Relations Department contact information:

Senior Director of Investor Relations

Duygu İnceöz

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Email: [Duygu.inceoz@mavi.com](mailto:Duygu.inceoz@mavi.com)

## **2.2. Use of Shareholders Rights to Obtain Information**

There is no discrimination between shareholders in respect of rights to examine and receive information, and all information, other than trade secrets, is distributed to shareholders in accordance with the Company's Public Disclosure Policy to avoid inequality in receiving information.

Mavi's Investor Relations Department responds to shareholder and other stakeholders' information requests and questions, via various means of communication, promptly via the most efficient means of communication. Furthermore, to enable shareholders to exercise their right to receive information in the most efficient manner, the Department maintains an Investor Relations webpage which provides investors and other stakeholders with all publicly available financial and operational information, all the Company's material disclosures and public announcements and notifications. The webpage, in English and in Turkish, can be accessed via the corporate website ([www.mavicompany.com](http://www.mavicompany.com)) or via Mavi's official website ([www.mavi.com](http://www.mavi.com)). Additionally, the Department emails the latest operational and financial announcements to those people or institutions that register for the Investor Relations distribution list.

Although the right to request a special auditor is not regulated as a personal right in our articles of association, under Article 438 of the Turkish Commercial Code and in order to exercise their rights properly, when they deem necessary, each shareholder is entitled to ask the General Assembly for clarification of certain instances through a special audit even if this is not included in the agenda in case they had previously used their rights to take information and to inspect. To date, shareholders have not asked for such an audit. Besides, the Company operations are being regularly audited by an Independent Auditor appointed by the General Assembly.

## **2.3. General Assemblies**

Amendments to the Company's Articles of Association that ensure compliance with the CMB's objectives and principles and its regulations were adopted at an Extraordinary General Assembly held 22 March 2017, prior to the Company's initial public offering. This General Assembly took place at the Company's headquarters, Sultan Selim Mah., Eski Büyükdere Cad. No. 53, 34418 Kağıthane, Istanbul. This action was pursuant to the approval of the CMB and the Ministry of Customs and Trade. Mavi's Ordinary General Assembly for the 2016 fiscal year was held on 26 April 2017, prior to the Company's initial public offering of the Company's shares, at the Company's headquarters.

## **2.4. Voting Rights and Minority Rights**

The Company's Articles of Association do not grant privileges regarding voting rights. Each share is entitled to one vote at Ordinary and Extraordinary General Assemblies.

Shareholders may appoint proxies to attend General Assemblies from among the shareholders or third parties. Proxy holders who are shareholders in their own right may exercise the voting rights accruing to their own shares and to each share for which they hold proxy. The form of the proxy documents shall be determined and announced by the Board of Directors in accordance with capital markets legislation.

The Company refrains from practices that inhibit shareholders' exercise of their voting rights and it has established mechanisms to ensure every shareholder, including international ones, can exercise voting rights in the simplest and most convenient manner possible.

Shareholders may attend the Company's General Assemblies via electronic media in accordance with Article 1527 of the Turkish Commercial Code and pursuant to Article 10, paragraph (e) of the Articles of Association.

Although the Articles of Association do not provide for a ratio lower than 5% for the exercise of minority rights, Mavi pays utmost attention to enabling the exercise of the minority rights in accordance with the provisions of the Turkish Commercial Code. Mavi has no mutual shareholding relationship with its main shareholders.

## **2.5. Dividend Rights**

The Company sets forth its dividend distribution principles in its Articles of Association, Article 15 "Determination and Distribution of Profit." The Article stipulates that the Company shall adhere to the provisions of the Turkish Commercial Code and capital markets legislation when determining and distributing profit. The Articles of Association do not grant any privileges to shareholders in respect of profit distribution.

The Company's Board of Directors adopted a dividend distribution policy, subsequently included in the Offering Circular announced on Public Disclosure Platform on 5 June 2017, and this is set forth below. The Company's Dividend Distribution Policy, following the Ordinary General Assembly's approval, shall also be announced to the public on the corporate website.

### **Dividend Distribution Policy**

The purpose of the dividend distribution policy is to ensure implementation of a balanced and consistent policy, between the interests of the investors and the Company, adequately informing investors and maintaining a transparent dividend distribution policy towards them, pursuant to the applicable legislation.

The Company's General Assembly shall pass a resolution on dividend distribution, and its manner and timing, upon the proposal of the Board of Directors. The Company aims to distribute to the shareholders and others sharing the profit at least 30% of the distributable net profit, as calculated for the relevant period pursuant to the Articles of Association, the Turkish Commercial Code, the Capital Markets Law, No., to the extent the relevant regulations and the Company's financial resources permit, and considering market expectations, the Company's long-term strategies, the capital needs of subsidiaries and affiliates, investment and financing policies, profitability and cash reserves. Dividends may be distributed in cash or shares without consideration or as a combination of both in certain ratios.

Dividends are distributed equally to all shares in existence at the time of distribution, pro rata to their respective ratios and regardless of their date of issuance or their date of acquisition.

Dividend payments may be made in equal or varying instalments, provided that this is resolved upon during the general assembly meeting where the general assembly has resolved to make dividend distribution.

The dividend distribution shall commence on the date determined by the General Assembly, provided that the distribution is initiated before the end of the accounting period within which that General Assembly occurs.

The General Assembly's dividend distribution resolution, passed in accordance with the Articles of Association, may not be revoked unless permitted by the applicable law. Should the Board of Directors propose not to distribute dividends, the reasons for this proposal and the manner in which the retained profit is to be used shall be explained under the agenda item concerning dividend distribution, and this information shall be submitted to the information of shareholders during the General Assembly.

The Board of Directors' dividend distribution proposal or the Board resolutions relating to the distribution of advance dividends shall be announced to the public in accordance with the relevant regulations, with the form and content of the relevant proposal/resolution, and the tables showing the dividend distribution or the advance dividend distribution, as applicable. Furthermore, to the extent any amendments to this dividend distribution policy are to be introduced, the Board resolution regarding such amendments shall be announced to the public with the reasons of amendment."

## **2.6. Transfer of Shares**

The Articles of Association do not obstruct the transfer of shares. CMB regulations shall apply to Mavi share transfers for shares traded on Borsa Istanbul.

### 3. Public Disclosure And Transparency

#### 3.1. Company Website and Its Contents

Mavi's corporate website is [www.mavicompany.com](http://www.mavicompany.com) and its purpose is to inform shareholders, other stakeholders and the general public concurrently, clearly, fully, and accurately. This site can also be accessed via a link on the Company's official website, [www.mavi.com](http://www.mavi.com). The website's Investor Relations section includes all information the CMB stipulates for disclosure and this information is constantly updated. The information on the Company's corporate website and its investor relations section is the same as or consistent with those disclosures made under the provisions of the applicable legislation; there is no conflicting or missing information. This information is provided in Turkish and English on the website.

#### 3.2. Activity Reports

Mavi's annual and interim activity reports are detailed enough to provide the public with full and accurate information on the Company's activities. At a minimum, they include all the information required by the relevant Communiqué of the CMB and under the Corporate Governance Principles. They are published on Mavi's corporate website, [www.mavicompany.com](http://www.mavicompany.com).

### 4. Stakeholders

#### 4.1. Informing Stakeholders

In addition to the shareholders and capital markets participants, Mavi briefs its employees, customers, dealers, suppliers, financial institutions, potential investors and all other stakeholders on a continuous basis via press conferences, press releases, activity reports, Mavi's website and its practices under its Public Disclosure Policy. Furthermore, to the extent deemed necessary and practical, the Company regulates its relations with such persons under written contractual arrangements.

To the extent that stakeholders' rights are unregulated by law or contract, the interests of the stakeholders are safeguarded by goodwill and to the extent the Company is able so to do while maintaining the Company's reputation.

The Company constantly briefs the public via press conferences, press releases and interviews. Press statements on financial issues are concurrently released on Mavi's corporate website.

Mavi communicates its notifications and employee briefings to all employees via email at the same time and simultaneously posts them on Mavi's intranet (Maviletişim), which is accessible to all Mavi employees. The Corporate Communications Department also publishes a corporate magazine, *Maviletişim*, to enhance communication with the employees.

The Company designed its communication channels to ensure access for all stakeholders, access details are posted on the Company's website.

Stakeholders may communicate with the Company via the Corporate Governance Committee, the Investor Relations Department or directly via email, post or telephone. Stakeholders may inform the Corporate Governance Committee or the Audit Committee of actions they deem to violate applicable legislation or to be unethical. The Audit Committee is charged with examining and resolving complaints communicated in relation to accounting, internal control and independent auditing of the Company and, similarly, to respond to notifications from Company employees concerning accounting and independent auditing. The Audit Committee preserves confidentiality in these cases.

To the extent any conflict of interest arises among the stakeholders or a stakeholder is at the same time included in multiple groups of interest, the Company adheres to a balanced strategy to the extent possible to safeguard its interests.

## **4.2. Stakeholders' Participation in Management**

Mavi has numerous practices aimed at facilitating and supporting stakeholders' participation in the Company's management and it strives to enhance these practices.

### **Employees:**

Numerous regular meetings are held to brief employees and to ensure their participation in management.

The most notable ones are:

- **MassMavi meetings:** These meetings, open to all headquarters employees, are a platform for departments to share their monthly business plans.
- **Management Forum Meetings:** These biannual meetings, open to all headquarters employees, present the Company's activities over the previous six months.
- **GoForward Meetings:** Thanks to the achievements and inspiration of the Adizes methodology, which proved to be efficient in 2015, Mavi implemented a series of workshops in nine "Go" groups. The workshops, initially held with the participation of directors, evolved into multi-functional, solution-oriented project groups including managers. The workshops' scope extended to cover all functions of the Company. The nine workshops—GoJeans, GoWomen's & Accessories, GoMen's, GoCustomer, GoSales, GoOperations, GoInternational, GoSystem & E-commerce, and GoTalent—invite outside experts from various fields.
- **GoSeason Meetings:** These are biannual meetings providing training to store managers on the forthcoming season's collection and product information. During these meetings, managers of the relevant categories inform the store managers directly about the prominent products of the season and the store managers' feedback is received.
- **Marketing Direction Meetings:** These are seasonal meetings that determine brand strategy and priorities through customer, market, product and competition analyses, and they share results with management teams.
- **Mavi Strategy and Target Meetings for Mavi Stores:** These are annual, outdoor, three-day meetings for the store managers and two days for deputy store managers. During these meetings, Mavi's directors make presentations that facilitate the formation of a common Mavi culture and of common targets.

### **Dealers:**

Mavi holds meetings with its domestic and foreign dealers four times a year to present the Company's strategy and targets, and collections. The dealers have briefings on current developments and the dealers' opinions and suggestions are considered.

### **Suppliers:**

Mavi has approximately 130 direct and indirect suppliers, who form an important part of the supply chain. There are various practices in place to increase the Company's cooperation with its suppliers, including supplier trainings, audits and visits, during which general information on the Company's vision, strategy, business targets and future actions are presented, and Mavi's expectations of suppliers in respect to corporate responsibility and occupational health and safety are communicated.

### **Customers:**

One of Mavi's most important priorities is the 'Happiest Mavi Customers' approach. This approach is focused on continuously achieving the highest customer satisfaction. To embed this approach in its operations, Mavi established a special project group, GoCustomer, to channel the energies of Marketing, HR, Sales and Training

department employees into this endeavour year round and thereby ensure Mavi customers enjoy superior product and service quality, and perfect shopping experiences.

Mavi customers can contact Mavi by telephone, email, and social media or through Mavi stores to comment on the Company's products and services, communicate their thoughts and feelings about Mavi, or to make suggestions. The Company's in-house call centre team manage the entire multi-channel flow of information Mavi receives and the team responds to the customers appropriately. Customer complaints about products and other matters are recorded and reported. Meetings are held to share these reports with all departments of the Company.

Additionally, a third-party firm monitors all customer social media posts and conversations about Mavi and communicates these to Mavi so it can respond as appropriate and gain valuable insights. Approximately 97% of the content shared and the conversations held on social media regarding Mavi are positive.

Mavi conducts regular surveys to collect information on its customers' perceptions and on consumer habits relevant to the Mavi brand, and Mavi's products and advertising campaigns. The Company's Secret Customer visits of Mavi stores and franchises aim at inspecting, monitoring and reporting each retail point and on its service quality.

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

Mavi's main Human Resources (HR) targets are to ensure its human resources, its most valuable asset, functions in the most efficient and productive manner possible, to monitor motivation and job satisfaction in terms of remuneration and morale, and to produce relevant policies and measures. Mavi established its Human Resources Policy with the aim of becoming the most favoured employer.

Mavi's HR processes are developed and conducted by teams from Human Resources and Organizational Development, Talent Acquisition and Employment, Retail Human Resources and Administrative Affairs, all of which operate under the supervision of the Global Human Resources Directorate. An employee representative has not been appointed to handle employee relations, but all means of communication are available to all employees of the Company.

HR policies and practices are developed to comply with Mavi's business strategies and to support its sustainable growth. They are defined by the organizational competency and behavioural pattern ("Mavi Competence Model") and are managed accordingly.

#### **Mavi's HR principles consist of the following:**

- To recruit both young employees who have the potential to carry Mavi forward, and experienced professionals
- To establish and maintain systems that enable employees to advance, develop, succeed and move forward
- To invest constantly in the development of Mavi employees, to determine their training needs and to prepare and implement relevant training programs
- To ensure Mavi employees perform tasks compatible with their particular knowledge and skills, to establish regulations that improve labour efficiency and productivity
- To nurture employees' loyalty to the Company through career opportunities and reward mechanisms
- To create and maintain a safe, healthy and peaceful working environment in accord with Environment and Occupational Health and Safety

- To cater for employee needs for new positions by seeking to fill vacant positions with existing employees to the extent possible
- To recruit the most appropriate candidates by taking into account both the Company's current and future needs, to offer equal opportunities to the candidates, and to maintain cultural diversity.

The Company has written policies and procedures relating to all Human Resources processes; including employees' job descriptions, and performance and reward criteria. These documents are available on Maviletişim, which is a portal accessible to all employees. Employees are provided with periodical briefings via the Company's email system and intranet platform.

All employees are treated equally and free of discrimination on grounds of ethnic background, language, religion, race or gender across all human resources processes, including recruitment, training and development, performance and talent management, career management, and remuneration. The Company received no complaints of discrimination from employees in 2017.

#### **4.4. Rules of Ethics and Social Responsibility**

Mavi communicates its understanding of ethics under the Code of Conduct, 'Us and Our Principles in Mavi' (*Mavi'de Biz ve İlkelerimiz*), which is available to all stakeholders via the Company's corporate website and its intranet. If Mavi employees witness unethical conduct at work, they may submit an anonymous complaint via the dedicated Ethics Line. Mavi's customers, suppliers, and other stakeholders or groups may submit complaints of unlawful or unethical practices to the Ethics Board via telephone or email.

Mavi's Ethics Board is charged with investigating and resolving complaints of and notifications about ethics violations. The Ethics Board consists of three permanent and two substitute members and it operates under the supervision of the CEO. The Ethics Board's chairperson and members perform their duties independently from the hierarchy within their own departments and departmental managers, and free of external influence. The Ethics Board shall not be exposed to pressure from anyone and its decisions are implemented promptly.

Through social responsibility events inspired by youth, Mavi aims to create sustainable social benefit and empower young people. The Company is engaged in various social responsibility projects, including the following:

- Supporting the Ecological Research Association's (*Ekolojik Araştırmalar Derneği, EKAD*) Indigo Turtles project, assisting the preservation of sea turtles facing extinction, from 2014
- Granting scholarships annually to female students, the number of which equals the age of the Company. In 2017, 27 students received grants under the Mavi Scholarship project and they shall receive support throughout their university education
- Participating in the United Brands Association's (*Birleşmiş Markalar Derneği*) project, Turkey's Children Dressed by Turkey's Brands, which supports the provision of clothing to thousands of students each year.

## **5. Board Of Directors**

### **5.1 Board of Directors' Structure and Composition**

The duties and responsibilities of Mavi's Board members are clearly set forth in the Company's Articles of Association. The Board of Directors principally defines the Company's strategic targets, determines the personnel and financial resources the Company requires, and supervises the performance of the management.

The Board of Directors consists of two types of members: executive members and non-executive members. Non-executive members, free of any other administrative duties at the Company, shall constitute the majority of Board members.

Mavi is managed and represented by a Board of Directors consisting of six members. Half of Mavi's Board members are elected from among candidates proposed by the Class-A shareholders. The Chairperson of the Board of Directors is elected from among those Board members proposed by Class-A shareholders.

A sufficient number of independent members are appointed to the Board of Directors by the General Assembly, in line with the principles concerning independence of the members of Boards of Directors, as set forth in the CMB's Corporate Governance Principles. These independent members must possess the qualifications sought under the CMB's Corporate Governance Principles. CMB regulations also govern the terms of office of the independent members of the Board of Directors. During 2017, no circumstances that would impair the independence of the independent members occurred.

Currently, only one woman sits on Mavi's Board of Directors. The Corporate Governance Committee has recommended to the Board of Directors increasing the number of female Board members and work is progressing on this matter.

The curricula vitae of the Board members are included in the 2017 Annual Report under the section headed 'Board of Directors' and they are publicly available on the Company's website.

In Mavi, the positions of the Chairperson of the Board of Directors and the CEO are assumed by separate people. While Board members are required to pay sufficient time to the Company's affairs, there is no restriction on their duties outside of the Company. Considering the significant contribution Board members make to Mavi's Board of Directors with their professional and sector specific experience, imposing restrictions on their external duties is not deemed necessary. Prior to each General Assembly, the curricula vitae of the Board members and their duties external to the Company are submitted for the attention of shareholders.

Currently, the Board of Directors of Mavi consists of six members, as detailed below:

Name	Position	Other Positions Within the Group and Name of the Relevant Company	Positions External to the Group and Name of the Relevant Company
Ragıp Ersin Akarlılar	Chairman, Board of Directors Non-executive	Chairperson - Mavi USA Member, Supervisory Board - Mavi Germany Company Secretary - Mavi Canada	-
Seymur Tarı	Vice Chairman, Board of Directors Non-executive	-	Manager, Istanbul Liaison Office, Turk Ventures Adv Ltd. Member of the Boards of Directors of: Medical Park Sağlık Hizmetleri A.Ş., Flo Mağazacılık ve Pazarlama A.Ş., Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş. and DP Eurasia BV Chairperson, Board of Directors, MNG Kargo A.Ş.
Fatma Elif Akarlılar	Member, Board of Directors Executive Global Brand Director	Member, Management Board - Mavi Germany	-
Ahmet Cüneyt Yavuz	Member, Board of Directors Executive CEO	Member, Management Board - Mavi Germany Member, Management Board - Mavi Netherlands	-
Ahmet F. Ashaboğlu*	Independent member, Board of Directors Non-executive	-	CFO, Koç Holding Member, Boards of Directors, various Koç Group companies
Nevzat Aydın*	Independent member, Board of Directors Non-executive	-	CEO and Board Member, Yemeksepeti.com Advisory Board Member, Allianz Member, Boards of Directors: Endeavor (www.endeavor.org.tr), Networkdry (www.networkdry.com), Oak Bilişim Yatırım A.Ş.

\* Pursuant to the Board of Directors decision dated 17 July 2017, Ahmet F. Ashaboğlu and Nevzat Aydın were appointed to replace Arif Kerem Onursal and Hatice Hale Özsoy Bıyıklı, who resigned their Board memberships. Ahmet F. Ashaboğlu and Nevzat Aydın are to serve the remaining term of office of their predecessors and, as per Article 363 of the Turkish Commercial Code, the Board has resolved that their appointments be submitted for the approval of the first General Assembly to be convened.

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

Board meeting agendas are determined upon the notification by the relevant units to the senior management and the Board of Directors of the matters which are expressly stipulated by the Articles of Association to be considered by the Board of Directors. The Board shall convene or pass resolutions as and when the Company's affairs necessitate upon the request of the Chairperson or the Vice Chairperson. In the 2017 fiscal year, the Board of Directors passed 74 resolutions.

In general, all members of the Board attend the meetings that are held in accordance with Article 390/1 of the Turkish Commercial Code.

Pursuant to Turkish Commercial Code, Article 390/4, should all members agree that a Board meeting is not required; the Board may pass resolutions by obtaining the written assent of a majority of the Board members to proposed resolutions submitted in writing by Board members.

Provisions of the Turkish Commercial Code and capital markets legislation shall apply to the meeting and resolution quorums of the Board of Directors. Mavi's Articles of Association includes no provision granting Board members casting votes or vetoes in Board meetings.

Dates of Board meetings are set at the beginning of each fiscal year and communicated to Board members. Meeting notifications are also sent via telephone and email. The Company's Senior Legal Director acts as Secretary of the Board of Directors.

Board meeting minutes record all questions raised, all matters discussed, and all resolutions passed, with the reasoning for the voting outcomes. No votes were cast against Board resolutions in 2017.

In the 2017 fiscal year, any related party transactions or any significant transactions were not present which were not approved by the independent members and therefore were needed to be submitted for the approval of the General Assembly.

The Company has executive liability insurance coverage of US\$25 million, which extends to all members of the Board of Directors and to the senior management of Mavi's affiliates/subsidiaries.

## **5.3. Number, Structure and Independence of Board of Directors' Committees**

The Board of Directors established an Audit Committee, a Timely Risk Identification Committee, and a Corporate Governance Committee on 24 May 2017 to ensure that the Board fulfils its duties and responsibilities in a sound and safe manner, in accordance with the Turkish Commercial Code and capital markets legislation. The duties and principles of operation of such committees were disclosed to the public in the public offering circular. The Principles of Operation of the Committees are available on the Company's corporate website.

The Board of Directors appointed members to these committees on 22 August 2017, pursuant to the relevant resolution disclosed on the Public Disclosure Platform (PDP).

The Company formed no Nomination Committee or Remuneration Committee in 2017 and it has a policy of delegating the relevant functions to the Corporate Governance Committee.

The Board of Directors provides all resources and full support to its committees in performance of their assigned duties.

Executive members are ineligible for appointment to these committees. Since it is mandatory to appoint the chairpersons of the three committees under the Board of Directors and the members of the Audit Committee from among the Board's independent members, those members serve on multiple committees.

### **Audit Committee**

<b>Name</b>	<b>Title on the Committee</b>	<b>Independent / Executive</b>
Ahmet F. Ashabođlu	Chairperson	Independent / Non-executive
Nevzat Aydın	Member	Independent / Non-executive

The Audit Committee fulfils its assigned duties in accord with capital markets legislation and the Principles of Operation of the Committees adopted by the Company's Board of Directors.

The Audit Committee passed six resolutions in 2017, collectively expressing its observations on the accuracy, correctness and compliance with the Company's accounting principles of the annual and interim financial tables prepared for public disclosure, and the assumptions on which the public offering price was determined.

Mavi established its Internal Audit Department in 2017 during the initial public offering process. While integral to the Company's organizational structure, the Department holds to the principles of independence and reports directly to the Audit Committee.

### **Corporate Governance Committee**

<b>Name</b>	<b>Title on the Committee</b>	<b>Independent / Executive</b>
Nevzat Aydın	Chairperson	Independent / Non-executive
Ahmet F. Ashabođlu	Member	Independent / Non-executive
Duygu Inceöz	Member	

The Corporate Governance Committee was established to monitor the Company's compliance with the Corporate Governance Principles and, in respect to those principles that have yet to be implemented, to examine the reasons for non-implementation and to recommend to the Board of Directors ways to improve corporate governance practices.

Within 2017, the Committee evaluated the Company's corporate governance practices and the Corporate Governance Report, and informed the Board of Directors on the activities of the Investor Relations Department.

### **Timely Risk Identification Committee**

<b>Name</b>	<b>Title on the Committee</b>	<b>Independent / Executive</b>
Ahmet F. Ashabođlu	Chairperson	Independent / Non-executive
Ragıp Ersin Akarlılar	Member	Independent / Non-executive
Tuba Toprakçı Yılmaz	Member	

This committee was established to identify in a timely manner the risks pose to the Company's existence, development and continuation, to implement risk-mitigation and risk management measures.

The Timely Risk Identification Committee convenes at least six times a year. Since 22 August 2017, the date Committee members were appointed, the Committee has notified the Board twice in writing. The Committee has also briefed the Board of Directors on Enterprise Risk Management and associated steps and actions.

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

Mavi has established a Timely Risk Identification Committee under its Board of Directors in line with Article 378 of the Turkish Commercial Code and the CMB's Corporate Governance Communiqué. The Committee identifies in a timely manner those risks that may jeopardize the Company's existence, development and continuation thereby supporting the Board of Directors' implementation of risk-mitigation and management measures. The Committee reports to the Board of Directors once every two months and the Company forwards these reports to its independent auditors. The Board of Directors regular assesses the risks the Company faces based on the information the Committee provides.

Responsibility for the management and reporting of risks is supervised by the CFO, who does so in coordination with other departments. The risks presented in the periodical reports are discussed and evaluated in detail at the relevant meetings. The principal risks facing the Company are considered under four main headings: external risks, strategic risks, operational risks and financial risks (exchange rate, liquidity, interest rate and commodity prices risks).

In addition to the foregoing, Mavi is progressing toward full compliance with the Information Technologies Systems Communiqué, which entered into force 5 January 2018, on publication in the *Official Gazette*, No. 30292.

Mavi established its Internal Audit Department in 2017 during the Company's public offering process. While integral to the Company's organizational structure, the Department holds to the principles of independence and reports directly to the Audit Committee, which is composed of members of the Board of Directors.

The Internal Control System is composed of standard descriptions, job descriptions, authorization processes, policies and written procedures defined in the workflows. The senior management of the Company and of its subsidiaries hold responsibility for internal control mechanisms. The Internal Control System is periodically reviewed and audited by the Internal Audit Department.

#### **5.5. Mavi's Strategic Targets**

The Board of Directors defines the Company's strategic targets, determines the personnel and financial resources that the Company requires and supervises management performance. In this regard, Road Maps are prepared detailing the operational and financial plans of the Company for three years (detailed plans are laid for the forthcoming year and macro-level plans for the two subsequent years). These plans are updated every year, taking into account local and international events. Twice a year, first with c-level managers and the second with all level managers, GoForward meetings are organized to discuss these strategies and confirm the alignment of the whole organization on short- and long-term targets of the company.

Mavi's Management Budget, detailing its operational and financial plans for the forthcoming fiscal year, is prepared with the participation of all departments in two phases; the first covers the spring-summer and the second autumn-winter. These plans are discussed in detail and finalized and approved during budget meetings held with the entire senior management and the Board of Directors. The Board of Directors' monitors the financial performance of the Company against budget through quarterly meetings. The Board reviews strategic developments, formulates strategies and makes investment decisions with due regard for the recommendations of the administrative units.

The annual performance evaluation process reviews financial and operational indicators, and the degree the Company has attained its strategic targets. These results are reflected in the performance system.

## **5.6. Financial Rights**

All rights, benefits and remuneration accorded members of Mavi's Board of Directors or senior management, the criteria applied when determining such, and the principles of remuneration, are presented in the Company's Remuneration Policy. This is available on the Company's corporate website. Mavi's Remuneration Policy shall be submitted for shareholders' approval at the upcoming General Assembly.

Determination of the remuneration payable to Board of Directors members shall constitute a separate agenda item during the Ordinary General Assembly.

Independent Board Members remuneration shall not involve dividends, share options or performance-based payment plans.

The 2017 aggregate of financial benefits paid to Board members, the General Manager and senior management was TL 32,160,000, inclusive of salaries and bonuses. Pursuant to Article 4.6.5 of the Corporate Governance Principles, the salaries and all other benefits paid and provided to members of the Board of Directors and senior managers are disclosed to the public via the Company's Annual Report.

The Board of Directors submitted for General Assembly approval a resolution to pay TL 8,000.00 net monthly as attendance fees to the independent Board members, Nevzat Aydın and Ahmet F. Ashabođlu, and to the Chairman of the Board of Directors, Ragıp Ersin Akarlılar commencing 17 July 2017, the date they assumed their positions.

Board members may not obtain any loan or other credit from the Company, nor may the Company give any guarantees or other collateral in favour of such persons.