

CORPORATE GOVERNANCE in TURKEY and in AKSA

MUSTAFA YILMAZ
AKSA ACRYLIC CHEMICAL COMPANY
GENERAL MANAGER
MAY,2006

Outline

- Corporate Profile of AKSA
- Good Governance in Turkey
- Good Governance in AKSA

AKSA





AKSA is an AKKÖK Subsidiary.



FACTORY : **YALOVA**
HEAD OFFICE : **İSTANBUL**

FIRST PRODUCTION DATE : **1971**
INITIAL CAPACITY : **5.000 TPA**
RECENT CAPACITY : **290.000 TPA (2005)**

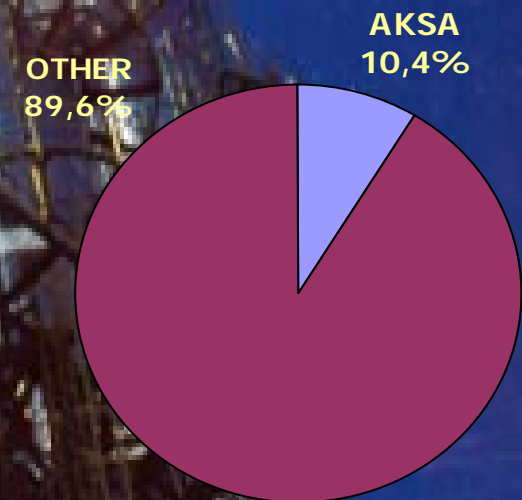


✓ The world's largest acrylic fibre plant.

✓ AKSA is listed on Istanbul Stock Exchange. (ISE)

✓ 28th biggest industrial enterprise in Turkey (2004)

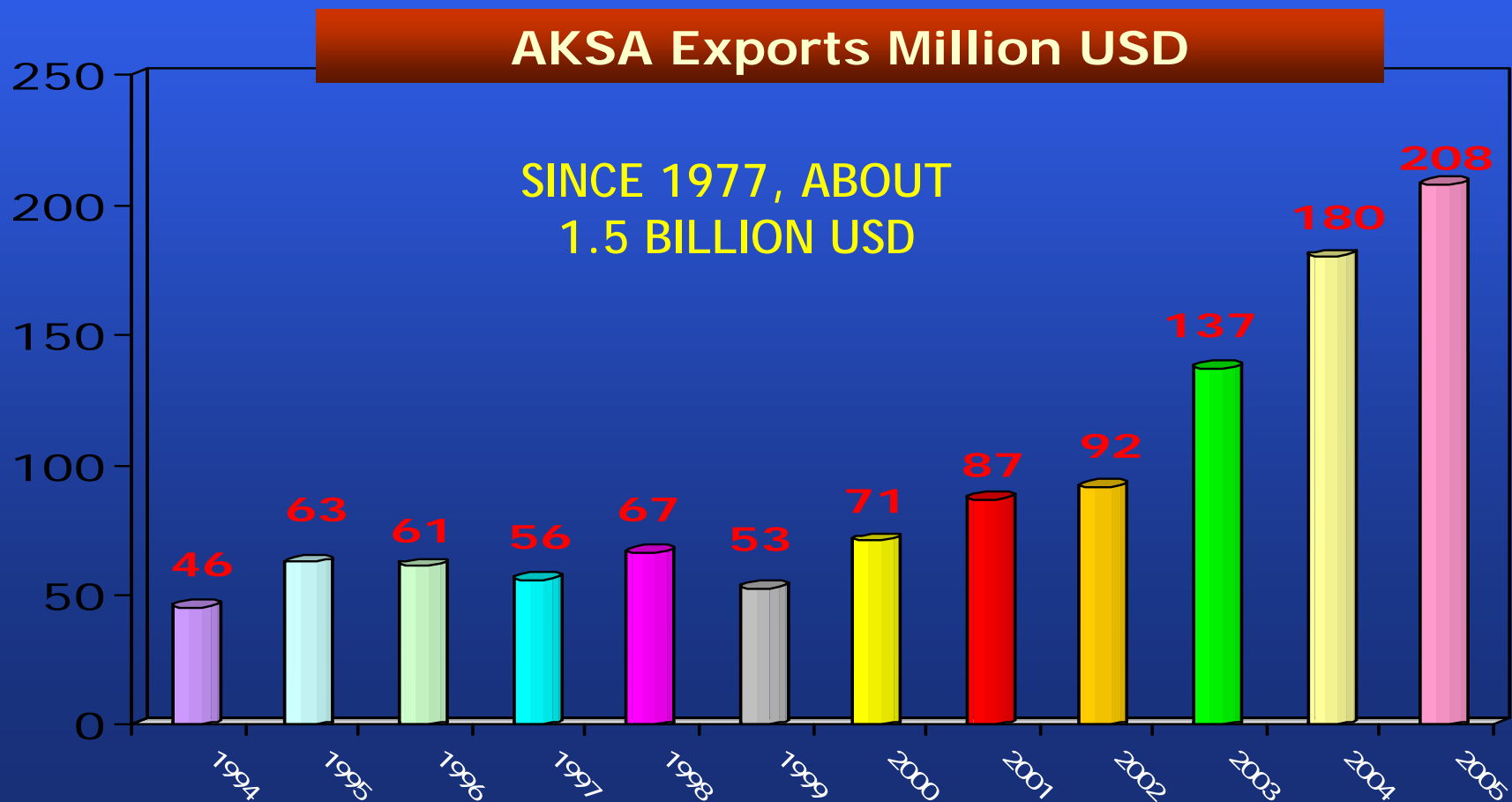
✓ Produces approximately 10,4% of the world's acrylic fibre output





➤ AKSA exports more than 40% of its output to 50 countries.

➤ The exports of AKSA have risen from 53 million USD in 1999 to 208 million USD in 2005.



Hot Topic - Corporate Governance

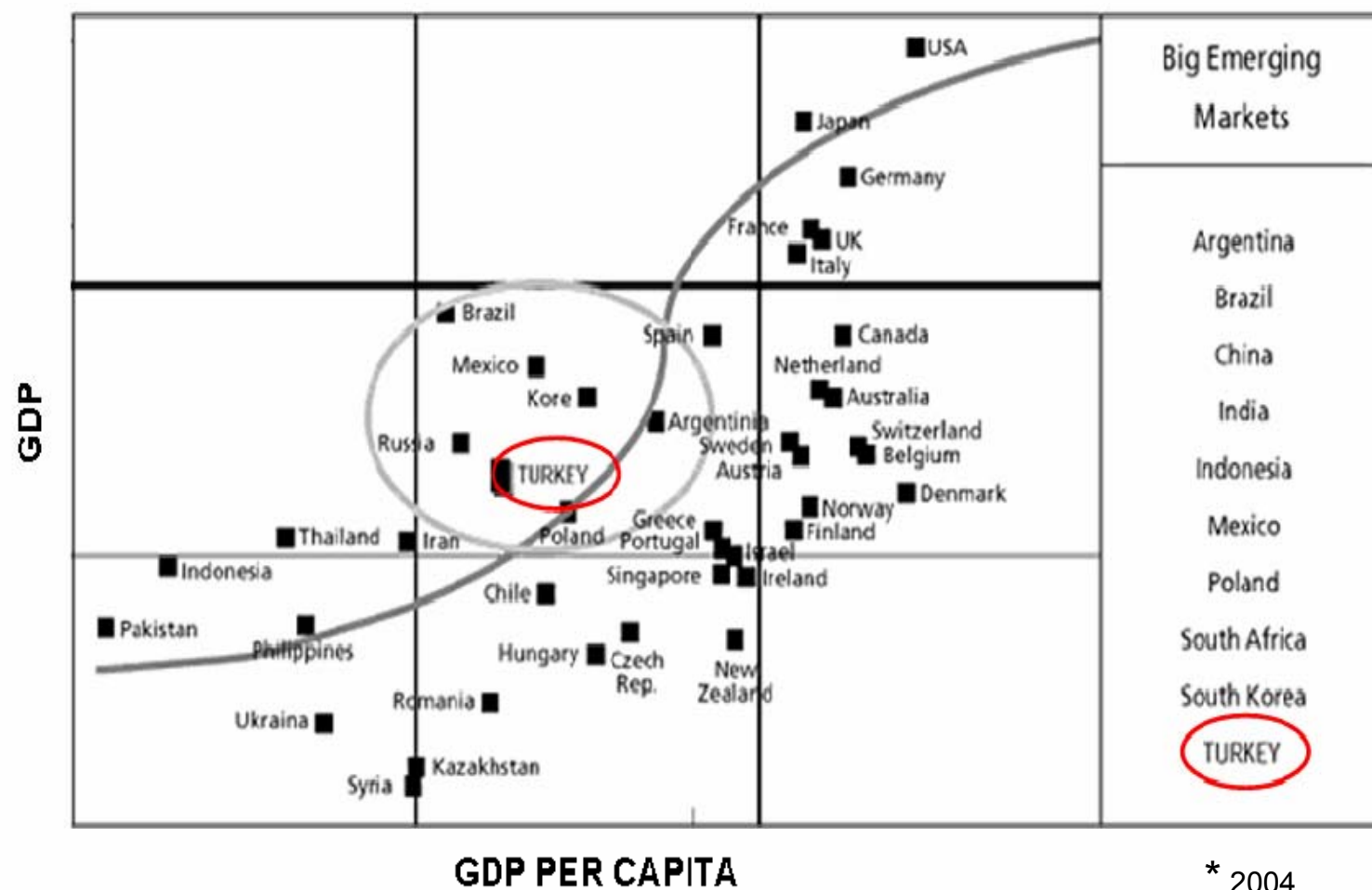
- The decreasing returns of the global stock markets, corporate governance is the “hot” topic both in global and **Turkish business communities and one of the new differentiation factors for many companies.**
- Scandals in the developed markets of the world
- **The competition of emerging markets to attract global FDI**





Good Governance in Turkey

TURKEY: EMERGING GLOBAL MARKET PLACE



Source: World Bank,

*Source: U.S. Dept. Of Commerce

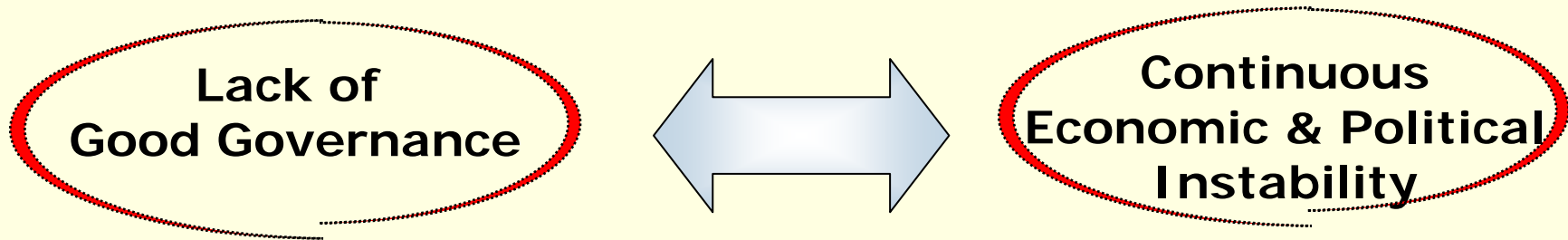
Overview of Turkey

- Corporate Governance has reinforced its significance on top of the agenda for the past 20 years. **The trend gained upward momentum after the economic crises in 2000 and 2001.**
 - CMB has revised the Principles of Corporate Governance Act in accordance with the developments **in 2005 to call for mandatory** practices such as the compulsory compliance report as part of the operations report. **The initial 2003 version of the document had purely voluntary clauses.**
 - In ISE, a CG index has been established and made operational by the participation of 5 companies scoring >6/10.
 - The new Turkish Trade Law is making the legislation on, minority rights and transparency .
- All these developments can be regarded as signs of a positive trend in the accumulation of good examples for Turkey.

Overview of Turkey

- capital market is characterised by;
 - low liquidity,
 - high volatility,
 - high cost of capital (low firm valuation) and limited new capital formation until 2005.

TURKEY: PERCEPTION OF FOREIGN INVESTORS

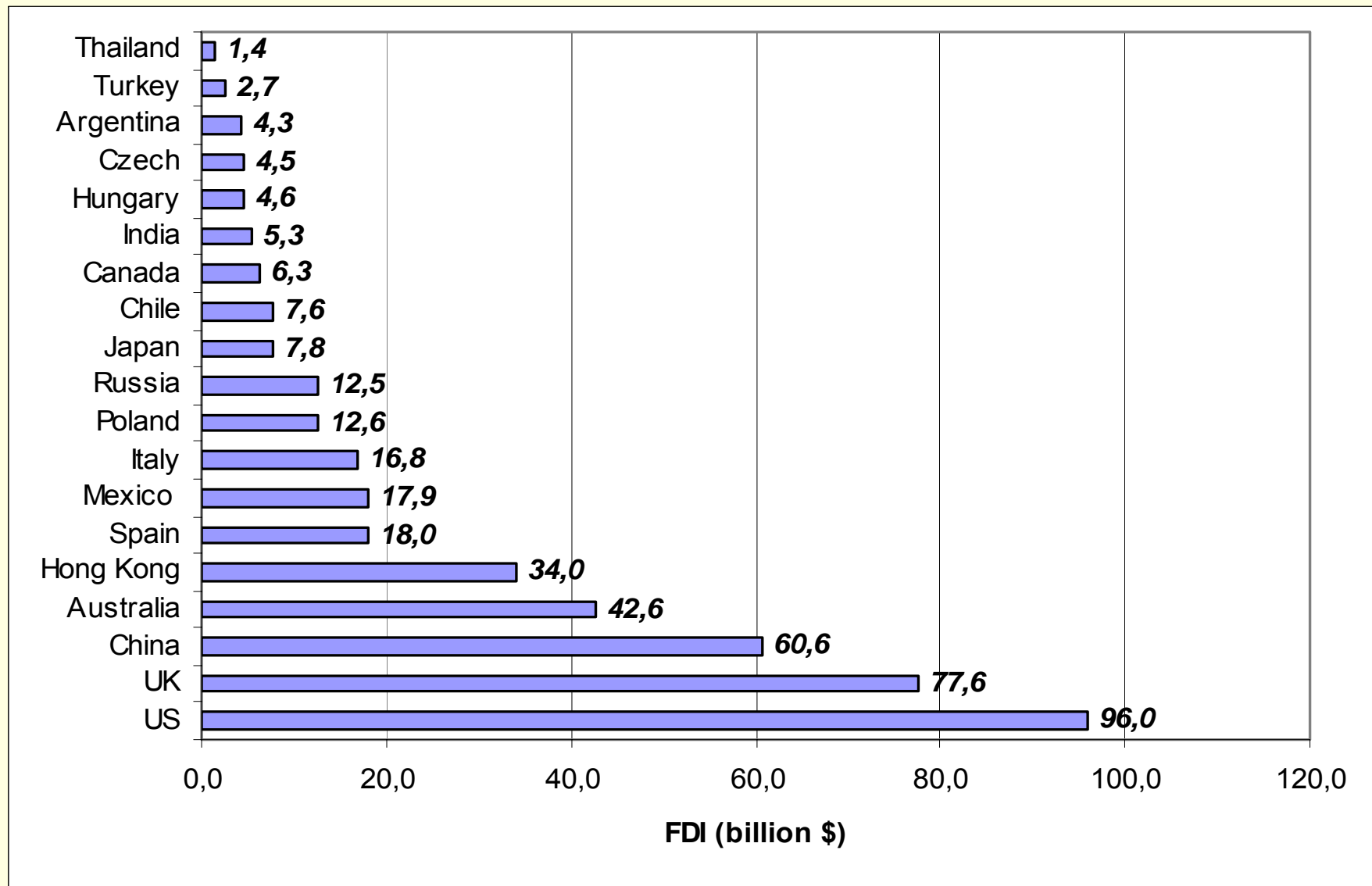


- "Turkey is offering a wide spectrum of investment incentives, but has been unsuccessful in attracting investors, mainly due to political and economical instability"
- "With globalisation of financial markets, **efficiency and transparency** have become imperative "
- "One of the major problems faced by decision-makers is the **lack of sufficient information**"
- " Economic factors and stabilization efforts, together with the IMF Programme are positive developments in Turkey "

Lack of confidence and Transparency

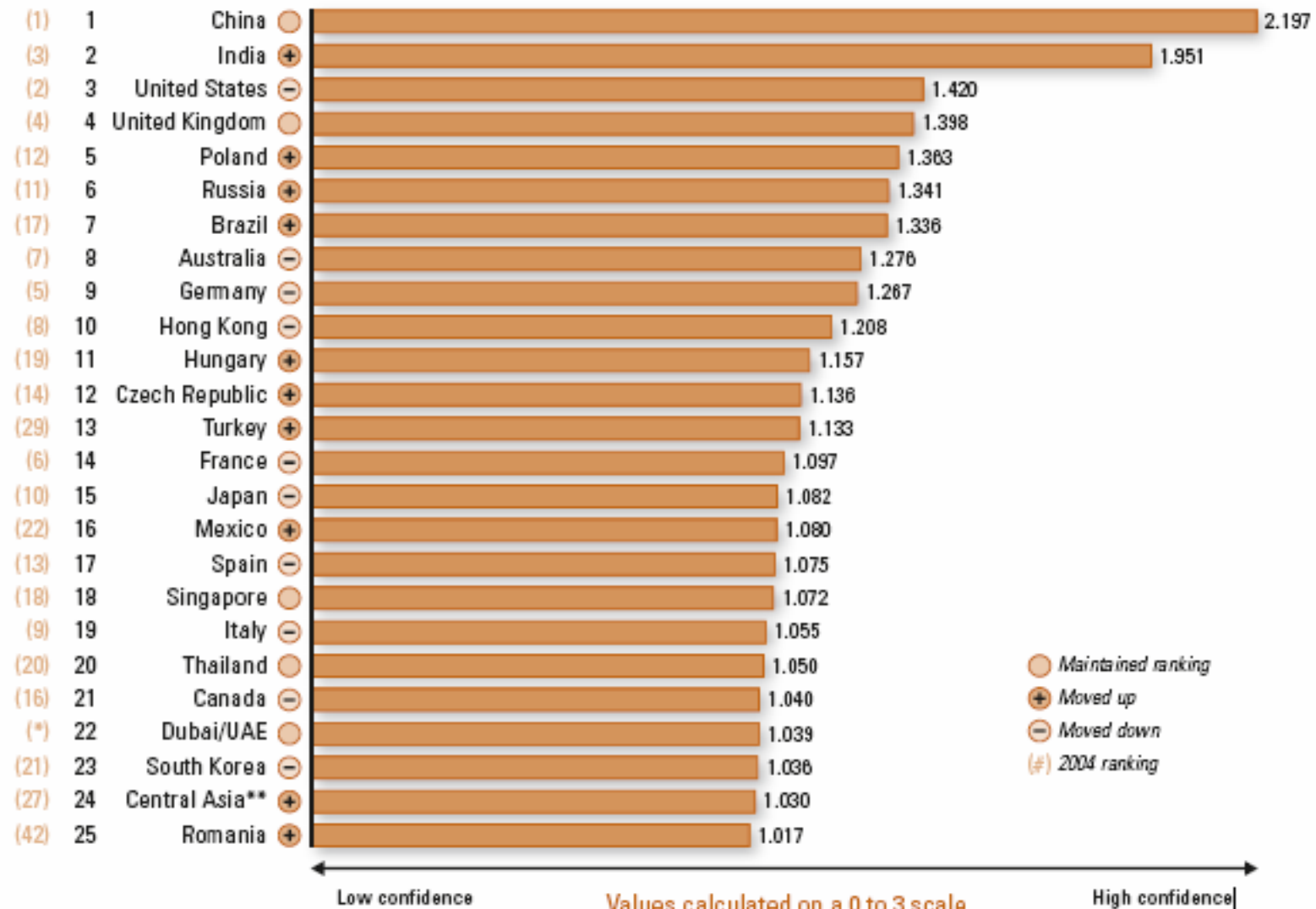
- Turkey's underperformance with respect to attracting FDI is closely related to investor or analyst *perceptions* of Turkey's CG framework as well as its wider political environment and macroeconomic instability.
- **A research on 188 companies** from South Korea, Malaysia, Taiwan, India, and Mexico places **Turkey at the bottom of the ranking with respect to board oversight and transparency and second from the bottom after Mexico** with respect to shareholder rights (McKinsey, 2002).
- *Perception* issues of similar nature is reflected in Transparency International's Corruption Perception Index (2005). Turkey ranks 69th among 159 countries in 2005 (with a score of 3.5 out of 10)

Foreign Direct Investment (2004)



Turkey's confidence index is soaring

Top 25, December 2005

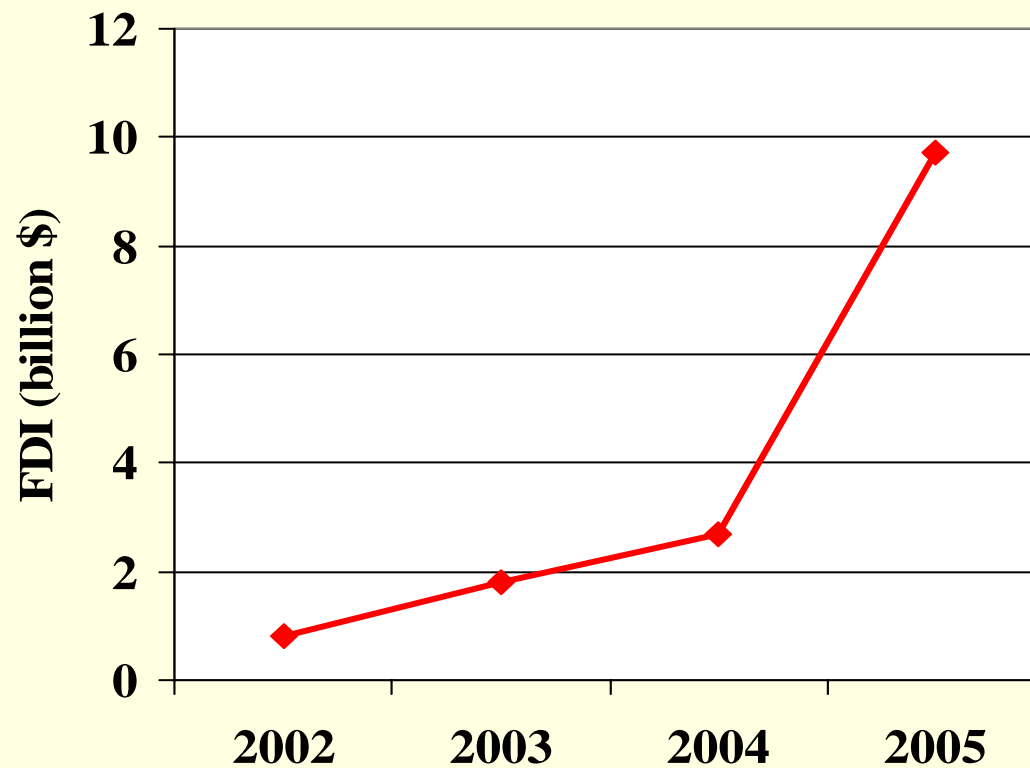


*First time in Index

**Central Asia includes Azerbaijan, Belarus, Kazakhstan and Turkmenistan

Source: A.T. Kearney

FDI Inflow to Turkey (2002-2005)



Turkey gets FDI through **privatization, real estate and portfolio.**

Turkey's CG Framework

- The corporate governance debate in Turkey revolves around three issues:
 - (i) **minority shareholders' and creditors' rights;**
 - (ii) enforcement of law and regulations;
 - (iii) ambiguities and weaknesses in legal/regulatory framework.

Turkey's CG Framework _Cont..

- Turkey's CG framework is characterized by:
 - Few listed companies,
 - Large number of substantial share stakes and
 - Large inter-corporate shareholdings
 - **40 percent of the 308 listed companies have one shareholder with an ownership stake of at least 50 percent.**
 - No research on Board compositions in Turkey. Statutory boards and the executive boards are dominated by family members and they largely overlap.

Turkey's CG Structure (cont.)

- **Nonexecutive directors are very rare and are observed in case of significant foreign participation.**
- **Family members are given responsibility to oversee a certain business sector as the group CEO in the holding structure and usually perform the role of the Chairman of the Board for the individual companies.**
- **Existing structures are not conduit to effective performance monitoring. The CMB does not have the power to disqualify or sanction directors.**
- **Financing system structured around big business groups (a *holding company*) with a group-owned bank.**

Summary of Key Problems in Turkey

P R O B L E M S

- ☐ **Most companies are owned by families (96%)**
- ☐ Ultimate owners of listed companies are mostly individual family members exercising control on cash flow rights through pyramidal and cascaded ownership structures
- ☐ **Control of the companies belongs to the group holding more than 50% of the shares**
- ☐ A shallow stock market (Average public ownership: 32%)
- ☐ The legal system is complicated, slow and costly. The average time between the CMB's appeal and the first verdict (excluding decisions on adjournment and dismissal) is 12 months.

Good Governance in AKSA



**CORPORATE GOVERNANCE PRINCIPLES ARE DETERMINED IN
LINE WITH INTERNATIONAL STANDARDS: COMPLIANCE WITH 4
KEY PRINCIPALS OF CORPORATE GOVERNANCE**

*Rules has been codified in the Shareholders Agreement and
Corporate Governance Document*

Transparency

Relevant financial and operational information as well as internal processes of management. Effective and timely communication.

Accountability

Roles and responsibilities are clearly defined. Related parties are fully accountable with their area of responsibility.

Responsibility

Related parties responsible for generating value in a sustainable way for shareholders, employees, customers and community. In line with laws and regulations.

Fairness

Equal treatment to all Shareholders and other parties

Transparency Disclosure to the Public



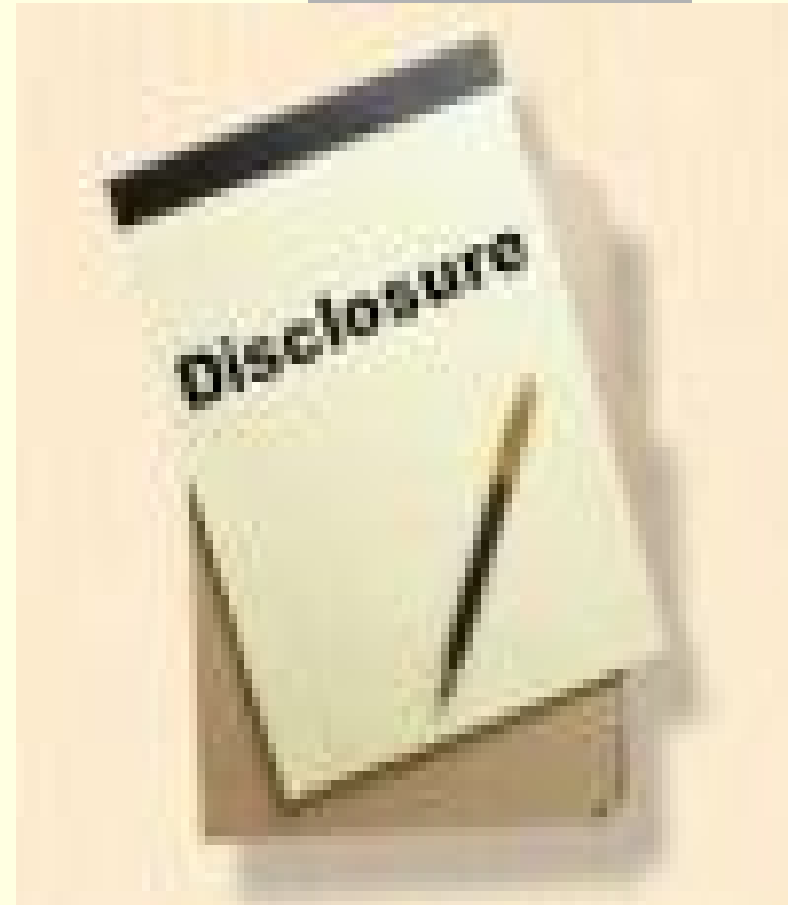
Disclosure Policy



- AKSA AKRİLİK KİMYA SANAYİİ A.Ş. (AKSA) Board of Directors has adopted a disclosure policy, for the purpose of ensuring shareholders and stakeholders access regular and reliable information in a timely, correct and accurate manner concerning
 - the Company's management and its financial and legal situation .
(with the exclusion of information qualified as trade secrets and those that may harm the Company by inhibiting its competitive power.)

Scope of the Disclosure Policy

- Any shareholders or stakeholders **inquiries are replied to within a maximum of five working days**, provided they do not fall within the scope of trade secrets and bear any results that may harm the Company by inhibiting its competitive power.
- **In case of any financial** or legal situations that occur or that are likely to occur in all probability, that are capable of **affecting five percent of the Company's asset size**, disclosure to the public shall be made.
- Disclosure to the public will be carried out by a special circumstance disclosure form sent to the Istanbul Stock Exchange and publishing through the corporate website. (www.aksa.com)



Tools and Methods Used in Disclosure to the Public

- The following methods and communication tools were designated as the means for disclosure to the public, in addition to those foreseen by legal regulations.
 - Corporate website,
 - Annual Report,
 - Meetings held with shareholders and potential investors,*(once a year Roadshow)
 - Meetings held with banks, financial institutions and brokerage firms,*
 - Announcements and programs communicated through media institutions,
 - Electronic data distribution channels,
 - Facsimile/Electronic mail messages and
 - Communication over cellular telephones (Wap and similar technology).

*Meetings may be either face to face, by telephone or via teleconferencing.

Web-site of AKSA

- The web-site of AKSA contains:
 - Trade registry information,
 - Up-to-date shareholder and organizational structure,
 - The latest version of the Company's Articles of Association,
 - Disclosures of special circumstances,
 - Ethical rules
 - Dividend distribution policy (*The dividend distribution policy devised by AKSA's Board of Directors is introduced to the shareholders at the Shareholders' Assembly and also included in the Annual Report.*)
 - Annual reports,
 - Periodical financial statements and reports,
 - Agendas, lists of participants and minutes of Shareholders' General Assemblies,
 - Proxy voting form and frequently asked questions.
 - Those who seek further information about the Company can forward an e-mail to yatirimciiliskileri@aksa.com.



www.aksa.com

Relationships with Shareholders Stakeholders Board of Directors



Relationships



■ In the annual report, “**corporate governance compliance statement**” declares clearly the relationships with the following parties:

- **Shareholders**
- **Stakeholders**
- **Board of directors**



Shareholders

Shareholder Relations

- Shareholder relations are carried out under the authority of the Assistant General Manager for Financial Affairs.
- **Requests of brokers, investor firms and individual investors** are responded to quarterly and any requests forwarded in the interim are responded to by holding meetings and/or through electronic mail. Furthermore, at least one Road Show is held annually for the purpose of publicizing the Company to foreign investors.
- **General Shareholders' Assembly Information:** The invitation to the General Shareholders' Assembly shall be published in the newspapers 15 days prior to the Assembly date. Moreover, the minutes of the General Assembly meetings are shared.
- **Voting right:** In accordance with the Articles of Association, there are no preferential rights. Each share has one voting right.
- **Dividend Distribution Policy and Timing:** It has been published in the Istanbul Stock Exchange Bulletin and presented for the convenience of our shareholders.
- **Transfer of Shares:** Our shares, as quoted on the Istanbul Stock Exchange, can be transferred in accordance with the provisions of the Turkish Commercial Code and the Capital Market Code.

Stakeholders

- Suppliers
- Customers
- Employees
- Society and Official Institutions

Informing the stakeholders

■ SUPPLIER

- **AKSA implements a Supplier Performance System** for the purpose of identifying and developing basic competence areas of our suppliers, supporting mutual development and evaluating their annual performances.

■ CUSTOMER

- Our customers **regularly receive information on shipments, deadlines and prices concerning their orders.**
- Any changes that occur in the sales terms and conditions or technical specifications of products are immediately available to the customers.
- AKSA delivers product specifications to clients.
- Analyses requested by the customers and the results of any complaints are shared with the customers following the required technical scrutiny.
- Our Product Responsibility and Product Safety Manual (ÜSÜKEK) is delivered to all of our customers in Turkish and English.

Informing the stakeholders (cont.)

■ EMPLOYEES

- The Professional Life Evaluation Survey,
- Intranet data bases,
- Informative meetings for the executive management,
- Representation Council and performance assessment meetings can be cited as primary samples of the horizontal and vertical channels of communication at AKSA.
- Through the use of these communication tools, the Company's policies, strategies, objectives and also activities carried out to improve working conditions and the environment are communicated to the employees.

■ SOCIETY AND OFFICIAL INSTITUTIONS

- AKSA Management gets together with the community within the local area to its premises through activities such as Open Door Days, Community Advisory Panels, student excursions and Painting and Composition Competitions.
- Visitors are informed via presentations and manuals of the Company's Total Quality activities, environmental activities and policies.



Board of Directors



Composition and Formation of the Board of Directors and Independent Members

- The Board of Directors,
 - Made up of six members, consists of a Chairman, a Vice Chairman, a Member (General Manager), two Members (Responsible for independent audits) and another Member.
 - Two members of the Board of Directors have executive duties, the division of duties depending upon the nature of the task.
- The quarterly financial statements are presented for the approval of the Board of Directors, after approval by the Audit Committee.



Operating Principles of the Board of Directors

- **There is a unit within the Company tasked with informing the Board Members and pursuing communication services.**
- **The agenda of the Board of Directors is drafted by the General Manager and finalized in line with the recommendations of the Chairman and Members.**
- **The Board performs its duties within the framework of the authority set forth by the Articles of Association and all the decisions to date have been taken unanimously.**
- **The Board Members do not have weighted votes, but they have veto power**

Operating Principles of the Board of Directors

- The Board assesses the commercial and financial risks of the Company, as well as its financial performance by attending of the two members to the monthly Finance and Risk Management Board meeting.
- The authority of the Board of Directors of the Company is determined by the Articles of Association and the list of authorized signatures is reviewed biannually.



THANK YOU

<http://www.aksa.com>

