



RATING REPORT ON

# Hürriyet Gazetecilik ve Matbaacılık A.Ş.



BASED UPON

“The Corporate Governance Guidelines of Turkey” issued by  
the Capital Markets Board of Turkey

RATING RELEASE DATE

24 September 2013

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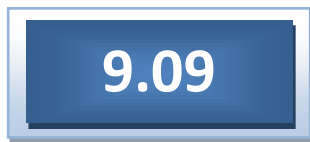
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# INTRODUCTION

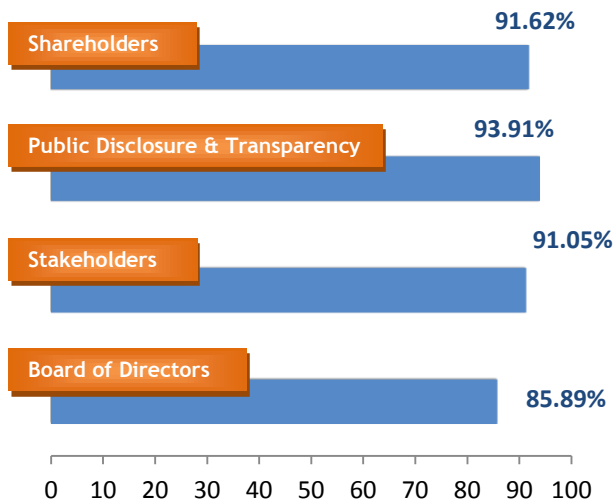
## GROUP



## OVERALL SCORE



## RESULTS BY CATEGORY



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ISS Corporate Services (hereafter, ICS) assigns a rating score of 9.09 to Hürriyet Gazetecilik ve Matbaacılık A.Ş. (the "Company" or "Hürriyet"), which has remained stable and consistent from last year. This rating reflects a good overall performance of the Company regarding its corporate governance structures as measured against the rules stipulated by the Capital Markets Board of Turkey (the "CMB Rules"). The result, however, also signals that there remains room to improve the Company's governance practices. Please refer to the "Rating Methodology" section for more information.

ICS was appointed by Hürriyet in 2007 to review its corporate governance structures and processes in line with the rules stipulated by the CMB. This rating report represents the sixth rating update after Hürriyet had been subject to a first rating released on 24 September 2007. Hürriyet then had been rated with a score of 7.96 (79.67 percent).

Hürriyet continues to build upon its corporate governance foundation with a range of corporate governance enhancements in the past several years in numerous areas; such as an updated Articles of Association (AoA) to reflect the revised corporate governance rules, a sound ethical and human resources policy, and diligent and consistent communication with its shareholders and stakeholders.

Hürriyet continues to score particularly well on **Public Disclosure & Transparency** standards and in respect to **Shareholders**. On the other hand, Hürriyet scores a slightly lower result for **Board of Directors**.

The rating report is based on information provided to ICS prior to September 2013. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

# COMPANY INFORMATION

	
Trade Name	Hürriyet Gazetecilik ve Matbaacılık A.Ş.
Address	100. Yıl Mahallesi, Matbaacılar Caddesi, No:78, Bağcılar, İstanbul Turkey
Web	www.hurriyetcorporate.com
Investor Relations	İnci Tari Phone: +90 212 449 6030 E-Mail: yatirimciiliskileri@hurriyet.com.tr
Chairwoman	Vuslat Sabancı
Deputy CEO	Ahmet Nafi Dalman

Hürriyet was founded in 1960. Its main business lines are comprised of journalism, printing, advertising, publicity and online publishing. The Company has seven printing centers located in Turkey (6) and Germany (1). Through its subsidiaries and shareholdings, Hürriyet is comprised of a network of 10 main printing facilities, offices, and branches. Today, Hürriyet reaches 1.9 million people daily with its printed newspapers and receives 6.8 million visits everyday through its newspaper, web, tablet and mobile platforms.

Hürriyet has been listed on Borsa İstanbul (previously known as the Istanbul Stock Exchange) since 25 February 1992. The majority of the Company's shares are held by Doğan Yayın Holding A.Ş. (DYH), founded under Doğan Şirketler Grubu Holding A.Ş.

The Company's shareholder structure is as follows:

Shareholder	% of Share Capital
Doğan Yayın Holding(DYH)	66.56
Doğan Şirketler Grubu Holding A.Ş.	11.09

Source: Company Website

In 2007, Hürriyet acquired a 67.3 percent equity stake in Trader Media East Limited (TME) through its subsidiary, Hürriyet Invest B.V., registered in the Netherlands. TME is a classified advertising publisher, focused primarily on the real estate, automotive and recruitment segments, operating mainly in Russia and Eastern Europe by publishing various daily, weekly and monthly classified newspapers, magazines and websites.

As a listed company, Hurriyet has to comply with the Capital Market Regulations. As of March 31, 2013, approximately 22.34 percent of the Company's issued shares were considered to be free-floated on the ISE. TME shares are traded on the London Stock Exchange as Global Depository Receipts (GDRs).

Hürriyet made amendments to its AoA to stay up to date with the recent changes made in the Capital Market Law and Commercial Code.

## CREDIT RATING

Fitch Ratings has revised the Outlook on Company to "Stable" from "Positive" and increased its Long-term foreign and local currency Issuer Default Ratings (IDRs) to "BB-" from "B+".

Provider	Rating
Fitch Ratings	BB-

Source: Company Website

# RATING METHODOLOGY

## UNDERLYING REFERENCE

The corporate governance rating at hand has been conducted by ICS based on the rules and recommendations set by CMB. As such, it differs in content and methodology from ISS' standard corporate governance ratings (Quickscore).

The CMB defined its first Corporate Governance Principles in 2003, followed by an amendment in early 2005 and most recently in December 2011, February 2012, June 2012, September 2012, February 2013, and April 2013. The new CMB Rules (the CMB Communiqué Serial: IV, No: 56) needed to be incorporated into the companies' articles of association by 30 June 2012. A further update is expected later this year with a number of changes coming into force, including a change in the weights of two categories. ICS is in regular dialogue with the CMB and is currently updating its rating methodology due to the anticipated changes under the supervision of the CMB.

All BIST companies, excluding companies listed on Emerging Companies Market and Watchlist Market, are subject to mandatory implementation of certain CMB Rules.

It should be noted that the CMB Rules changed the governance landscape in Turkey and moved it away from a "comply or explain" regime to one that is regulated with a few areas remaining as just recommendations. One conclusion that may be drawn from this shift is that the CMB has increased its tone with a view to boost the competitiveness of Turkish companies globally.

## THE GROUPS

The new CMB Rules classify BIST companies in three main groups based on the systematic risk companies pose to Turkish capital markets:

**1. Group I:** Companies with a market value exceeding TL 3 billion and free float exceeding TL 750 million;

**2. Group II:** Companies with a market value exceeding TL 1 billion and free float exceeding TL 250 million; and

**3. Group III:** All other companies which do not fall under either Group.

Group I companies are required to comply with all mandatory rules whereas Group II and III companies benefit from certain exemptions. It should be noted the Hürriyet is classified as a Group III company.

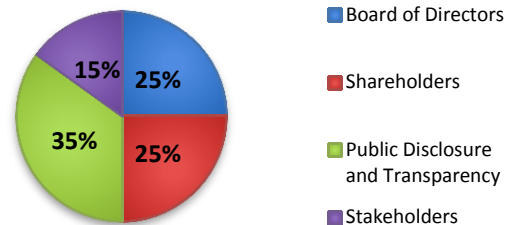
## THE RATING

Based on the CMB Rules, ICS identified close to 500 criteria to be included into the rating. Each single criterion has been examined thoroughly upon compliance by the Company, on the basis of publicly available information. Additional information was provided by the Company upon request.

While in most instances a straightforward 0 (no) or 1 (yes) scoring approach has been applied, ICS also attributes a score of 0.5 points in some instances to acknowledge a partial fulfilment by the Company or where the rating criteria could not be applied.

## WEIGHTING SCHEME

The weighting scheme applied for the four main sections was pre-determined by the CMB:



Further sub-weightings have been attributed to the sub-criteria according to ICS's own reference. Based on the scoring and adjusted weightings, the overall rating result is calculated. The result reflects the overall compliance of the Company. Besides the overall assessment, results also have been calculated for each main section, providing a differentiated picture of the company's strengths and weaknesses.

# THE GOVERNANCE LANDSCAPE IN TURKEY

Though the corporate governance structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the corporate governance landscape on the country level. Despite the fact that the country level is not a part of the rating itself, ICS believes that an overview can enable investors to enhance their perspective and evaluation of corporate governance in a more holistic approach.

Turkey is well aware of the structural changes and the need for on-going development and harmonization of its capital market legislation. Although Turkey is a latecomer to corporate governance, it has tried to speed up the progress since the year 2000. The overall legal framework regulating public companies in Turkey is determined by the new Turkish Commercial Code (effective 1 July 2012), the Capital Markets Law, the Decree-law, CMB regulations, and Borsa Istanbul (BIST) listing requirements.

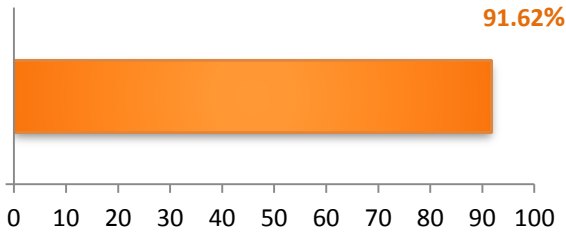
Focusing in particular on corporate governance, the CMB and the BIST can be observed as key players in promoting relevant regulations. They are supported by several other organizations such as the Turkish Industrialists' and Businessmen's Association, Corporate Governance Association of Turkey, Corporate Governance & Sustainability Center and the Corporate Governance Forum of Turkey.

Below we have highlighted the general aspects of the governance landscape in Turkey.

- Within Turkish companies stock ownership is concentrated, very often characterized by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings are quite common. Through these mechanisms Turkish families control a considerable amount of Turkish listed companies. Additionally, one can also find shares containing multiple voting rights, thus preserving family control.
- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers are rare, thus, weakening the market for corporate control.
- State ownership has declined significantly in line with privatization efforts.. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few companies.
- Minority rights are granted to shareholders that own at least 5% of the company's capital, providing them with the right to call an extraordinary general meeting or bring in a shareholder proposal.
- Even though pre-emptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude pre-emptive rights in case of capital increases up to 100% of their registered capital.
- Mandatory tender offer bid requirements exist above a 50% threshold.
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75%) are passed.
- Companies have adopted IFRS accounting standards.
- Companies have a single tier board structure.
- The current CMB Rules outline rules that regulate the independence of board members.

# SECTION I - SHAREHOLDERS

## SHAREHOLDERS



### SUMMARY

Hürriyet remains at 9.16 in this category. A clear dividend policy is in place and voting rights are well defined. Each share is subject to the **one share - one vote - one dividend principle**.

As mentioned above, Hürriyet maintains a **clear dividend policy** with the level of payout determined by local regulations, the national and global economic conditions as well as the Company's growth strategy. The process of dividend distribution is well documented in the Company's annual report and in the AOA. No dividend was paid again during the 2012 financial year. However, the reasons for non-payment of the dividend are provided in detail in the Company's documents.

Hürriyet pays attention to **minority rights** which have been clearly defined in the AoA. However, a few areas of improvement do remain. For example, the right to request a **special auditor** is still not granted under Hürriyet's AoA (though this right is protected under the new TCC) and **cumulative voting** still does not apply. In addition, in case of a capital increase, the board can restrict the rights of the existing shareholders to acquire new shares (exclusion of **pre-emptive rights**). This feature continues to be in place today.

An **Investor Relations (IR) Unit** is established and assists shareholders to exercise their rights and obtain relevant information. Hürriyet's IR website is easily accessible from the Company's main website and includes information concerning the Company's

corporate governance structure, financials, schedule, past general meetings of shareholders, financial analyst coverage, and other pertinent news regarding the Company. Another positive feature of the IR website is the fact that foreign investors can access it in English.

The General Meeting (GM) invitation, agenda and accompanying documents (including the proxy voting form) are uploaded to the corporate website and announced in two leading newspapers well in advance of the GMs. A summary of the vote results and attendance rate (the "Minutes of the AGM") is uploaded on the Company's website in a timely manner. All announcements are made in compliance with CMB Rules.

The GMs appear to be conducted in a fair and effective manner where shareholders are allowed to exercise their statutory rights. In addition, although not yet incorporated in its AoA, Hürriyet permits the media to attend general meetings if asked beforehand. Persons entitled to participate in the Company's GMs may attend these meetings also by electronic voting system pursuant to Article 1527 of the TCC.

### 1.1 RIGHTS OF SHAREHOLDERS

GOVERNANCE FOCUS
+ Established dividend policy
+ Clearly defined voting rights
+ One Share – One Vote respected
- No cumulative voting procedures
- Shareholders are not able to appoint a special auditor under the Company's AoA (however, such right is enshrined into Turkish law)
- The board may exclude pre-emptive rights

### 1.1.1 Equal Treatment of Shareholders and Their Ability to Obtain and Evaluate Information

According to ICS, no provisions hindering the equitable treatment of shareholders have been identified.

No written or verbal complaints reached the Company during the 2012 financial year concerning the exercise of shareholder rights, nor is the Company aware of any legal proceedings initiated against itself in this regard.

There is an active IR Unit that enables shareholders to exercise their rights, respond to written requests from shareholders, ease their access to information, and oversee the Company's Disclosure Policy. The Company's Shareholders Department that also includes the IR Unit is made up of the following individuals: Finance Director Ediz Haşmet Kökyazıcız, Financial Control and Investor Relations Manager İnci Tarı, Financial Affairs Manager Halil Özkan and other related professional personnel

Verbal and written requests for information received from shareholders during the 2012 financial year were responded in a timely manner under the supervision of the Shareholders Department and in compliance with the Capital Markets Law.

A good level of information continues to be provided to shareholders and Hürriyet has made a strong effort to comply with the CMB Rules in this regard. Information that may be of interest to shareholders is provided in an accurate, timely, and diligent manner.

### 1.1.2 Dividend and Voting Rights

#### Dividend Rights

Each share is entitled to an equal dividend. None of the Company's shares incorporate special rights concerning the distribution of the Company's profits.

A dividend policy is established and accessible through the Company's public documents and website, in English and Turkish. Depending on the financial results of Hürriyet, a dividend is paid to

investors. ICS notes, however, a targeted dividend pay-out ratio has not been communicated by the Company to its shareholders. The Company's public documents suggest at least 50 percent of the distributable net profit is subject to allocation.

Once again in the past financial year, the Company paid no dividends. The Board of Directors decided that no profit distribution could be made in 2012 as per CMB's regulations on profit distribution. This was due to the TL 9.844.974 profit remaining after accounting for expenses and liabilities was less than 2% of the Company's capital. As such, it was not feasible to make dividend payments within the arrangements for profit distribution of the CMB

#### Voting Rights

As the Company has not issued any preferred stock, each share is entitled one vote without any further privileges. The right to vote is automatically granted when the share is purchased, and no arrangements can be installed that would hinder this right or cause a delay in exercising voting rights following the share acquisition.

Voting rights are well defined in the Company's AoA, ensuring equal and clear voting procedures. The exercise of voting rights can be delegated to a proxy whether or not the person is shareholder. According to the Company's AoA, voting is exercised by a show of hands, though closed ballots are mandatory if requested by 5 percent of shareholder represented at the AGM.

Shareholders are enabled to exercise their proxy voting rights, through either another shareholder or a non-shareholder. In order to comply with the CMB Rules, Hürriyet makes the electronic proxy form available on its website. When exercising their votes international shareholders mostly use local intermediaries as proxies.

There are no ceilings on the number of votes a shareholder might exercise during the meeting. The Company's share capital does not involve any cross-shareholdings. Finally, ICS is not aware of any voting



agreements aimed at increasing control over the management of the Company.

### 1.1.3 Minority Rights and Transfer of Shares

#### Minority Rights

Minority rights are granted to shareholders owning (collectively) at least 5 percent of the Company's issued share capital. Those rights include requesting to convene an extraordinary meeting or requesting special agenda items. According to the TCC, both aspects are up to the discretion of the board, though shareholders can appeal to the court to decide on the GM to convene. It should be noted that once again no criticisms or complaints were voiced in this regard in 2012.

Mirroring Turkish market practice, Hürriyet does not permit cumulative voting in the belief that the effect of cumulative voting on the board is achieved by the presence of independent directors on the board. However, the Company stated that it may consider granting this right to shareholders in the future.

The ability to appoint a special auditor is considered crucial by ICS, though this is only a recommendation by the CMB and a right protected under the new TCC. Hürriyet does not grant this right and notes that it has not received any requests in that sense during this reporting period. The Company also notes that in order to expand shareholders' rights to access information, all such information that might affect the exercise of these rights is made available to shareholders in an up-to-date manner on the Company's website.

In the case of a capital increase, the board can decide to exclude pre-emptive rights, according to the AoA. Although not endorsed, ICS notes that this is a common practice in Turkey. The Company also notes that although the board's stance regarding pre-emptive rights has been retained, it has not been used to limit other shareholders' rights in the past.

#### Transfer of Shares

There are no provisions installed or included in the AoA that may impede the free transfer of shares by shareholders.

### 1.2 GENERAL MEETINGS

GOVERNANCE FOCUS
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Voting procedures are clear
+ Sufficient disclosure on candidates
+ Remuneration policy disclosed and voted at the AGM
+ Minutes of the AGM are disclosed in a clear and timely manner

#### 1.2.1 Invitation

The Company can convene a General Assembly ordinarily or extraordinarily. The announcement of the 2012 AGM, including the necessary information like the date, time and location, agenda items, procedures for attendance at the meeting, proxy forms and arrangement procedures were published 21 days in advance. The announcement was also published in two leading Turkish newspapers 21 days in advance. In addition to the procedures stipulated by legislation, the AGM announcement and all necessary documents (annual reports, etc.) were also made available at the Company's Headquarters and on the Company's website 21 days prior to the meeting in an attempt to reach the maximum number of shareholders possible.

The agenda for the 2012 AGM was prepared in a solid manner, clearly indicating each agenda item. In line with the CMB Rules, the Company allows shareholders to put forward agenda items to be voted on at the general meeting. However, for the 2012 AGM, the Company received no such request.

Considering the administrative proceedings, voting procedures are set up in a clear and understandable manner and proxy forms are available in written and electronic form.

Finally, according to Hürriyet, general meetings are open to related parties and the media. However, participants without an entrance card providing shareholder or proxy status are not allowed to vote.

### 1.2.2 Functioning

Hürriyet held its AGM on 20 June 2013, not in the three months following the end of its financial year. Upon engagement, the Company noted that it had to amend its AoA to reflect the recent changes with respect to TCC and CML. These changes caused the Company to hold its AGM at a later date than usual. In addition, it should be noted that it is common practice in Turkey that companies have their AGM's between April and June.

The 2012 AGM was held at Company's headquarters. This location is considered as easily accessible to shareholders. The Company's AoA does allow for meetings to be held at another location where most of the shareholders are residing. The Company states that any future requests in this regard will be duly considered.

Following our examination, Hürriyet's AGMs continue to be held in an appropriate way, led in an unbiased manner by the chair of the AGM and overseen by an official government representative, and thereby ensuring that all shareholders are able to exercise their statutory rights.

The AGM functions as a forum to discuss the Company's annual report and financial results. The appointed audit company is held responsible to present the latter to the auditorium. The chair of the AGM reads a summary of the annual report and the Company's financial performance at the beginning of the AGM. This is followed by a discussion of the questions raised by shareholders. According to Hürriyet, all questions coming from shareholders are, in principle, responded to in detail. However, according to the Minutes of the AGM, shareholders did not exercise this right during the 2012 AGM.

It is our understanding that the chair of the meeting ensures an equitable participation among

shareholders and leads the meeting in a fair and efficient manner, where each agenda item is voted upon separately and where there are no special privileges enjoyed by any of the Company's shareholders.

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. If any Company official who has been invited to a meeting cannot attend the meeting, the reasons of non-attendance shall be announced by the chair of the AGM.

Candidates to be elected to the board are obliged to disclose a wide range of information covering nearly all aspects put forward by the CMB Rules. These requests comprise for example, their educational background, previous board membership(s) and experience, financial status, and independence considerations. All of this information was once again provided to the shareholders at the 2012 AGM.

The specific right of shareholders to ask questions to the candidates is not mentioned in the Company's public documents, but from engagement with the Company, we have ascertained that such rights are provided.

The AoA enables the AGM (with a majority of three-fourth) to allow board members to be engaged in business with the company or competition against the company. This has been codified in the Company's AOA. Once again, no board member made use of this authorization and was involved in business or competitive activities with the Company during the 2012 financial year.

### 1.2.3 After the General Meeting

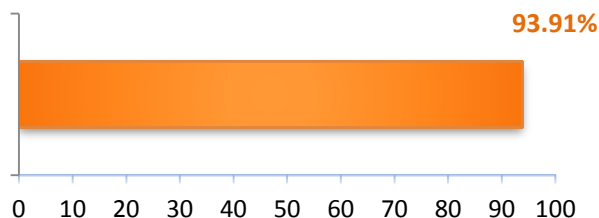
As a follow-up to the meeting, minutes are made available for the examination of shareholders at the Company's headquarters. This information is also disclosed on the Company's website (in English and Turkish) summarizing and reflecting the meeting in a short but clear and concise manner.

Information pertaining to previous annual meetings of shareholders is stored on the Company's website and is easily accessible. The English versions of the invitation, summary of the voting results, etc have all been uploaded on the Company's website for the previous eight years (AGMs held in 2005, 2006, 2007, 2008, 2009, 2010, 2011, and 2012).

In compliance with the CMB Rules, in cases where questions are raised by shareholders that cannot be answered immediately, the IR Unit organized under Shareholders Department is responsible for providing a response in a fast manner.

## SECTION II - PUBLIC DISCLOSURE & TRANSPARENCY

### PUBLIC DISCLOSURE & TRANSPARENCY



#### SUMMARY

Hürriyet's score remains at 9.39 for this category. This score reflects the good flow of information between the Company and its investors and a satisfactory level of transparency.

A **Disclosure Policy** has been provided on the Company's website and contains Hürriyet's policy regarding public disclosure of material events. The Company's board is responsible for overseeing, reviewing and improving the Disclosure Policy. The corporate governance committee provides information and recommendations to the board, executive board and the Shareholders Department on matters regarding the Disclosure Policy. The Shareholders Department is tasked with overseeing and monitoring all matters regarding public disclosures.

Hürriyet also discloses a **Code of Behavioral Conduct**, traditionally known as a code of ethics, and a comprehensive **Insider Trading List** on its website. With regard to Hürriyet's Code of Ethics, this document is a set of essential rules that have been formulated to govern the Company-wide relationships, the relationships between the Company and its employees, and the relationships with customers, suppliers, and other stakeholders. Additional safeguards governing the behavior towards clients, employees and corporate governance principles are also formalized in this document.

A **website** for investors is easily accessible and is continuously improved. The content on the website is well organized, intuitive and comprehensive. As for the Company's **annual report**, it is also very detailed in terms of content and contains a corporate governance section that explains the Company's rationale for opting-out of key governance provisions.

GOVERNANCE FOCUS
+ Disclosure Policy is established and covers material disclosure aspects
+ Disclosure proceedings are clearly defined and assigned to high level personnel
+ A Code of Ethics has been disclosed
+ The Company's website provides a good level of resource for investors
- The board's evaluation of its own performance and that of its key committee has not been disclosed
- Remuneration policy is limited in content

### 2.1 DISCLOSURE – PRINCIPLES & MEANS

#### 2.1.1 Information Policy

The Disclosure Policy has been disclosed to the public and is accessible through the Company's website.

The Company's main disclosure principle is to share information on its performance and forward looking developments within the scope of generally accepted accounting principles and Capital Market Legislation, in a fair, complete, accurate and comprehensible manner to shareholders, investors, and other capital market experts.

To underline the importance placed by Hürriyet on public disclosure, the board has been tasked to enforce, supervise and develop the Disclosure Policy. The corporate governance committee informs the board, the executive board, the audit committee and the CFO on issues related to the disclosure policy and makes suggestions.

The Disclosure Policy covers forms and methods of disclosure, authorized personnel regarding public disclosure, how investors are dealt with, and procedures with regard to forward looking statements.

Forward-looking statements made in the Company's written documents will be identified and accompanied with disclaimers that risks, uncertainties and other factors could cause actual results to differ materially from the expectations expressed in the forward-looking statements. The statements will only be made by authorized representatives. According to the Company's Disclosure Policy, forward looking statements are based on reasonable assumptions and estimates and can be revised upon deviation due to unforeseeable risks and developments.

#### 2.1.2 Disclosure Procedures

After reviewing Hürriyet's public disclosures, no issues were found that would impair investors' interests. Given that Hürriyet's shares are traded on Borsa Istanbul; announcements made to the BIST are simultaneously translated into English and put on the Company's website. In 2012, 32 material disclosures were made to the public. These material disclosures were also posted on the Company's website.

The Shareholders Department is tasked to monitor and supervise all issues related to public disclosure. Questions of third parties are responded to by the CEO, the CFO, and the IR Manager depending on the content of the questions.

The responsibility for public disclosure is clearly defined and assigned to specific individuals within the Company. The methods used to disclose information to the public are: financial statements and footnotes, the Company's website, analyst meetings and conferences, declarations and announcements in newspapers and to data vendors, and press releases. The Company's press releases can be found on the website.

Press statements for written and visual media and to data distributors can only be made by designated individuals within Hürriyet. Unless being specially assigned such responsibility, Hürriyet employees cannot answer questions coming from capital market participants.

#### 2.1.3 Transparency Issues

Transparency issues cover ethical behavior, insider trading rules and the functions of the external audit. To ensure a high degree of transparency Hürriyet discloses its ethical rules to the public. The company adheres to the "Values" it has announced on its website and annual report, as well as the "Editorial Principles" and the Code of Conduct of DYH. For more information on the Company's Code of Ethics, please refer to the "**Stakeholders**" section of this report.

In order to prevent insider trading, Hürriyet provides a comprehensive list of executives and other third parties who potentially have access to information that can impact the value of the capital market instruments issued by the Company. This list can be found in the annual report. Correspondence with the Company further reveals that insider trading is strictly forbidden by law but there is currently no written policy.

Since the appointed audit company (i.e. Deloitte under the legal entity of DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müsavirlik A.Ş) does not provide any consulting services, it can be considered as independent from having other business interests that may impede the objectivity of the auditing services. As for the rotation of auditors, the CMB requires mandatory chief auditor rotation within a maximum period of seven years, which is the case at Hürriyet.

## 2.2 ANNUAL REPORT

GOVERNANCE FOCUS
+ Detailed information on the board of directors
+ Key risks and mitigation efforts are identified
+ Detailed information on the Company's operation and strategy

Overall, the annual report continues to be well prepared and houses all of the relevant content and information relevant for investors. For example, Hürriyet's Corporate Governance Compliance Report, risk management philosophy, and general investor information can all be found in both tabular and graphic form. Financial information is presented in a manner that is easy to follow and the notes to the financial statements clarify the content.

A Statement of Responsibility, signed by ex-CFO Dursun Ali Yılmaz and Financial Control and Investor Relations Manager Inci Tari, has been included in the annual report. This statement shows that the board and the audit committee have approved the consolidated financial statements for the past financial year. According to the Company's independent auditor, Deloitte, the financial statements truly reflect the current financial status of the Company.

There is a dedicated section on the Company's efforts with regard to corporate social responsibility (CSR) in the annual report. It describes in detail the various initiatives the Company is involved in as well as collaborative efforts with partner organizations. It also highlights reductions and advances Hürriyet has made in areas such as energy consumption, sustainability, and human rights.

There is a risk management mechanism in place and an explanation of the different types of risks encompassed. For more information on Hürriyet's risk management and internal control systems refer to the "**Board of Directors**" section of this report.

In conclusion, while the Company's annual report provides the requisite elements, there is still some

room for improvement to cover more items. Issues that could be added in the annual report include, but are not limited to, the following: detailed information on the remuneration of executives, a statement referring to how the Company prevents conflicts of interest between the Company and related companies (parties) offering investment, consulting and auditing services; and, the performance evaluation of the board and its key committees.

## 2.3 WEBSITE

Hürriyet has a dedicated website for IR where shareholders may find information on the Company's corporate governance practices, financial statements, annual reports, etc. As a means of communication the use of the website is also subject to and incorporated in the Disclosure Policy.

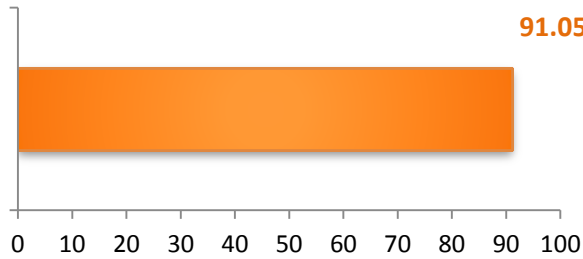
The website has been improved since ICS's last rating. The Company notes that the website is continuously reviewed and updated accordingly. Foreign investors can access an English version of the website which does not differ in content from the Turkish version.

The Company's website content continues to be structured in a sound manner, where investors find relevant documents suggested by the CMB for inclusion. Added features in recent years, such as the investor presentations and the FAQ section are all positive steps taken by Hürriyet which demonstrates its belief in informing its shareholder to the fullest extent. The website also offers a section that includes information previously disclosed to the public.

Finally, the Company's letterhead clearly indicates the address of its website.

# SECTION III - STAKEHOLDERS

## STAKEHOLDERS



### SUMMARY

The Company's score remains at 9.10 in this category. Hürriyet identifies its readers, advertising clients and employees as its main stakeholders. Additional stakeholders, include suppliers and society as a whole.

Hürriyet continues to adhere to DYH's **Code of Conduct** and **Editorial Principles**. Both regulations provide the essential framework of rules to be applied in the relationships between the Company and its stakeholders. However, compensation in case of violation of rights is only foreseen for advertisers and there are no concrete measures in place to avoid conflicts of interest.

Stakeholders are continually kept informed within the framework of the Company's Disclosure Policy, established with respect to governing legislation and the Company's code of ethics. Information is disclosed to stakeholders via the Public Disclosure Platform (or KAP), the Company's website, annual reports and other means as stipulated, in accordance with Capital Market Law, and CMB regulations.

Although no formal procedures have been devised and disclosed by the Company publicly, the Company appears to be in contact with its stakeholders and engaged with its employees. Hürriyet's annual report suggests that all feedback received from the stakeholders is presented to

senior management for evaluation and solution proposals and policies are developed from such feedback.

A **Human Resources Policy** is in place and disclosed publicly. In accordance with its human resources policy, the Company offers equal opportunity to people with the same qualifications in recruitment and career planning. Furthermore, the Company's website has a dedicated section detailing Company practices regarding orientation, placement, training and talent development, and promotion.

The **Corporate Social Responsibility (CSR)** section in the annual report and website describes Hürriyet's social and environmental efforts regarding a number of initiatives such as campaigns against domestic violence, emergency relief efforts, and support of Non-Governmental Organizations.

GOVERNANCE FOCUS
+ <b>Companywide human resources policy</b>
+ <b>Employee rights are warranted</b>
+ <b>Code of Ethics governing companywide relationships disclosed publicly</b>
+ <b>A section on Corporate Social Responsibility is included in the Company's annual report</b>
- <b>No formal model to include employees and/or stakeholders in the company's management, but some actions in place</b>
- <b>Equity not considered when determining pay</b>

### 3.1 RIGHTS & DUTIES OF STAKEHOLDERS

Hürriyet continues to recognize and guarantee the rights of employees in its code of ethics. There is also a CSR section in the annual report where information on social initiatives is provided in detail.

Stakeholders are kept informed by the Company through annual reports, material event disclosures, press releases, meetings, and its website.

Hürriyet could still benefit from formalizing and publishing a new policy that establishes concrete

measures on how potential disputes between the Company and the stakeholders are dealt with. According to the Company, however, no conflicts have occurred to date.

The Company only foresees compensation in case of violation of the rights of the advertisers but not of other stakeholders. According to the Company, in the event of the publication of incorrect news, the Company immediately apologizes and corrects the mistake in consecutive issues. In addition, if the Company's lawyers agree that there was a violation of rights, a written response from the person who was the subject of the news will be published.

### **3.2 RELATIONS WITH CUSTOMERS & SUPPLIERS**

According to the Corporate Governance Compliance Report, Hürriyet takes a great effort to ensure readers and advertisers satisfaction and takes the quality of its publications and its social responsibilities seriously. The Company publishes and dedicates a section explaining DYH's Core Principles and Hürriyet's Editorial Principles on its website. Additionally, Hürriyet adheres to the universal journalism guidelines.

The Company's most important raw material is newsprint. Newsprint is supplied by Doğan Dış Ticaret ve Mümesillik A.Ş., a subsidiary of DYH. The newspapers and their supplements are printed at company-owned Doğan Printing Centers in Turkey and Germany. The printing of supplements on offset paper is subcontracted to Doğan Ofset A.Ş., another subsidiary of the group. The newspapers are distributed by Doğan Dağıtım A.Ş. nationwide.

A substantial portion of revenue consists of advertisements. The Company makes its best efforts to ensure the satisfaction of advertisers. Advertisements that are not published in accordance with the customer's requests are compensated for in the shortest possible time.

### **3.3 PARTICIPATION IN MANAGEMENT**

Stakeholders (inclusive of employees) do not take part in the Company's management. However, in order to take into account stakeholders' opinions, as recommended by the CMB, some actions are in place. The Company mentions that it is in constant contact with stakeholders through written and verbal requests and responses. All feedback received from stakeholders is first evaluated and handled by the Financial Control and IR Department. Resolutions are sought with the support of relevant managers and departments in accordance with applicable regulations.

This feedback received from stakeholders, in turn, is evaluated and submitted to senior management, to assist the development of solutions and policies. To date, no comprehensive model has been set up to include stakeholders in the Company's management. Notwithstanding, customers can give their feedback to Hürriyet using different channels such as the website or the reader representatives. In addition, advertisers can contact the Company's add department.

ICS continues to consider it essential that Hürriyet commit itself to formulate and incorporate formalized mechanisms to ensure a stronger recognition of employee and stakeholder matters.

### **3.4 EMPLOYEES & SOCIAL RESPONSIBILITY**

#### **Employees**

As at 31 December 2012, Hürriyet and its subsidiaries had a total of 6,345 employees. To manage its large workforce, Hürriyet has a written human resources policy which is in the Company's public documents. This policy describes the training of employees on the job as well as promotion procedures. Employee relations are conducted by the Human Resources Coordination Department. There are no trade union members in the Company.

The Company ensures that equal opportunities are provided to all employees. According to the



Company, no cases of discrimination have been reported during the 2012 financial year.

Employees are evaluated on the basis of their responsibilities, qualifications, work development and contribution to the Company's objectives. Outstanding performance is differentiated from all others and rewarded by various benefits. With respect to performance-based compensation, the Company states that the principles and the operation process of the 360-degrees performance evaluation system were reviewed during the period under review. To ensure recognition of the publishing group's work, employees with outstanding work are selected each month to receive a prize of TL 5,000 by the evaluation committee. The awards are assigned in three categories, including the best page, the best photograph and the best interview.

One area where the Company has yet to show any improvement against the CMB Rules is the fact that equity has not been utilized to pay its employees. To this end, the Company states that the non-use of equity will continue to be considered in the future as means of incentive.

#### **Social Responsibility and the Environment**

Social responsibility activities Hürriyet carried out are given in detail in the Social Responsibility and Environmental Activities portion of the annual report. No lawsuits were brought against the Company in relation to harming the environment during the period under review.

Hürriyet complies with all regulations regarding the environment, consumer and public health, as well as ethics rules, and directs and supports its subsidiaries to behave in the same manner.

As for the environment, Hürriyet has also provided information on its sustainability efforts. On 31 January 2012, the Company established an Environmental Control Unit and initiated analytical studies to mitigate the effect of the Company's productions and operation on the environment and

to improve the level of environmental awareness among employees.

In 2011 and 2012, the Company's printing houses and some offices were inspected in accordance with the Environmental Control Regulations and the Environment Law; subsequently, inspection reports were presented to senior management. The inspections and reviews will continue in 2013 and reports again are anticipated to be presented to management.

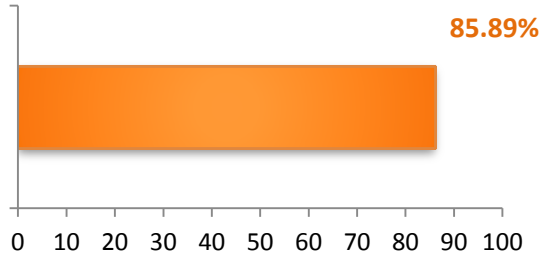
As of 31 December 2012, lawsuit claims against the Group amounted to TL 26,678,044. The Company set aside a total of TL 3,680,581 in reserves for these legal claims.

During the 2012 financial year, the Company made a total of TL 931,489 in donations to various foundations and associations working for the public good:

<b>Organization</b>	<b>Amount (TL)</b>
ARALIK (Association for Voluntary Education and Cultural Research)	451,633
Turkish Red Crescent	12,228
Journalists Association of Turkey	37,671
LöseV (Foundation for Children with Leukaemia)	67,637
TEGV (Educational Volunteers Foundation of Turkey)	47,877
Columbia University	90,460
Istanbul Culture & Arts	14,484
Others	209,499
<b>Total</b>	<b>931,489</b>

# SECTION IV - BOARD OF DIRECTORS

## BOARD OF DIRECTORS



### SUMMARY

Hürriyet has maintained its score of 8.58 in this category when compared to last year's score. The board's size has remained at nine members. The number of independent non-executive directors (NEDs) has remained at two directors.

ICS notes that the composition of the Company's board and its key committees complies with the CMB's Rules. The suggested separation of the chairman of the board and the CEO is followed. Vuslat Sabancı serves as the board's chairwoman and Ahmet Nafiz Dalman is the Company's Deputy CEO. He has served in this capacity since 2012.

Each board member has one vote without any privileges. Attendance at board meetings is encouraged and all board members need to be present in-person at meetings where important matters concerning the operations of the Company are going to be discussed. However, no information on the attendance rates has been provided. Through engagement, the Company stated that all meetings were attended in full either in person or by electronic means.

There are risk management and internal control systems in place at Hürriyet, which have been made more robust over the years.

Hürriyet still has a number of areas to improve with regard to its board. For example, disclosure on the performance evaluation of its board and its key

committees and the disclosure of its remuneration policy (which is considered to be limited in content).

GOVERNANCE FOCUS
+ The board plays an active role in the Company's strategic planning
+ The Company does not lend money to board members or executives
+ Each board member is entitled to one vote
+ A secretariat has been established to support the board
+ The board has two independent NEDs
- Cumulative voting in board elections is not provided
- Board members are not restricted to accept other positions outside the Company
- Disclosure surrounding remuneration is limited

### 4.1 PRINCIPLES OF ACTIVITY, DUTIES, AND RESPONSIBILITIES OF THE BOARD

Following a review, Hürriyet's board appears to fulfill its duties with diligence and meets its responsibilities. The board defines the Company's mission and vision and is thereby leading the Company. The board and the executive committee continuously review the Company's position in the market and define new targets and strategies responding to changing conditions.

All of the nominated and appointed members of the Company's board possess the qualifications stipulated in the CMB Rules. The board is structured to ensure maximum influence and effectiveness. It is the Company's principal aim to appoint board members who possess knowledge regarding the legal principles governing the Company's transactions and business, are qualified and experienced in corporate management, and possess the capability of examining financial statements and reports.

Background information of the members of the board is included in the annual report and the Company's website. Having looked at the board members' experience, ICS concludes that such

requirements have been met by the Company's directors.

It is mandatory that independent board members issue an independence declaration and inform immediately the board in case their independence is compromised. In such event, in principle, a member whose independence has been compromised resigns and a new member is elected in his/her place. Before commencing work, board members have to declare compliance with all necessary internal and external regulations in writing.

Concrete mechanisms used to keep board members regularly and comprehensively informed on pertinent matters are not explained, but there is a secretariat with the aim of keeping directors informed. The information on the attendance of board members to the meetings is also not publicly disclosed but has been provided upon engagement with the Company.

Hürriyet does not impose any rules or restrictions on its board members assuming additional duties outside of the Company. Nevertheless, as suggested by the CMB Rules, the Company's AoA provides guidance to the issue of board members engaging in business or competitive activities with the Company. The annual report states that no board member engaged in any business or competed with the Company during the 2012 financial year. Board members also do not possess any capital market instruments of the Company

An official declaration confirming the careful preparation of financial statements is provided by the board, the Audit Committee and the responsible financial officers in the annual report. This declaration is also posted to BIST.

A performance evaluation of the board and its key committees has not been provided in the Company's public documents. Turkish Law foresees the joint liability of the board. In accordance with this, the AoA states that the board should perform and carry out its duties in accordance with the provisions of

the Capital Markets Law, Turkish Commercial Law and the AoA.

Hürriyet has a formal training/compliance program for new board members. The compliance program is led by the Corporate Governance Committee and implemented under the responsibility of the CEO. Every new member joining the board receives an information folder prepared by the secretariat of the board and attends meetings organized by the secretariat, obtaining information on such issues as the Company's operations, the situation of the industry as a whole, the competitive environment and reader profiles.

There are no sanctions foreseen for employees that obstruct the flow of information to board members, apart from the ones foreseen in Turkish Labour Law. Hürriyet may consider including those in internal regulations or in the AoA.

## 4.2 BOARD STRUCTURE

The Company's AoA suggests a minimum board size of six members with a maximum of nine members. In addition, the Company's AoA stipulates that it will have sufficient independent representation on its board as required by the CMB.

The current board is composed of nine members, which remains the same as last year. There are only three executive directors – Yahya Üzdiyen, Ahmet Dalman and Enis Berberoğlu. Of the six NEDs, two are considered to be independent. We note that pursuant to the CMB Rules, it is sufficient to have two independent NEDs for a company of Hürriyet's size.

The suggested separation of the chairman of the board and the CEO is followed. Vuslat Sabancı serves as the board's chairwoman and Yahya Üzdiyen serves as vice chairman. It should also be noted that Hanzade V. Doğan Boyner's seat on the Board has been filled by Ayşe Sözeri Cemal and that of Hakkı Hasan Yılmaz has been filled by Dursun Ali Yılmaz. All of the directors up for nomination were approved by shareholders at the AGM.

Name	Role	Independent
Vuslat Sabancı	NED	
Yahya Üzdiyen	NED	
Ahmet Dalman	ED	
Enis Berberoğlu	ED	
Dursan Ali Yılmaz	NED	
Ayşe Sözeri Cemal	NED	
Kai Diekmann	NED	
Ahmet Burak	NED	X
Beatrice de Clermont Tonnerre	NED	X

Appointed board members at Hürriyet seem to be highly qualified and show a high level of knowledge and experience. This is reflected in their diversified career backgrounds and tenure

There is no age limit prescribed in the Company's AoA. Pursuant to the current AoA, board members are elected for a maximum period of three years, with re-election possible at the end of term.

As for diversity on the board, ICS notes that there are three women serving on the board - Vuslat Sabancı, Ayşe Sözeri Cemal, and Beatrice de Clermont Tonnerre.

No lawsuits were brought against board members or executives with regard to the Company's activities during the period under review.

## 4.3 BOARD COMMITTEES

### 4.3.1 General

Overall, the board concluded 68 decisions in 2012. Hürriyet has established an audit committee, corporate governance committee and most recently and early detection and management of risks committee.

### 4.3.2 Audit Committee

The audit committee, reporting directly to the board, oversees the financial and operational activities of the Company. The audit committee scrutinizes the effectiveness and adequacy of the internal control and internal audit. The audit committee is also responsible for ensuring that measures are taken such that internal controls are transparent.

The audit committee shall meet at least four times a year. Senior executives responsible for financial affairs are not allowed to be audit committee members.

The external audit firm is invited to the meetings of evaluation of the financial statements if the committee members consider that its presence could help clarify issues.

Following the AGM held in June 2013, the committee's composition is as follows:

Name	Role	Independent
Ahmet Burak	Chairman	x
Beatrice de Clermont Tonnerre	Member	x

This composition is in line with the CMB's requirements.

### 4.3.2 Corporate Governance Committee

A corporate governance committee has been established. This committee's function is to assist the board in creating and improving the Company's governance structure and practices. This committee also acts as the Company's nominations and remuneration committees.

Following the AGM held in June 2013, the committee's composition is as follows:

Name	Role	Independent
Ahmet Burak	Chairman	x
Yahya Üzdiyen	Member	
Dr.Murat Doğu*	Member	

\* Dr. Murat Doğu is not a board member.

Ahmet Burak is the Chairman of the corporate governance committee and is an independent board member, which is in line with the CMB Rules. In addition, the committee has two non-executives, which again meets the CMB Rules. Finally, the CEO and CFO do not take part of this committee.

#### 4.3.3 Early Detection and Management of Risk Committee

Pursuant to Article 378 of the TCC, and Capital Market Regulation, an early detection and management of risks committee was established. The committee is chaired by independent NED Ahmet Burak and is comprised of the following executives:

Name	Role	Independent
Ahmet Burak	Chairman	X
Erem Turgut Yücel	Member	
Tolga Babalı	Member	
Ediz Haşmet Kökyazıcı	Member	

#### 4.4 EXECUTIVES

The day-to-day running of the Company is assigned to the executive committee. This committee is comprised of seven executives. Previous correspondence with the Company revealed that monthly reports of the performed works by the executives are prepared.

Below is the list of the Company's senior management team:

Name	Role
Ahmet Nafi Dalman *	Deputy CEO
Kadri Enis Berberoğlu*	Editor in Chief
Gönül Sayan Birkiye	Advertising Director
Ediz Haşmet Kökyazıcı	Finance Director
Birim Gönülşen Özyürekli	Marketing Director
Tuba Köseoğlu Okçu	Human Resources Director

\* Member of the Board

Source: Company's website

Within ICS's analysis, no issues have been revealed that would cause doubt about the transparent, reliable and accountable work of the executives. The executive committee reports to the board and the Company's results are scrutinized every month in comparison to the budget. Penalties to be applied in cases of losses arising from the failure or underperformance of managers serving in the technical and administrative organization are specified in the Company's Personnel Regulations.

The executive committee meets upon the invitation of the Deputy CEO at intervals required by the Company's business. Company executives as well as third persons approved by the chairman of the executive committee may also attend the meetings. All decisions of the executive committee are put into writing. The executive committee convenes once a week or at least once a month.

The Company does not have management liability insurance.

#### 4.5 FUNCTIONING OF THE BOARD

Hürriyet's board convenes as required by the business. According to the Company, all resolutions were approved unanimously.

The agenda of the board meeting is drafted and submitted to all board members by the secretariat of the board at least one week before the date of the meeting. The agenda may be revised in accordance with the suggestions of the board. As a rule, the board convenes upon the invitation of either the chairwoman or the vice-chairman.

Any internal auditor or minority shareholder may invite the board to a meeting by determining its agenda in advance. The chairwoman has the right to evaluate the emergency of the matter specified in the request and determine whether to call for a meeting immediately or postpone the discussion of the matter to the next board meeting.

Although all board members are required to attend meetings in person, the Company provides the provision to attend the meetings by using any technological methods that would provide remote access. This has been codified in the Company's AoA. The opinions of the members, who are not able to attend the meeting but present their opinions in writing, shall be submitted for the information of the other members.

Each board member is entitled to one vote without any preferential voting or veto rights. In case of equality of votes, the subject matter is added to the

agenda of the next board meeting and if it cannot be approved and decided upon by a majority of the votes at the next board meeting, the relevant motion is deemed to have been disapproved.

The board and majority decision quorum are both stated in the AoA. The board shall convene in the presence of at least one more than half the number of its membership and decisions shall be taken by a majority of the meeting's participants. It is not stated in the Company's AoA if executives have to attend board meetings. From previous engagement with the Company, ICS was informed that executives attend meetings on a frequent basis and when called upon by the board.

A board secretariat has been established in order to prepare and assist the board meetings as well as to ensure convenient access to information for board members.

In line with the CMB Rules, the board members who cast negative votes must sign the minutes by also stating their justifications. The documents concerning the meeting as well as any related correspondences shall be archived by the secretariat. No such opposition or alternative opinion has been expressed in any of the board meetings in 2012. As such, the Company made no announcement to this effect to the public.

According to the Company, travel and meeting expenses of the board are paid out of the Company's general budget.

Overall, the board meetings appear to be conducted in an efficient and sound manner.

#### **4.6 INTERNAL CONTROL & RISK MANAGEMENT**

Hürriyet has implemented a risk management mechanism and an internal control system.

##### **Risk Management**

Hürriyet highlights the following financial risks in its annual report: (i) **Interest rate risk:** Hürriyet and its

subsidiaries are subject to interest rate risk due to their interest-sensitive assets and liabilities. This risk is managed through balancing interest rate sensitive assets and liabilities. When deemed necessary, interest swaps are made to protect the interest rates from future increases; (ii) **Funding risk:** Existing and forward-looking borrowing requirements are performed by securing sufficient funding commitments from lending companies with high funding capability and quality; (iii) **Credit risk:** Financial asset ownership comes with counterparty risk. This risk is managed by limiting credit exposure to each debtor. The Company's credit risk is mitigated to a large extent thanks to the large number of debtors and the fact that they operate in diverse business lines; and (iv) **Exchange rate risk:** Hürriyet and its subsidiaries are subject to exchange rate risk due to changes in the exchange rate used in converting their foreign currency-denominated debt to the Turkish lira. This risk is monitored through foreign currency position analysis. When necessary, protection from exchange rate risk deemed is ensured via options and/or derivative transactions. Financial institutions with high creditworthiness both in Turkey and abroad are chosen for these types of transactions.

##### **Internal Control**

In 2012, the Company continued to review and revamp its operational processes. After conducting in-depth analytical studies regarding its operational efficiencies, action plans were introduced as a result of these exercises. These efforts encompassed compliance related to monitoring/protecting cash and cash equivalents and assets as well as the review of expense/cost factors on the departmental and company level.

In 2013, the goal of the Company is to enhance the efficiency of its internal control system. In particular, its authorization and approval mechanisms have been targeted for improvements. It is also the aim of this process to focus on audit and monitoring activities surrounding the Company's information systems.

#### 4.7 REMUNERATION

For board members, the fees are determined at the general shareholder meetings.

At the Company's 2012 AGM, shareholders approved a monthly fee of USD 5,000 for each independent board member. The board chairwoman receives a monthly fee of TL 10,000, the vice-chairman receives a monthly fee of TL 8,500, and the other board members a monthly fee of TL 5,000. This is the same fee structure that was approved at the previous AGM. It was resolved that the Company not pay any salary or attendance fee to the other board members or the statutory auditors.

Board members have not received any financial benefits, cash or non-cash, other than their monthly salaries. According to the Company's annual report, there is no additional bonus mechanism based on performance for the members of the board.

The Company's remuneration packages for its executive officers consist of the following: (i) basic salary; (ii) annual bonus; and (iii) benefits. The salary levels are regularly reviewed in order to reflect market trends and the individual's performance. Through engagement, the Company stated that executives receive annual bonuses which are determined by the CEO and the chairwoman in line with yearly targets.

A stock option plan for senior managers and other employees is not available. Through engagement, the Company stated that it may consider implementing one in the future. Board members and executives do not own any securities of the Company.

To avoid conflicts of interest Hürriyet strictly adheres to the principle not to grant loans in any way to board members or executives. This restriction is still in place today.