

DUTY TO PREPARE ANNUAL REPORT

General

The communiqué regarding “Determination of Minimum Contents of Companies’ Annual Report” prepared by the Ministry of Customs and Trade was published in the Official Gazette on 28 August 2012 and became effective on the same date. This communiqué covers annual reports of joint stock companies (JSC) and limited liability companies (LLC) as well as the annual report of parent company in group of companies.

What is the deadline for the preparation of annual report?

In accordance with the communiqué, an annual report shall be prepared within two months following the year-end of the related financial period. Accordingly, for the financial year ended 31 December 2012 annual reports shall be prepared until 28 February 2012.

What is the basis of financial information to be included in the 2012 annual report?

The financial information as included in the 2012 annual report will be based on the financial statements prepared in accordance with the old Turkish Commercial Code. This is an exception for the 2012 annual report due to the transition period. In the following years, the basis of the financial information will be the financial statements prepared in accordance with the new Turkish Commercial Code.

General principles of the preparation of annual report

- a) Annual report reflects the relevant year’s financial activities and financial position from all aspects in a complete, accurate, straightforward, true and fair manner. The annual report does include any statements which are misleading, exaggerated and false.
- b) The management body of the Company (board of directors in JSC and managers or board of manager in LLC) should prepare the annual report in a way that shareholders may access to all types of information accurately and completely. In the annual reports the simplest concepts and terms should be used as much as possible and it is refrained from ambiguous statements that may cause doubts. In case technical terms should be used, clear explanations are made to enable the reader to understand easily.
- c) The evaluation of financial position, financial performance as well as the financial and non-financial risks that the Company is exposed to is included in the annual report. These evaluations regarding the financial position and performance are based on the financial statements.
- d) The explanations regarding the effectiveness, adequacy and compatibility of internal controls are also made in the annual report.
- e) If needed, statistical information and graphics may be included in the annual report.
- f) In cases where the information related to future and forecasts are presented in the annual report, the rationale of these information and the supporting statistical information should be presented. In addition, such information must be aligned with the financial position and financial performance of the company.
- g) In addition to the minimum information to be included in the annual report as required with this communiqué, other information may be given in the annual report if such information complies with this communiqué and the management body thinks fit.

What is the minimum content of annual report?

The annual report is composed of the following sections:

1. General information

- a) The financial period that the report is related to
 - b) Trade names, trade registry number, the contact numbers of the head quarters and branches and details of the company website, if any
 - c) The organization of the company, capital and shareholding structure and any changes related to these elements in the related financial period
 - d) Privileged shares, if any
 - e) Information regarding management, senior managers and the headcount
 - f) If any, information regarding the transactions conducted by the board of directors or manager with the permission of general assembly and transactions within the framework of non-compete obligation are provided.
2. Financial benefits provided to board of directors and senior executives.
- a) Attendance fee, salary, bonus and dividend payments
 - b) Allowances, travelling, accommodation and representation expenses, cash or non-cash advantages, insurances and similar benefits.
3. Research and development activities of the company and their results
4. The company's operations and significant developments regarding operations
- a) Capital expenditures in the related financial period
 - b) Information regarding the internal control system and the internal audit activities as well as the view of the management on these matters
 - c) The company's direct and indirect investments and ownership ratios
 - d) Information regarding own shares acquired by the company
 - e) Explanations related to the special audit and public audit conducted in the financial year
 - f) Legal actions taken against the company that may have an adverse impact on the financial position and performance and their possible outcomes
 - g) Explanations regarding sanctions imposed on management due to actions which are not in compliance with regulations
 - h) Information whether the targets set in the past have been met or not, whether the general assembly resolutions have been applied or not. In cases where the targets have not been made and resolutions have not been applied, information and assessments regarding the reasons should be stated
 - i) In case the general assembly meeting has been conveyed extra-ordinarily, the date of the meeting, the resolutions and transactions that have been conducted as a result of this meeting
 - j) Information on expenditures made in the financial period regarding charities and aids as well as social responsibility projects
 - k) In case of a subsidiary in a group of companies, all legal transactions which the subsidiary conducted in the previous year with the parent company and any companies that the parent company participates in as well as any compensation of losses of subsidiaries by the parent company. In addition, the subsidiary must explain whether or not the subsidiary incurred any damages resulting from taking or refraining from taking the measure pertaining to the transactions with the group of companies including the parent company.
5. Financial condition

- a) Analysis and assessments of management on the financial position and performance, realization of the targeted operations, the company's status considering the predetermined strategic targets
 - b) The company's sales in the period on a comparative basis with previous years, productivity, profitability and debts / equity ratio as well as other information that may provide insights regarding the results of the company's operations and prospects
 - c) Identification of the situation regarding going concern uncertainties and bankruptcy and the evaluations of the board of directors or managers
 - d) Actions to be taken to improve the company's financial condition, If any
 - e) Information regarding dividend distribution policy. If no dividend is distributed, the reason of this decision and recommendation as to how undistributed dividend will be used.
6. Risks and assessments of board of directors / managers
- a) Information regarding risk management policies to be applied to the foreseen risks, if any
 - b) In case the committee of early risk identification and management is established, information regarding the activities and reporting of the committee
 - c) Future risks regarding sales, productivity, profitability and debts / equity ratio
7. Other matters
- a) Matters that have occurred subsequent to the financial year-end shall be explained in the annual report provided that such matters have an impact on the rights of shareholders, creditors and other related persons or enterprises
 - b) In this section, other information may also be given in the annual report if such information complies with this communiqué and the management body thinks fit.

Annual report of parent company in group of companies

In annual reports of a parent company in a group of companies the following matters should be included in addition to the matters as detailed in the communiqués:

- a) If the parent company directly or indirectly owns an amount of shares representing five, ten, twenty, twenty five, thirty three, fifty, sixty seven or one hundred percent of the capital of a subsidiary or if its shares fall under these percentages, this situation and the rationale should be explained
- b) Information regarding subsidiaries' shares in the parent company
- c) Explanations on the internal audit and risk management systems with respect to the preparation process of consolidated financial statements.