



EGESERAMİK

ANNUAL REPORT - 2016

Ref: RPR/MBK-2016/SPK-001-01

**FINANCIAL STATEMENTS AND INDEPENDENT AUDIT REPORT AS OF JANUARY
01, 2016 AND DECEMBER 31, 2016**

**To the Board of Directors of
Ege Seramik Sanayi Ve Ticaret A.Ş.**

We have audited the accompanying financial position of Ege Seramik Sanayi ve Ticaret Anonim Şirketi (The Company), as at December 31, 2016 and the related financial statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and summary of significant accounting policies and explanatory notes.

Company's Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of financial statements in accordance with Turkey Accounting Standards which is issued by the Public Oversight Accounting and Auditing Standards Authority. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances..

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with financial reporting standards issued by the Capital Market Board (CMB) and in accordance with independent audit standards as part of Turkey Auditing Standards issued by Public Oversight Accounting and Auditing Authority. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Ege Seramik Sanayi ve Ticaret A.Ş. as at December 31, 2016 and its financial performance and cash flows for the year ended in accordance with Turkish Financial Reporting Standards and Turkey Accounting Standards.

Reports On Independent Auditor’s Responsibilities Arising From Other Regulatory Requirements

Prepared in accordance with the paragraph 4 of article numbered as 398 of 6102 numbered Turkish Commercial Code (“TCC”), Auditor’s Report on Early Risk Detection System and Committee is presented to Board of Directors at March 1, 2017.

According to paragraph four of article numbered as 402 of TCC (6102) at the accounting period of the Company as of January 1 – December 31, 2016, there is not any important matter encountered regarding the system of book keeping and financial statements.

According to paragraph four of article numbered as 402 of TCC, Board of Directors made the required disclosures and provided the requested documentation within the framework of the audit.

İstanbul, March 1, 2017

MOORE STEPHENS TÜRKİYE
MBK BAĞIMSIZ DENETİM VE SMMM A.Ş.

AHMET ÖZTAMUR, CPA



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1. MESSAGE FROM THE BOARD OF DIRECTORS

Dear Esteemed Shareholders, Esteemed Business Partners and Employees;

The year 2016 has been a challenging year due to global markets and also political and economical developments experienced in respect of our Country. The World Economy has challenged to recover subsequent to global crisis. Increase in dollar lead to disruptions in the economical indicators of many countries around the World, especially in the developing economies. On the one hand Great Britain's resolution to leave from the European Union, on the other hand, slowdown in China and goods exporters developing countries' economies, caused growth under expectations. Accordingly, also growth in global trading occurred at the minimum level over the past 15 years.

As for Economy in Turkey; experienced two separate half periods significantly different from each other. In the first period of the year 2016, relative recovery has been achieved in the economical activities and economical growth while preserving macro economical balances; however, coup attempt experienced in 15 July and subsequent conditions led economical shrinkage due to lost performance in the second half of the subject year. Geopolitical risks increased in the second half of the year, together with challenges in the global conditions; economical/financial activities slowed down, and international ratings bureaus' reducing Turkey's credit notes, recessions experienced in the reel sector and consumers' confidence caused significant decrease in the value of Turkish Lira. Conclusively, all economical and financial indicators have been adversely effected. Towards the developments herein, stimulus packages imposed by the government and interest policies of TCMB aimed to reinvigorate the economy.

Due to our responsibility undertaken for being one of the greatest industrial organizations in Turkey; although all economical disadvantages/troubles experienced in the previous year; we have continued to produce and work with a higher motivation ever.

Ege Seramik has been working in order to enhance and improve its respected position in the sector with its continuous innovation studies, by aiming at a sound and sustainable growth producing profitable goods in the high productivity through innovative Technologies and to protect and increase competitive capacity by concentrating on the investments and business developments towards productivity and automation.

On the other hand; raw materials' nature became crucial in the production of high segment products; Ege Seramik, within this scope, continues to increase its high segment product share in production and sales transactions. By increase of high segment production share in the production; raw material provision increases and this is reflected on the costs of the raw materials.

Due to fluctuations in the foreign Exchange rates in the year 2016; imported raw materials' unit costs, as having a significant cost share in the production of ceramics; followed an increasing trend in general.

Dear Esteemed Shareholders,

In the light of quantitative (m2) data provided by Turkish Statistical Institute (TUIK) and Turkey Ceramics Federation (SERFED); in the year 2016, when compared with the previous year, Turkey ceramic coating material production has decreased approximately with a value of %3,5 and about %4 decrease has been experienced in the internal sales due to %5 increase in the exportation in ceramic sector worked with low profit margins.

Despite adverse effects of the abovementioned conditions on our Company; we have re-accomplished more sales than our production, as it does every year, in this year, through our prompt resolutions and a administrative mentality acting according to the requirements in the markets. We have accomplished 20.392.420 m2 goods production and 20.971.716 m2 sales, by working with a rate of capacity utilization of %83,94; in the year 2016. While our return on sales was %26,57; we have created 51.721.266 TL EBITDA. Our exportation amount, although fluctuations in the foreign Exchange rates, has formed %37,10 of our total sales income. Although a decrease has been experienced in the profit after taxes, when compared with the previous years; our net profit rate has materialized as %8,8.

As well as many awards during the year and quality standard certificates; especially we are very proud of being deemed worthy to “Well-Known Brand” award that is given only to the companies in the capacity of original brand, proved in respect of its recognition by the consumers through quality standard of the products and service mentality and commercialization rate of which reaches to a certain extent, by Turkish Patent Institute.

Dear Esteemed Shareholders,

According to all legislation provisions available in our Country and our “Profit Distribution Policy”; by taking into account the current developments in our country’s economy and sector, as well as our Company’s cash flow; it is deemed suitable by our Board to offer the proposal to our General Assembly, not to distribute any profit share to the member of Board of Directors from net distributable period income; to distribute 5.572.340,83 TL to the Shareholders as the first dividend/profit share, to distribute 2.897.617,23 TL to Privileged Shareholders as dividend, to transfer the remaining balance subsequent to assignment of general legal reserves with an amount of 471.995,81 TL, in the financial statement arranged pursuant to Tax Procedure Law provisions, as extraordinary reserves into our legal records; and to make the payments to the beneficiaries on 02 June 2017.

Our Board of Director shall continue to work to achieve even better results in 2017 with the contribution of you our Esteemed Partners, of our colleagues, national and foreign authorized sales teams and of all our suppliers.

We would like to extend our gratitude to all the contributors to the performance we achieved in 2016 and we wish year 2016 to be an efficient and successful year for our country and company.

Kind Regards
Board of Directors

Our Vision;

With the activities we started by using our accumulated knowledge and expertise;

- To become a reliable GLOKAL (Global & Local) actor in ceramic coating markets,
- To reach higher levels of total customer satisfaction,
- Not to act as the producer of each and every segments, to act profit-oriented, to develop ourselves in order to increase our market share and to ensure sustainable growth on earned incomes,
- To update the sectoral knowledge by implementing the innovations brought by technology world,
- To invest on the future with an environmental sustainability understanding.

Our Mission;

With our products manufactured by international quality standards,

- To provide service to the developing construction sector in our country,
- To direct the sector with our innovative and creative activities,
- To participate into social projects as much as possible, to the extent the required time and conditions are available,
- By aiming the profitability, to pay respect to the nature and environment as well as the rights of our stakeholders and related parties and to the national/international laws and legislations.

Our Objectives;

To leave to the future generations a World worth living in without sacrificing quality, contaminating nature and environment, by applying the latest technology, prioritizing customer satisfaction and with innovative approaches exceeding expectations.



2. MILESTONES

- 1972 Ege Seramik was established at Kemalpaşa, İzmir.
- 1973 Production started with a capacity of 300.000 m².
- 1981 Significant part of stocks were purchased by Mr. İbrahim Polat.
- 1982 Ege İnsaat Malzemeleri Pazarlama A.Ş. was incorporated in order to carry out sales marketing operations of Ege Seramik.
- 1983 It was incorporated into the İbrahim Polat Holding.
- 1988 Five-year investment program started.
- 1992 Ege Seramik started to be publicly traded at İMKB.
- 1994 Production capacity increased to 16 million m²
- 1995 Production capacity increased to 22 million m²
- 2004 Plant to produce custom-shaped tiles was commissioned.
- 2004 Production capacity increased to 25 million m²
- 2005 Oracle ERP automation system was set up.
- 2009 DIGITILE investment was commissioned.
- 2011 New glazing, sizing and hi-tech nano Protective surface machines were purchased.
- 2012 Modernization investment was started to produce oversized ceramic tiles.
- 2013 7.Hall Modernization investment was completed and oversized ceramic tiles were started to be produced.
- 2014 The modernization investments have been started at mass preparation facilities with Production Hall No.4
- 2015 The modernization investments have been completed at mass preparation facilities with Production Hall No.4.
- 2016 By completion of packaging machinery and new glazing machinery installations, taken into service.



3. GENERAL INFORMATION

Reporting Period : 1 January 2016 – 31 December 2016

Company Trade Name : EGE SERAMIK SANAYI VE TICARET A.S.

Trade Registration Number : 614 K.Pasa–575

Mersis Number : 0-3250-0554-2400011

Headquarters Address : Ankara Asfaltı 26.Km. P.K.:35170 Kemalpaşa/İZMİR

Branch Address : -

Field of Activity : Production and sales transactions of ceramic floor and wall tile

Stock Share Code : EGSER

Contact Information :

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Fax : (232) 878 12 54

E-mail address: info@egeseramik.com

Kep address : egeseramik@hs01.kep.tr

Internet Site : www.egeseramik.com

4. INFORMATION ON THE MANAGING BODY, SENIOR EXECUTIVES AND PERSONNEL OF THE COMPANY

a) Board of Directors



Bülent ZIHNALI İsmet MİLÖR Baran DEMİR İbrahim POLAT Dilek NAM İ.Fikret POLAT

Chairman	: İbrahim POLAT
Deputy Chairman	: Bülent ZIHNALI
Deputy Chairman	: Baran DEMİR
Independent Member	: İsmet MİLÖR
Independent Member	: Dilek NAM
Member	: İbrahim Fikret POLAT

Two committees have been formed towards Corporate Governance Principles determined through the CMB Series II-17-1 “Communiqué on Corporate Governance” as follows:

Audit Committee

:

İsmet MİLOR	Head of Committee in Charge of Auditing (Independent Member of Board of Directors)
Dilek NAM	Member of Committee in Charge of Auditing (Independent Member of Board of Directors)

Auditing Committee has been elected from among the non-executive members of the board of directors to keep office until the next General Assembly of Shareholders.

Corporate Governance Committee :

		<u>Start Date</u>	<u>Leave Date</u>
İsmet MİLOR	Head of Corporate Governance Committee (Independent Member of Board of Directors)	05.05.2016	-
Baran DEMİR	Member of Corporate Governance Committee (Non-executive Member of Board of Directors)	05.05.2016	-
Aysel HATİPOĞLU	Member of Corporate Governance Committee (Investor Relations Director)	05.05.2016	-

Corporate Governance Committee has been elected to keep office until the next General Assembly of Shareholders

The duties included in the “Communiqué on Corporate Governance” of CMB with Serial no. II-17-1 pertaining to the **Nomination Committee**, **Early Detection of Risk Committee** and **Remuneration Committee** are carried out by the Corporate Governance Committee.

b) Senior Management

Name-Surname

Position

Bülent ZİHNALI

Deputy Chairman of Board of Directors and Head of Operations Group

He started his career at Ege Seramik in 1975 and held positions as an executive at various levels and as a member of board of directors during this period of time. He was promoted as the Head of Operations Group on 16.02.2010.

Göksen YEDİGÜLLER

General Manager

He started to keep office as General Manager at Ege Seramik on 16.02.2010. Before he was appointed to this position, we had worked as a senior executive at some large ceramic factories of Turkey.

Nurgün AY

Factory Manager

She started her career at Ege Seramik in 2006 as Research and Development Laboratory Manager, after her appointment as Deputy Factory Manager, on 01.01.2017 she has nominated as and still in the position of Factory Manager.

Bülent SABUNCU Financial Affairs Manager

He joined the organization of Ege Seramik in year 2012 and he still maintains this position.

Mustafa AKBACI Sales Manager

After his various positions at the Group Companies as from 1995, he was assigned to this position in 2008 and still maintains this position.

Nevin CİFTÇİOĞLU IT Manager

She joined the organization of Ege Seramik as the Analyst Programmer in 1992. She has been keeping office as the IT Manager since 2004.

İ.Volkan DERİNBAY Production Planning and Logistics Manager

He joined the organization of Ege Seramik as the Production Planning Supervisor in 2004. He has been keeping office as the Production Planning and Logistics Manager since 2005.

İlyas YALÇIN Personnel and Administrative Affairs Manager

He joined the organization of Ege Seramik as the Personnel and Administrative Affairs Manager in 2002. He still maintains this position.

Aysel HATİPOĞLU Investor Relations Director

She has been appointed as of the date of 01.04.2016 and she has been still maintaining her Auditing and Corporate Risk Management Director in our Parent Company, Ibrahim Polat Holding A.S.

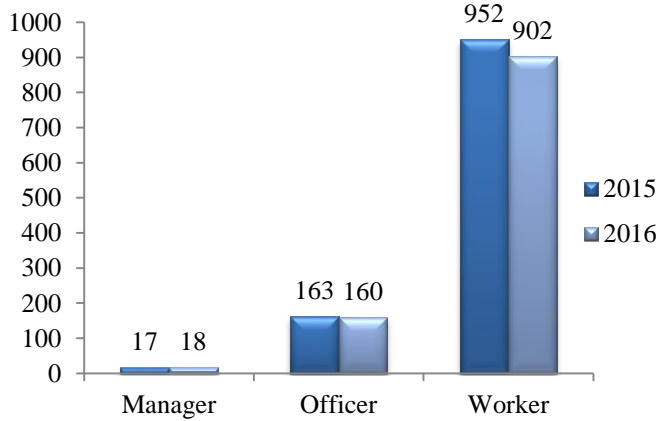
c) Employees

Average number of our employees occurred to be 1.080 in the year 2016. The average age of our employees is 36 and average seniority period is 7 years. Out of the total number of our employees, 13% are university graduates; 8% vocational college graduates, 37% high school graduates and 42% primary school graduates. Out of our administrative staff members, 3% has master's degree, 71% bachelor's degree, 18% are vocational college graduates and 8% high school graduates

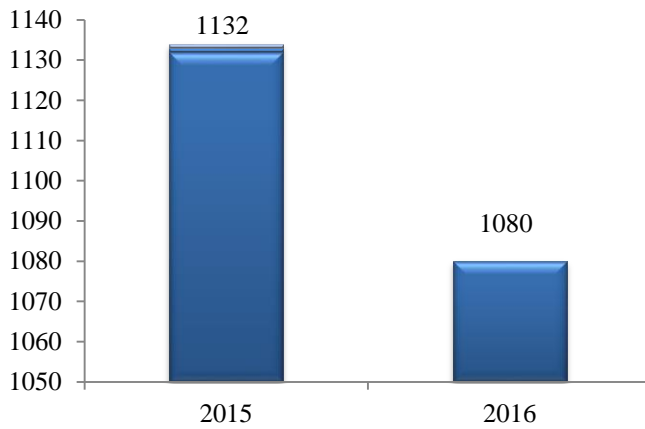
Employees who are members of a trade union are subject to collective labour contract executed with CIMSE-IS Labour Union. A collective labour contract which covered the period between years of 01.01.2015-31.12.2016 was signed with T.Cimse-Is Labour Union on 04.03.2015.

Average Number of Personnel	Year 2015	Year 2016
Manager	17	18
Officer	163	160
Worker	952	902
Total	1.132	1.080

Average Number of Personnel



Number of Employees



d) No business and competition with the Company

Chairman and members of the Board of Directors may not directly or indirectly carry out any business with the Company on their own or on others' behalf without obtaining permission from the General Meeting of Shareholders. Chairman and members of the Board of Directors have been authorized as per the Turkish Commercial Code by the General Meeting of Shareholders held on 05/05/2016. Members of our Board of Directors did not do any business with any company nor made any attempts which shall compete with the Company in its subjects of activity during the operating year 2016.

5. ORGANIZATION, CAPITAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

a) Capital : TRY 75.000.000.-

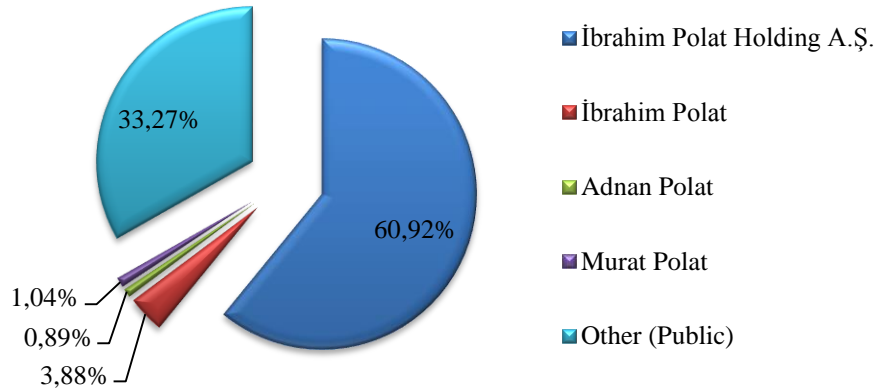
b) Registered Capital : TRY 150.000.000.-

It is resolved that limited amount of our Company's present registered capital is to continue as 150.000.000 TL as determined; pursuant to Company Main Agreement (Articles of Incorporation) and in accordance with 5th Article of "Registered Capital System Communiqué" with reference no. II-18.1 of Capital Markets Board, due to the fact that the license period of the limit of registered capital with an amount of 150.000.000 TRY preauthorized, of our Company included in the registered capital system is terminated at the end of the year 2016; and for the purpose of re-determining of the license of registered capital limit between the years 2017 – 2021; required permissions are provided from Capital Markets Board and Ministry of Customs and Trade; and shall be submitted to the approval of the shareholders in the first general assembly meeting to be held in the year 2017. The required KAP explanations have been made with respect to the subject.

December 31, 2016

Shareholders	Nominal (TRY)	Share %
İbrahim Polat Holding A.Ş.	45.686.919	60,92%
İbrahim Polat	2.909.876	3,88%
Adnan Polat	666.088	0,89%
Murat Polat	779.877	1,04%
Other (Public)	24.957.240	33,27%
Total	75.000.000	100%

Shareholding Structure of Company



c)-Changes which occurred during the fiscal term:

None.

d- Information on privileged shares

Issued capital of the Company is 75.000.000,00 (seventy-five million) Turkish Liras. Such capital is divided into 7.500.000.000 (seven billion five hundred million) shares with a face value of 1,00 (one) kurush each; of such shares, 1.200 (one thousand two hundred) shares are Group A registered shares, 1.800 (one thousand eight hundred) shares are Group B registered shares and 7.499.997.000 (seven billion four hundred ninety-nine million nine hundred ninety-seven thousand) shares are Group C bearer's shares. Pursuant to article 26 of our Articles of Incorporation, upon the deduction of the primary reserve fund and primary dividend from the distributable term's profit, eight percent (8%) of the remaining amount is allocated to the holders of Group A shares and five percent (5%) to the holders of Group B shares.

No privileges are involved as to the voting rights of the holders of privileged shares. Those shareholders of their proxies who are present at the General Meetings of Shareholders are entitled to one vote for each share they hold.

6. BENEFITS TO THE MEMBERS OF THE MANAGING BODY AND SENIOR EXECUTIVES OF THE COMPANY

Pursuant to the article 26 of our Articles of Incorporation, in those years when a resolution is made to distribute profits upon the consent of the General Meeting of Shareholders, 5% of the amount remaining upon the allocation of the primary dividend and distribution of profit to the holders of privileged shares is allocated to the members of the Board of Directors at equal amount.

It was resolved at the General Meeting of Shareholders held on 05.05.2016 that those members of the Board of Directors who had been elected as independent members of the Board of Directors would be paid an attendance fee of TRY 5.500,- per month. Also, health and life insurance is purchased for our senior executives every year.

Such payments as salaries and bonuses amounting to TRY 3.250.686- were made to our senior executives in 2016.

7. RESEARCH AND DEVELOPMENT STUDIES OF THE COMPANY

We have empowered our business in respect of research development and product development activities in the year 2016, through research institutes in the universities, while proceeding our business by engineers, technicians and operators within our organization. We have presented new products to our customers and increased the satisfaction hereof, by empowering our portfolio through new and qualified technical implementations and new materials with respect to our products, by organizing mutual business with the researcher teams in the laboratory of our foreign suppliers.

Our Company has taken the advantage of technological developments in the Research and Product Development activities conducted during 2016 and still maintains its researches through its mission on protection of human health and environment. We prefer ecological products in alternative product researches and maintain our research activities for the purpose of presenting products in optimum cost-high quality nature to the market.

Ege Seramik as being among the leader brands in Turkish ceramic sector, as well as appealing to domestic market customers, we have offered 29 new series within the framework of “Spring Collection” in 28. UNICERA Istanbul Fair arranged on 23-27 February 2016, wherein our foreign customers have participated, to national/domestic and foreign customers’ admiration. From the point of fund production, our company implementing the first digital technology, among the Turkish producers, also be the first user of digital technology in the field of decoration and gained appreciation through decoration products that we have started to produce, and brought prosperous aspects and metal sparkle through implementation gold and platin applications to decors by using digital technology.

Ege Seramik, as being the leader in ceramics sector; by starting to produce by pressing without cutting of 20x120 cm size, has presented natural wooden-like products to its customers. Especially, the Company has increased its share in American markets thanks to the products hereon. As for domestic markets, have prevailed alternative wooden and such coating materials.

Indispensable beauty of marble, white-black combines and fully brilliant glazed granite products have gained admiration. Textured ceramics and floral decors and pastoral tones that are reflecting English style have carried on the spirit of spring weather.

Our Spring collection, have been introduced to our customers in Chicago city of United States of America on 18-21 April 2016. We are endeavouring for increasing our market share for the year 2017.

Modernization studies have been carried out, within the scope of supply in the line of the products to be put into second process and discharging from the oven, box stowage areas and packaging under occupational health and safety, within the year 2016; installation of new additional treatment facility for increasing the quality of the product and environmental protection have started and completed by the end of August.

Our new glazing machine, by starting production process in September 2016; has increased customer service quality through increasing its glazing line capacity from 1.800.000 m²/ year to 4.500.000 m²/year in totally 2 machinery.

Cersai Fair, the heartland of World markets and wherein all new trends are being presented to the customers' taste, has taken place in Italy/Bologna on 26-30 September 2016. Our Company has advertised 23 new series. Wooden-texture indispensable to the places; "ANCIENT, DEXWOOD, LAGUNA, LONG ISLAND, NORDICWOOD, NORFOLK, SUN, URBAN WOOD", concrete, cement and plaster aspects to natural places " AGORA, ASIA, BREEZE, CALLISTO, LANDER, MORE, ROAD", mosaic and decorative applications for kitchens through "CONCEPTION" collection, marble touches indispensable to ceramic coating, by combining with "DESIRE" product rug-patterned decorations having White-black style; "GRACE, MONTERNI, VEGAMENTE", mediterranean style Retro mode "METROPOLITAN" and water-color (water-color effected) "TIBET" series have gained the customers' admiration.

In 2016 September, renewal of 2 loaders in our raw material treatment plant and purchasement of two machinery; CASE branded 821F and 1021F model; have been resolved to be carried out. Quality of business and productivity have been increased, cost reduction have been targeted.

8. ACTIVITIES OF THE COMPANY AND IMPORTANT DEVELOPMENTS RELATED TO ACTIVITIES

a) Information on the Investments Made in the Relevant Fiscal Term by the Company:

Total TRY 13.179.714 worth of modernization and renewal investments were realized by Ege Seramik Sanayi ve Ticaret A.S. during year 2016 within the scope of Investment Incentive Certificate.

b) Information on the Internal Audit System and Internal Auditing Activities of the Company and Opinion of the managing Body on the Matter:

Our Company is audited as to the compliance of the operations and activities carried out with both legislation and company policies by the Auditing Committee and internal auditors. Auditing Committee regularly meets and audits the company's financial statements and reports subject to/not subject to independent audit, inspects the balance sheet and profit-and-loss accounts, audits their compliance with the accounting principles and standards identified by CMB and submits them to the Board of Directors for approval. Audits are performed by independent external auditors and the results thereof are directly reported to the senior management of the company. Remedies are sought for any reported problems through multi-directional communication, and policies established.

c) Information on Direct and Indirect Affiliates of the Company and Its Share Percentages Therein:

	31 December 2016		31 December 2015	
	TRY	%	TRY	%
Ceramic Research Centre	4.000	8,00	4.000	8,00
Turgutlu Water Product Inc.	-	-	45	1,00
TOTAL	4.000		4.045	

d) Information on the Own Shares Acquired by the Company:

None.

e) Disclosures about Private Audits and Public Audits Performed during the Fiscal Term:

Our Company was audited by AS Bağımsız Denetim ve Yeminli Mali Musavirlik A.S. trade named independent audit company for full attestation and by MBK Bağımsız Denetim ve SMMM A.S. for independent audits during 2016 activity period .

f) Information on Legal Actions Filed against the Company, Which May Affect the Financial Condition and Operations of the Company and Possible Consequences Thereof:

There are no legal actions filed against our Company, which may affect the financial condition and operations of the Company.

g) Disclosures on the Administrative or Judicial sanctions Applied to the Company or Members of the Managing Body Due to Any Practices Violating the Legislative Provisions:

None.

h) Information and Considerations on Whether or Not Targets Identified in Previous Terms Have Been Achieved, Whether or Not the Resolutions of the General Meeting of Shareholders Have Been Fulfilled and on the Reasons If Targets Have Not Been Achieved and Resolutions Not Fulfilled:

All resolutions made at the General Meeting of Shareholders have been fulfilled. In conclusion of shrinkage of demands experienced both in domestic and foreign markets due to negativity experienced in market conditions within the 2016 operating year, our targets have been achieved under the stipulated budget target.

i) Information on the Extraordinary General Meeting of Shareholders Including the Meeting date, Resolutions Made at Such Meeting and Actions Taken Thereon If Such a Meeting Was Held during the Year:

None.

i) Information on the Donations and Aids and Expenses Made under Social Responsibility Projects during the Year by the Company:

No donation has been made by our Company during the year 2016.

In line with environmentally sensitive policies of our Company, direct discharge of the waste water generation plant and process water and the output values of the waste water treatment plant are continuously checked. Also, wastes generated during the intermediate processes are recovered and put into production again under the sustainability concept of our Company, thus minimizing the waste disposal.

Emission to the atmosphere from the smokestacks of the factory are periodically measured and whether or not there are any deviations from the limit values as contained in the Emission Permit is checked.

Our plant has been granted an “ENVIRONMENTAL PERMIT CERTIFICATE” by the Turkish Republic Ministry of Environment and Urban Planning within the scope of Air Emission and Waste Water Discharge to be effective as of date 22.09.2014 until the date of 22.09.2019.

In the CE compliance mark activities to be carried out in our sector, practices are maintained within the scope of the Building/Construction Materials Regulation (305/2011/AB) and EN 14411 Harmonized standards.

There are no legal actions filed against our Company due to damages caused in the environment.

j) If a Company Affiliated to a Group of Companies, Legal Actions Taken with the Holding Company, with a Company Affiliated to the Holding Company, in favour of the Holding Company or any Affiliated Company under the direction of the Holding Company and All Other Measures Taken or Omitted in favour of the Holding Company or Any Affiliated Company Thereof in the Preceding Operating Year:

Our Company has prepared its Affiliation Report for year 2016 as required by the Turkish Commercial Code.

Any legal actions taken with the holding company Ibrahim Polat Holding A.S. and with the companies affiliated to the holding company or in favour of the holding company or any company affiliated thereto under the direction of the holding company and all measures taken or omitted in favour of the holding company or any company affiliated thereto in the preceding operating year have been considered in the reports.

Whether or not any counter action has been taken according to the circumstances and conditions known to them once such legal actions or measures were taken or omitted and whether or not such measure taken or omitted has incurred any damages to the Company, if the Company has incurred damages, whether or not this has been compensated has also been addressed in the reports.

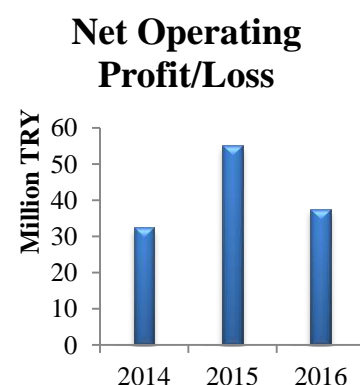
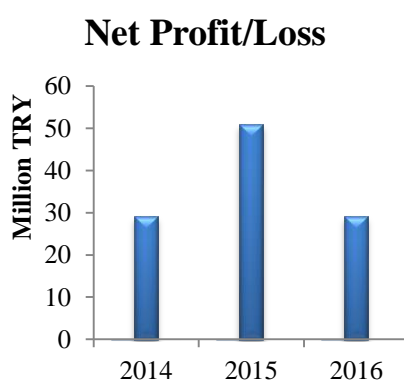
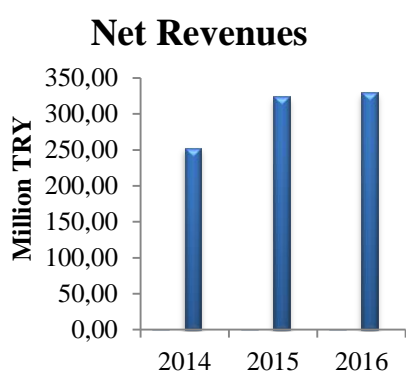
Accordingly, İbrahim Polat Holding A.S., which is the holding company, has not caused any damages to its subsidiaries and affiliates due to the actions in question. As subsidiaries and affiliates have not incurred any damages, Board of Directors has not compensated for any damages.

9. FINANCIAL STATUS

Issued in accordance with the financial statements issued in compliance with the “Communiqué on Principles Concerning Financial Reporting in the Capital Market” No. II-14.1 of CMB.

Condensed Balance Sheet (TRY)	Year 2016	Year 2015	%
Current Assets	232.459.050	221.355.611	5,02%
Fixed Assets	152.503.797	143.001.092	6,65%
Assets	384.962.847	364.356.703	5,66%
Short-Term Liabilities	114.606.875	114.068.391	0,47%
Long-Term Liabilities	26.173.361	36.254.607	(27,81%)
Capital Stock	244.182.611	214.033.705	14,09%
Liabilities	384.962.847	364.356.703	5,66%
Net Operating Capital	117.852.175	107.287.220	9,85%

Condensed Income Statement (TRY)	Year 2016	Year 2015	%
Net Revenues	329.902.518	324.890.990	1,54%
Gross Profit	87.662.835	100.007.389	(12,34%)
Operating Profit	37.435.410	55.142.335	(32,11%)
Net Profit (-Loss)	29.125.872	50.877.873	(42,75%)
EBITDA	51.721.266	66.183.013	(21,85%)



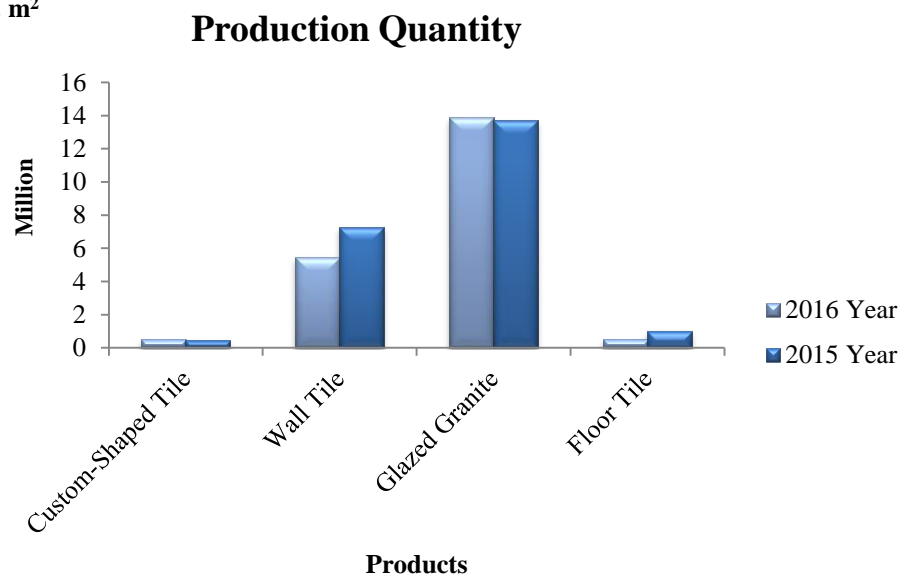
Financial Ratios	Year 2016	Year 2015	%
Current ratio	2,03	1,94	4,52%
Liquidity Ratio	1,39	1,37	1,67%
Gross Profit margin	26,57%	30,78%	(13,68%)
Operating Profit Margin	11,35%	16,97%	(33,14%)
Pre-tax Profit Margin	10,14%	15,79%	(35,79%)
EBITDA margin	15,68%	20,37%	(23,04%)

10. PRODUCTION

Ege Seramik has operated with a 83,94 % capacity utilization percentage including downtime for maintenance purposes and achieved a finished product production of 20.392.420 m² in year 2016. Decrease occurred in production compared to the preceding year was realized as (9,34) percent.

Product (m²)	Year 2016	Year 2015	Increase/(Decrease)	%
Custom-Shaped Tile	515.432	460.117	55.315	12,02%
Wall Tile	5.475.147	7.290.470	(1.815.324)	(24,90%)
Glazed Granite	13.876.843	13.723.866	152.977	1,11%
Floor Tile	524.999	1.017.833	(492.834)	(48,42%)
Total	20.392.420	22.492.286	(2.099.866)	(9,34%)

Amount m²



11. SALES

According to the financial statements that were issued in accordance with the “Communiqué on Principles Concerning Financial Reporting in the Capital Market” no. II-14.1 of CMB, our net sales revenues in 2016 have been realized as TRY 329.902.518, increasing by 1,54 % when compared to year 2015; and the sales quantity has been realized as 20.911.776 m² , decreasing by (6,57 %) when compared to the preceding year.

Abroad sales quantity has been increased by 3,19 % while our domestic sales quantity was decreased by (10,70) % when compared to the preceding year.

Sales (m²)	Year 2016	Year 2015	Increase/(Decrease)	%
Domestic	14.049.090	15.731.991	(1.682.901)	(10,70%)
International	6.862.685	6.650.785	211.900	3,19%
Total	20.911.776	22.382.776	(1.471.000)	(6,57%)

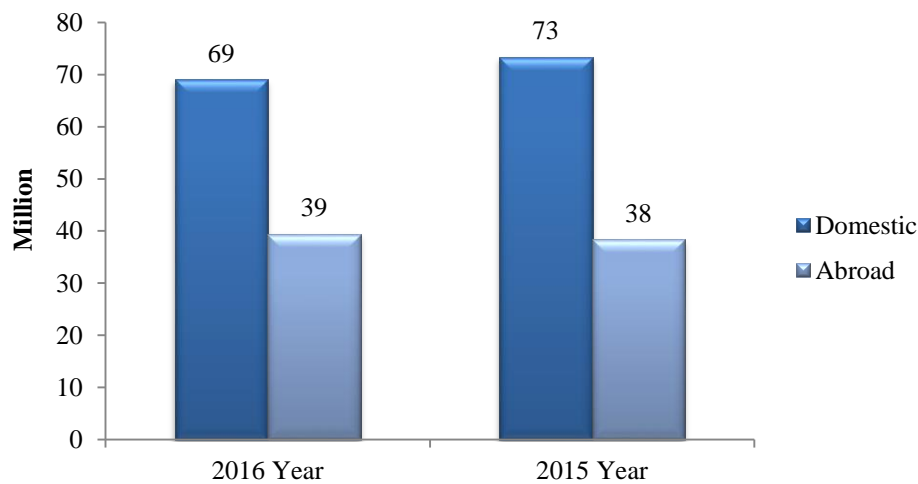
Net Revenues (TRY)	Year 2016	Year 2015	Increase/(Decrease)	%
Domestic	207.523.042	213.398.411	(5.875.369)	(2,75%)
International	122.379.476	111.492.579	10.886.897	9,76%
Total	329.902.518	324.890.990	5.011.528	1,54%

Net Revenues (USD)	Year 2016	Year 2015	Increase/(Decrease)	%
Domestic	69.045.332	73.393.318	(4.347.986)	(5,92%)
International	39.438.376	38.345.226	1.093.150	2,85%
Total	108.483.708	111.738.544	(3.254.836)	(2,91%)

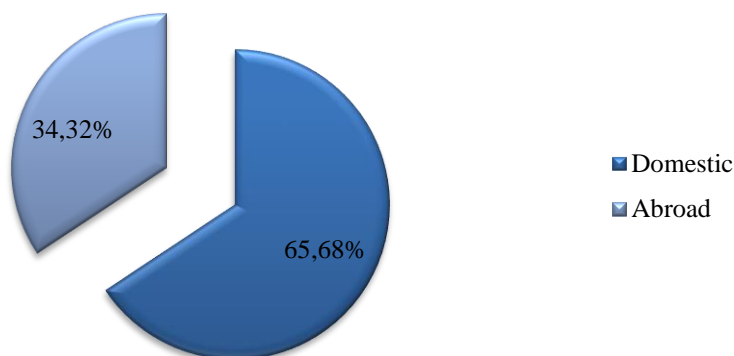
Our exports were realized as USD 39.438.376 in year 2016.

Markets in which we are ambitious abroad are USA, Canada and Israel. Exports were achieved to 46 countries and 65,93% of the total revenues abroad were earned from USA, Canada and Israel in 2016.

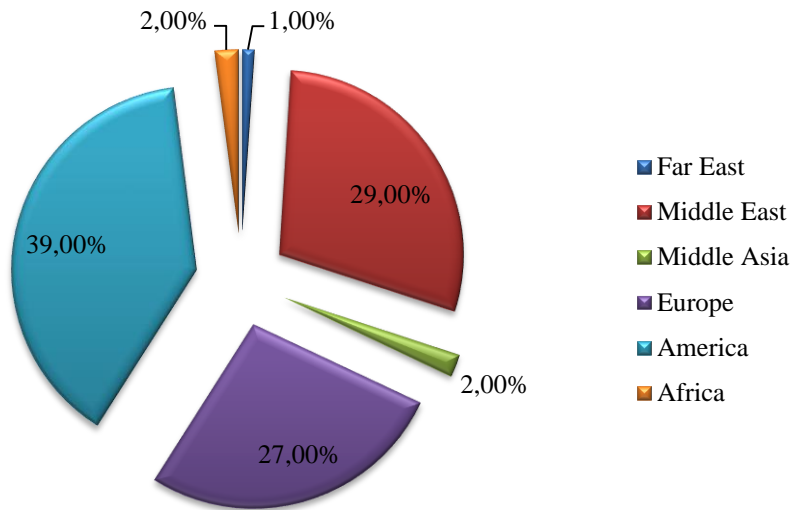
NET SALES REVENUE (\$)



SALES DISTRIBUTION



Regional Distribution of Abroad Sales



12. DEVELOPMENTS IN THE SECTOR

According to Ceramic Sector Report arranged by Ministry of Science, Industry and Technology, Directorate General for Industry; Turkey, is ranked as 8th in the World and 3rd in Europe in the ceramic covering/coating materials sector and ranked in the 5th place with regard to exportation.

Our Country's exportation on ceramic coating, has been 512 million USD and as for importation; 65 million USD, in 2016. Among the countries carrying out exportation of ceramic coating materials, in the year 2016; while Germany was in the first place with 79 million USD; United States of Amerika and Israel have taken the second and the third place, respectively.

Given the fact that the ceramic sizes are enlarged and external facade covering techniques were developed and also the accumulation of knowledge and expertise were improved concerning the external facade assembly works; ceramic tile application on the external facades of the buildings was highly disseminated and therefore, the markets are also enlarged due to these developments.

As the result of the development in the print and shaping technologies in ceramic covering sector, the opportunity to produce products providing aesthetical superiority compared to alternative covering materials (such as marble, wood, parquet, natural stone, etc.) has been reached. By virtue of this, the aesthetical aspect of the ceramic covering materials sold as health tools has increased and value increase based on product segmentation in the market has been provided.

Problems of the Sector:

The biggest problem of the ceramic covering sector is its energy requirement. Ceramic sector cost of energy has a share of 30-35% in the total costs in ceramic production. Even if consumption is somewhat reduced through efficiency efforts, there is no fuel more advantageous than natural gas in the ceramic sector in the present situation

Surplus supply is another significant problem in the sector. However, the companies having brand value become prominent through their quality in the goods and services. Our Company is available among such companies, taking place near the top.

Upon the improvement of transportation by sea and rail and increase in partial shipment and storage options at home, industrial costs and domestic distribution costs of the sector shall reduce.

13. OUR COMPANY'S POSITION IN THE SECTOR:

Incorporated in 1972, Ege Seramik San. ve Tic. A.S. is ranked within top two companies in Turkey, in terms of brand recognition as a result of the researches conducted in ceramic coating sector. Ege Seramik, is the 369th biggest producer in Turkey and third greatest producer in tile sector, within the scope of ISO500 list recently published by Istanbul Chamber of Industry.

Ege Seramik; has a privileged position in domestic and foreign markets by exercising the advantage of brand value and recognition, as having “Well-known Brand Statute” given in conclusion of research on criteria such as size of the organization, prevalence of product services, number of employees, market share and market dominance, as well as confidence, experience and consistent development provided in the market, due to its availability in the sector for many years.

Ege Seramik is an up-and-coming corporation distinguished from its competitors thanks to its brand recognition, institutionalized sales channels at home and abroad, infrastructure in information technologies, continuous improvement and product development, resilient production skills, proximity to the port of Izmir, to the Kemalpaşa railroad loading station and to the constructions of albite and quartz deposits, its ability to recruit qualified labour due to its proximity to the Metropolitan area and firm financial condition.

❖ Our Product Range

In year 2016 52 new series were included within the product portfolio of Ege Seramik. New series are developed in line with the innovations at the market and according to the requirements within the product portfolio.

New products are consisting of 33x99, 25x75, 30x60 wall products and 60x120 and 60x60 full glazing surfaced ground products for domestic market, and mainly 60x60, 30x60, 45x45, 33x33 glazed granite products are developed towards exportation portfolio. 29 out of these new series are exhibited within our Spring 2016 collection in the domestic markets as well as Unicera and Istanbul Construction Fairs which lead the sector and 23 of these new series are exhibited within Autumn Collection 2016 in one of the most significant ceramic fairs of world, during Cersaie Fair.

In both these collections, wooden and marble textured products come to forefront and other surfaces that are demanded in the markets such as cement and concrete surfaces are also included within our product portfolio.

The demand for the high-gloss/glazed surface products that are developed with Hi-Coat nano technology continued incrementally during year 2016 as well. This type of products are not only used on the floors, but also used on the bathroom walls and even on the kitchen counters.

❖ Marketing and Publicity Studies

In Unicera Fair organized in Istanbul Tuyap Fair Center in February 2016, 2016 Spring collection products have been exhibited by participating thereto with 480 m2 booth.

In April, with respect to Coverings Fair organized in America, a special catalogue study consisting of new products peculiar to American market, has been prepared. New products have been presented to the customers and visitors taste available in the fair booth.

Our Company has participated in Construction Fair organized in May 2016, through a larger area when compared with the year 2015 and a booth located in the entrance of the saloon. Our products have been introduced to architects, interior decorators, contractors and purchasing authorities, in the fair wherein construction sector professionals have participated.

World's most significant ceramic sector fair Cersaie has been organized in Italy Bologna on 26-30 September, by participation of over 100 thousand visitors within five days; and specific design products developed through advanced technology have attracted a great deal of attention from sector representatives and professional visitors.

Through virtual tour created subsequent to 360 degree photo-shootings in the participated fairs, the customers who couldn't participate in the fair and people interested in the sector have taken the advantage of visiting our booth virtually.

The purpose of the organization titled as sectoral meeting organized by Chamber of Interior Architects in the month June, wherein our Company has participated, was to introduce our products to all Aegean Region interior architects; while aiming at introducing our products to the attendant architect buyers having high turnover, through Architects Meetings organization arranged in September by Ankara Chamber of Free Architects.

Restoration studies have been made in interior and exterior spaces of the sales markets for the purpose of inclusion of new dealerships into Ege Seramik concept and corporate identity, as well as restoration in the available dealerships. Architectural team has given support to the Project and signboards, booths and showrooms implementations have been realized. Through panels prepared proper to the dealerships' exhibition booths, new products exhibited in the fairs have been sent to domestic markets and export dealerships as hand panelled and single sample.

We have acted on TV commercials main channel and news channels in March – April and May 2016, and advertised our brand permanently on television and radios through 10 sc. Spots, to our target market.

Relevant library updates were completed on our KAREO program which displays the installed view of our products in the relevant venues and which is applicable in our dealers' sales points and therefore, the addition of our SPRING 2016 and AUTUMN 2016 collection products were realized on this program as well.

News and press bulletin announcements were made for the purpose of introduction and publicity of Ege Seramik brand and products and various broadcastings were realized in multiple media organizations. Number of social medial followers have reached 90 thousand people at the end of the month December; and our communication with our followers is still continuing over our social media accounts such as Facebook, Instagram and Twitter.

Social media photography contest organized within the month August, has made a huge contribution to increase the number of our followers on social media accounts. In the contest supported with brand slogan "Perfect Beauty Ege Seramik"; the ranking photographs have printed on ceramics as an award, and also attraction has been drawn into digital printing technology therefor.

Product introduction brochure studies peculiar to our target market American and Canadian customers, have been prepared and printed. For our target market Israel customers, by way of completion of practical and functional colour chart designing and printing consisting of sample parts of our products proper to Project channel, distribution in the markets hereof have been realized.

❖ **Awards and Certificates We Received**

Ege Seramik, through its new brand applications in the year 2015, is deemed worthy for the award "2nd of Turkish Patent Institute Brand/Trademark Application".

"Turkey's top 500 Industrial Companies 2015" list, that is being prepared by Istanbul Chamber of Industry (ISO) every year, has been disclosed in June, and Ege Seramik has took place in the list once more in this year, by increasing its success rate by advancing 12 levels, when compared with the previous year.

Our Company also took place in the Fortune 500 Turkey 2016, in which top 500 companies of Turkey are being published by Fortune 500 magazine, in June.

Ege Seramik, has been incorporated into the brands/trademarks having “Well-Known Brand” record that is given only to the companies in the capacity of original brand, proved in respect of its recognition by the consumers through quality standard of the products and service mentality and commercialization rate of which reaches to a certain extent, by Turkish Patent Institute.

On the other side, our Company has provided the following Certificates;

- TSE ISO IEC 27001 Information Security Management System
- TS-EN-ISO-9001 Quality Management System
- TS-EN-ISO-9001 approved by IQ Net
- ASIA CERTLINE – KAZAKISTAN/KAZAKHSTAN ISO 9001 Quality Management System
- TS-EN-ISO-14001
- TS-EN-ISO-14001 approved by IQNet
- ISO/IEC 27001 Information Security Management System
- GSV indicating the compliance with the C-TPAT system established in the United States.

and also obtained the required documents for sales transactions with the following countries, in conclusion of the inspections in the countries such as Israel, France, Kazakhstan, Ukraine, Nigeria.

❖ Projects and Leading Companies Preferring the Ege Seramik Products

Ege Seramik has continued its contractual activities with the significant corporate companies which prefer Ege Seramik products; BP, YATAŞ, SCANIA, DE FACTO. Besides, TOFAS, DOMINOS PIZZA, MIGROS and CARREFOUR are among the significant trademarks using Ege Seramik products in their sales points.

❖ Our Business Partners

Domestic sales activities of Ege Seramik are being managed by experienced sales teams rendering services to specific sales region. Additionally, Ege Seramik products are being exhibited and offered to the taste of its customers in almost 100 points bound to construction market channel.



14. INDEPENDENT AUDIT REPORT

It is featured in the Public Disclosure Platform, Central Registration Agency, e-Company and www.egeseramik.com web site.

15. FINANCIAL STATEMENTS AND FOOTNOTES

It is featured in the Public Disclosure Platform, Central Registration Agency, e-Company and www.egeseramik.com web site.

16. AMENDMENTS TO THE ARTICLES OF INCORPORATION DURING THE TERM

None within the year 2016.

17. CORPORATE GOVERNANCE COMPLIANCE REPORT

1. Statement for Compliance with Corporate Governance Principles

Corporate Governance Compliance Report of our Company is issued for the Activity Period of 01.01.2016-31.12.2016 in accordance with the “Corporate Governance Principles” as stipulated in the “Communiqué on Corporate Governance” with Serial no. II-17-1 of the Capital Markets Board and the relevant explanations are given place in the said Activity Report.

Our Company believes in the importance of fully compliance to the Corporate Governance Principles. All kinds of necessary steps were taken within the scope of full compliance to the Corporate Governance Principles during year 2016 and our best efforts are given in order to continuously develop the said full compliance and all the activities are being periodically audited by the Corporate Governance Committee.

Our Company completely fulfils its legal obligations in public disclosure and transparency issues as they are included in the regulations of CMB and periodically makes public disclosure of its financial statements, financial statement footnotes and Independent Audit Reports. Moreover, whenever extraordinary cases are involved, it provides Istanbul Stock Exchange with material disclosures. Both shareholders and the people are allowed to establish multi-directional contact with our Company via our web site, and legal arrangements are deemed to be sufficient in the matter.

CHAPTER I- SHAREHOLDERS

2. Shareholder Relations Function

The following people keep office in the Shareholder Relations Function:

Name-Surname	Position	Telephone No	E-Mail Address
Aysel HATIPOGLU	Investor Relations Manager	0212 212 00 44	aysel.hatipoglu@polatholding.com
Bulent SABUNCU	Financial Affairs Manager	0232 878 17 00	bsabuncu@egeseramik.com

Aysel Hatipoglu, having “Capital Market Activities Advanced License-211906” and “Corporate Management/Governance Rating Surveyor License- 702380”, as stipulated in CMB “Corporate Management/Governance Communique” with ref.no. II-17.1, is working as fulltime employee in the Parent Company. Besides, is the member of Management Committee.

Pursuant to the provisions of first sub-clause of the Article 11 of “Communiqué on Corporate Governance” with Serial No: II-17-1 of the Capital Markets Board of which was published in the Official

Gazette No. 28871 on 03.01.2014, the Shareholders Relations Function which provides the communication among our Company and investors has been established directly bound to Board of Directors.

The Shareholders Relations Function submits its report at least once a year for the approval of Board of Directors, with respect to the activities carried out. The activity report of 2016 has been submitted in the Board of Directors Meeting on 23 February 2017.

As stipulated by the Article 11 of the same Communiqué, the same function also fulfils the Company's obligations arising from the legislation of the Capital Market Act and conducts the coordination of the applications of Corporate Governance Principles. Some of the main activities conducted by the function include the following:

- Correspondences realized among the Company and investors and to ensure healthy keeping and maintaining of the records related with other information and documents in an updated status,
- To perform any procedures related to the capital increase and dividend payment which were carried out in previous years,
- To keep the shareholding book in which entries related to shareholders are contained in an orderly, safe and up-to-date manner,
- To hold the General Meeting of Shareholders in compliance with the legislation in effect, articles of incorporation and other intra-company regulations,
- To prepare the necessary documents that are required to be submitted for the information and examination of the shareholders in relation to the general meeting of shareholders; to take the necessary measures in order to organize the General Meeting of Shareholders in compliance with the legislation in effect, articles of incorporation and other intra-company regulations and to send the meeting minutes to the persons who request such,
- To discuss with authorized personnel and reply any written and verbal request for information related to the Company from shareholders, except any information of confidential and trade secret nature,
- Considering the Communiqué serial no. II-15-1 of CMB, to report any necessary Material Disclosures to BIST, PDP and CMB,
- To monitor, observe, follow-up of fulfillment of the obligations originating from the Capital Markets legislations, including all kinds of matters related with the corporate governance and public disclosure and to submit such matters into the attention of relevant department of Company.

During the period between the dates of 01.01.2016-31.12.2016, 38 (thirty eight) applications were filed with the Shareholder Relations Function and were replied by the function.

3. Exercise of the Right to Information by Shareholders

No discrimination is made between shareholders in the exercise of the right to obtain and review information.

Shareholders of Ege Seramik A.S. contact with our Company via telephone and facsimile and communicate their requests for information and their questions. Almost all of the questions asked by investors are related to periodic profit, capital increase, value of stocks and dividend distribution. If the contents of questions are such information which has already been disclosed to the public, such information is also given to the shareholders.

For the purpose of extending the shareholders' right to information, up-to-date information are presented to the use of our shareholders on the web site of our Company, except any information of confidential and trade secret nature.

Any developments which may have an effect on the shareholders' exercise of their rights are reported to the Public Disclosure Platform (PDP) in the form of material disclosures.

Request for the appointment of a private auditor has not been regulated as an individual request right in the articles of incorporation of the Company, and the relevant articles of the Turkish Commercial Code are taken into consideration in cases which are not stipulated in the articles of incorporation. No "Request for the Appointment of a Private Auditor" was filed with our Company during 2016.

4. General Assembly Meetings

- a) An annual general meeting of shareholders was held in 2016. General Meeting of Shareholders for our Company's operations in 2015 was held on May 05, 2016 and the minutes of the meeting is open to inspection by our shareholders on the Central Registration Agency and web site of our Company.
- b) No special meeting quorum has been determined for the General Meetings of Shareholders/General Assembly Meetings of our Company and the provisions of the Turkish Commercial Code are applied for the meeting and resolution quorums.
- c) Notice for meetings was given in accordance with the provisions of the articles of incorporation and the legislation. Notice was given via printed media (notice in a newspaper) and in the form of an electronic notice on the Public Disclosure Platform, Central Registration Agency Electronic General Meeting System and www.egeseramik.com web site.
- d) At the General Meeting of Shareholders also held via the Electronic General Meeting System, the required meeting quorum was achieved and there were also participants from the personnel and customers as stakeholders. Media did not attend the meeting. Shareholders exercised their right to ask questions at the General Meeting of Shareholders. Replies related to the financial statements and upper limit of donations were given to the shareholders in a verbal manner. There was no request for discussions on any issues other than those included in the notified agenda at the meeting. Those shareholders who attended the General Meeting of Shareholders obtained the activity reports in a printed manner. They could also reach any necessary information via the addresses as given in subparagraph (c) above.
- e) An item related to donations was added to the agenda at the Annual General Meeting of Shareholders held on 05.05.2016 and the shareholders were informed and requested for approval of that TRY 100,- was donated to the Turkish Educational Foundation in year 2015. The Board of Directors has entitled to donate with a limit of 5.000.- TRY for the year 2016, in the General Assembly.

5. Voting Rights and Minority Rights

Pursuant to the articles of incorporation of our Company, those shareholders or their proxies who attend the annual and extraordinary general meetings of shareholders are entitled to one vote for each share they hold, and there are no privileged shares in vote casting. Method of casting votes at the General Meetings of Shareholders is applied pursuant to the provisions of the Turkish Commercial Code and Capital Market Act and relevant regulations.

Those shareholders representing the minority shares constitute the management together with the majority shareholders through their attendance to the General Meeting of Shareholders.

6. Right to Dividend

Pursuant to the articles of incorporation of our Company, upon the deduction of the primary reserve fund and primary dividend from the distributable term's profit, eight percent of the remaining amount is

allocated to the holders of Group A shares and five percent to the holders of Group B shares. Other than this, there is no privilege on dividends. Our Company's Dividend Distribution Policy, Public Disclosure Platform are announced on our web site at www.egeseramik.com.

Pursuant to the resolution with ref.no. 2016/11 and date 08.04.2016 of the Board of Directors; according to our financial statements issued for the accounting period of 01.01.2016 - 31.12.2016 of which was issued by our Company in accordance with the provisions of Series: II, 14.1 numbered Communiqué published by the Capital Markets Board and with the International Financial Reporting Standards and which was audited by MBK Denetim ve Serbest Muhasebeci Mali Musavirlik A.S. trade named auditing company; our Company earned TRY 48.772.788,39 worth of profits in year 2016; accordingly, by taking into account of our Profit Distribution Policy, general condition of country economy and market expectations as well as taking into account of the cash flow of our Company, it is deemed suitable by our General Assembly of Shareholders Meeting held on 05.05.2016 to offer the proposal to our General Assembly in order to not to make any profit distribution and to retain the profit of the year 2015 within the structure of our Company.

7. Transfer of Shares

There is no provision which restricts the transfer of bearer's stocks in the articles of incorporation of the Company. Transfer of the stocks of Groups A and B which are not publicly traded is only valid provided that the Board of Directors consents to the transfer and that such transfer is entered in the shareholding book of the Company.

CHAPTER II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Information Policy of the Company

Our Company has established an information policy as stipulated by the relevant principle decision of the Capital Market Board and by the Material Disclosure Communiqué no. II-15-1. Our information policy has been published on PDP and is available as an attachment to our activity report and web site of our Company. In case of any request for information by the shareholders; Investment Relations Manager Aysel Hatipoglu and Financial Affairs Manager shall provide such information orally or in writing.

Our Company sent 23 (twenty three) electronically signed Material Disclosures to the Operational Directorate of Public Disclosure Platform (PDP) system available within the structure of Central Registration Agency (CRA) as per the CMB regulations during 2016. No supplementary disclosures have been required for the material disclosures given and there has been no sanction applied by CMB, BIST and CRA. Since our stocks are not listed in any stock exchange in abroad, no disclosure has been sent to any stock exchanges other than BIST. Any prospective information and considerations may be disclosed to the people not more than four times Provided that assumptions and data on which such assumptions are based shall be disclosed and on condition that it is made under a resolution of the Board of Directors or under the written approval of the person who has been authorized –if such authorization has been granted. Assumptions must be consistent with the financial condition and activity results of the Company. In the event that any forecasts and grounds have not materialized or are found out not to materialize, updated information is made public together with respective reasons.

9. Corporate Internet Site and Its Contents

Pursuant to the "Regulation on Web Sites to Be Opened by Equity Companies" published in the Official Journal no. 28663 dated 31.05.2013 under the Turkish Commercial Code, the guidance for the allocation of a certain part of the web site to the notices which must be legally given by the company and to the information society services has been given under the heading "Information Society Services" on our web site at www.egeseramik.com.

One may have access to the link <https://e-sirket.mkk.com.tr/esir/Dashboard.jsp#/sirketbilgileri/10832> at this address. General headings of the section available in this section are given below:

- *COMPANY INFORMATION*
- *DOCUMENT IMAGING*
 - *Resolution of the general meeting of shareholders regarding amendment to the articles of incorporation of the Company*
 - *Income statement*
 - *Cash flow chart*
 - *Balance sheet*
 - *Equity conversion statement*
 - *Convocation for the general meeting of shareholders*
 - *Articles of incorporation of the Company*
 - *Minutes of the General Meeting of Shareholders*
 - *Minutes of the Special Meeting of Privileged Shareholders*
 - *Internal Directive*

■ General headings of the section “Shareholder Relations” of Company internet site are as follows:

- ARTICLES OF INCORPORATION
- CHRONOLOGY OF ARTICLES OF INCORPORATION
- PARTNERSHIP STRUCTURE
- BOARD OF DIRECTORS
- FINANCIAL INFORMATION
- FINANCIAL REPORTS
- ANNUAL ACTIVITY REPORTS
- GENERAL ASSEMBLIES
- SPECIAL/MATERIAL DISCLOSURES
- CORPORATE GOVERNANCE/MANAGEMENT
- INFORMATION POLICY
- WAGES POLICY
- PROFIT DISTRIBUTION POLICY
- COMMITTEES

On the web site of our Company, information is given under headings in English and annual activity reports as well as financial statements and footnotes and indicators are prepared in English within quarterly periods.

10. Activity Report

Within the scope of corporate governance principles as stipulated in the Corporate Governance Communiqué serial no: II-17-1 of the Capital Market Board; our Company’s activity reports contain information about Shareholders, Public Disclosure and Transparency, Stakeholders, Board of Directors under main headings.

CHAPTER III - STAKEHOLDERS

11. Information to Stakeholders

Stakeholders are informed of the activities of our Company through material disclosures both at general meetings of shareholders and on electronic media under the public disclosure principles. Such information is given through activity reports and through Central Registration Agency (CRA) - Public

Disclosure Platform (PDP). Stakeholders are provided with information on any Company-related issues which concern them

Information is given through attendance to meetings, sales campaigns, promotions and upon their request. Further, company employees are informed through intranet.

Corporate Governance and Audit Committees have been established with the participation of two of the members of the Board of Directors stakeholders may file written applications with the relevant committees in order to report any operations of the Company which are against legislation and improper in ethical terms. Moreover, those employees who have internal information have been informed of their responsibilities via electronic media and it has been adopted as a policy to receive their written statements as to their responsibilities arising from their possession of internal information and to keep the same in the relevant department.

12. Participation of Stakeholders in Management

No mechanism or model has been established under the Corporate Governance principles for the representation of stakeholders in the Board of Directors. Participation of stakeholders in management is ensured through such instruments as in-house proposals, questionnaires, etc. Practices about the working conditions and rights granted to employees are established through the agreement reached with the labour union as a result of negotiations. Open door principle has been adopted for the submittal of in-house proposals and requests to the management.

13. Human Resources Policy

Human resources policy of the Company is announced on our web site at www.egeseramik.com. Main principles of our human resources policy have been established as indicated below:

- Career goals of employees are considered together with their personal competences and those employees who are at equal level are provided with equal opportunities.
- Employees are informed of those matters related to their personal rights, career and company opportunities.
- No discrimination is made between employees and employees are protected against maltreatment.
- No discrimination is applied to employees.
- Training plans are prepared and applied in order to enhance the knowledge and skills as well as personal improvement of employees.
- Employees are provided with safe working environment and conditions under the occupational health and safety.
- Criteria related to recruitment of employees have been put into writing and ensured to be complied with in the recruitment of employees.

In line with our vision and mission, we intend to raise the competence levels of our employees as well. We maintain our efforts in order to be a corporation preferred for qualified work force market, in which right person is evaluated at right job, high performance is encouraged and employees with optimized satisfaction and motivation serve in a team spirit.

There is a collective labour contract between the labour union and our Company in order to ensure orderly and efficient working at the workplace, to increase production, to balance the rights and interests of the employer and the employees, to provide work peace through mutual goodwill and confidence, to settle any discrepancies which may arise between the parties through amicable ways, in order to;

- hear the requests and settle employees' complaints related to their jobs and the workplace;
- maintain cooperation, working harmony and work peace between the employer and the employees;

- observe the rights and interests of the employees and the workplace;
- assist in the enforcement of the working terms as stipulated in the labour legislation and collective labour contract, to appoint a union chief representative and three union representatives.

Moreover, the Occupational Health and Safety Committee serves to ensure occupational health and safety with the participation of the executives, specialists and employee representatives.

14. Ethical Rules and Social Responsibility

There are ethical rules identified for the Company and its employees by the Board of Directors of the Company. However, we primarily address the health, safety and satisfaction of the employees and all relevant parties and sensitively fulfill our environmental responsibility in all our operations through the effective quality management system under the heading “OUR MANAGEMENT SYSTEMS” on our web site.



Integrated Management System Policy of the Company is announced on our web site at www.egeseramik.com. In this context, applications at our Company are as follows:

ISO 9001 Quality Management System

Ege Seramik holds the TS EN ISO 9001:2008 (TSE-Turkey), DIN EN ISO 9001:2008 (DQS-Germany) Quality System Certificates awarded to those corporations achieving international quality in design, product development, production, facility and service. It has been maintaining and continuously improving its applications since 1994 and is the very first corporation receiving the ISO 9001 certificate in the Turkish ceramic sector.

ISO/IEC 27001 Information Security

Ege Seramik Sanayi ve Ticaret A.S. is awarded to hold Information Security Management System certificate in accordance with ISO/IEC 27001:2013 standard, that is to be effective as from 15 August 2016, through its proving itself in applications that are in compliance with the arrangements and towards certification procedures.

Environmental-Occupational Health and Safety Management System

It is an integral part of our business to take any necessary precautions in order to be able to minimize our negative impacts in the environment during our operations, to guide our employees in occupational health and safety in all departments and take any measures related to occupational health and safety at our workplace for a sustainable future which is open to improvement. Our occupational health and safety committee meets on monthly basis and thus continuity of the safe working environment is ensured. Our Workplace Health Team provides our employees with services on full time basis. Our Company has a fire engine and trained personnel.

Contribution is made to both the protection of the environment and the national economy through our activities listed below:

- Starting from the designing stage, any necessary precautions are taken in order to consider and minimize any environmental impacts which may arise out of the use of our products at each and every stage of production.
- Packaging wastes are classified within themselves and stored not to cause any damage in the environment and disposed through licensed organizations under the Regulation on the Control of Packaging and Packaging Wastes.
- Any necessary organizations have been made for the recovery of the packaging materials which we launch to the market and recovery of such packaging materials is ensured.
- Our hazardous wastes have been minimized and any waste oil, waste batteries, waste accumulators, packaging wastes contaminated by hazardous wastes which are still in use are forwarded to licensed firms and ensured to be recovered.
- Any treatment sludge created in the waste water treatment plant is ensured to be reused.
- Water treated in our waste water treatment plant is reused, thus reducing the amount of the discharged water and minimizing our water consumption.
- Resources are used in an effective manner.
- Any components which may cause environmental contamination are identified and brought under control, and such components are prevented by ensuring continuous improvement.
- Scraps and wastes created by the activities we are performing are identified and brought under control, and scraps and wastes are ensured to be used for recycling and those which may not be recycled are disposed through legal ways.

Our Social Responsibility Policy

Primarily addressing the issues of enhancing the health, safety and satisfaction of its employees, we, Ege Seramik San. ve Tic. A.S., through this policy, undertakes to provide working conditions under ethical values, based upon respect and trust terms, to fulfill, ensure the continuity of and permanently improve any applications related to the **ETI Base Code Standards** besides its compliance with the following issues through this policy, basing on the Labour Act No. 4857 and relevant legislations;

- Maintaining the principles of working in compliance with the ongoing volunteering principle;
- Not employing child labour in heavy and dangerous works in our Company;
- Maintaining its respect for labour union membership and collective bargaining rights with the same sensitivity from now onwards;
- Ensuring the continuation of the safe and hygienic working environment provided through health and safety training organized at regular intervals, inspections and improvements carried out continuously;
- Paying employees' wages taking the legal requirements and collective labour contracts as a basis;
- Applying the provisions of the labour legislation and the Collective labour Contract in the determination of working times;
- Not making discrimination by religion, language, race, class, civil status, age, disability, gender, sexual preference, labour union membership and political view in recruitment, training, promotion, dismissal, retirement, etc. and providing equal opportunity to the employees at the same level;
- Ensuring continuity in employment;

CE Sign/Mark Activities

CE Sign points out that the product having CE sign is healthy and safe with respect to human, animal and environment and states the compliance with European Union New Approach Directives. CE Signs are obligatory for ceramic tiles as from the year 2005. Ege Seramik is the first company fulfilling the legal obligation hereon in the sector.

In the CE compliance mark activities, practices are maintained within the scope of the Building/Construction Materials Regulation (305/2011/AB) and EN 14411 Harmonized standards.

GSV (Global Security Verification) Social Security Version

This is a program established for the purpose of managing the accreditation methods of manufacturers, importers, transportation companies, customs clearance companies and other companies which may involve into supply chains as well as for the purpose of ensuring the international cargo security.

Within the scope of this program, Ege Seramik San. ve Tic. A.S. has been audited by an accredited institution on a yearly basis. Our Company's performance within the scope of GSV is above the average of Turkey and worldwide average.

Product Certifications

Ege Seramik products are approved at home (by TSE) and in abroad (France and Israel, Ukraine, Kazakhstan, Nigeria) by various standard institutes.

Ege Seramik is one of the leading brands of ceramics sector with its assertive technology and unique designs and it is entitled to receive the "TSE Double Star" Certificate granted by the Turkish Standards Institute (TSE). Double Star Certificate confirms that products of Ege Seramik not only conforms to the minimum requirements but also includes the specifications over those stated in the Standards.

Our values are: Reliability, confidentiality, impartialness, customer and quality orientation, competitiveness, respect for the environment and human beings, sense of responsibility, transparency and participation.

CHAPTER IV – BOARD OF DIRECTORS

15. Structure and Formation of the Board of Directors

Operations and management of the Company are implemented by a Board of Directors comprised of 6 (six) people who shall be elected from among the natural persons or legal entities whom shareholders shall nominate under the provisions of the Turkish Commercial Code and the Articles of Incorporation of the Company by the General Meeting of Shareholders. In the event that any vacancy occurs in the memberships of the Board of Directors and committees during the term, provisions of the Turkish Commercial Code and the capital Market Act are applied.

15.1. Board of Directors of the Company was consisted of the following persons in 2016:

Chairman	: Ibrahim POLAT (Non-Executive Member)
Deputy Chairman	: Baran DEMIR (Non-Executive Member)
Deputy Chairman	: Bulent ZIHNALI (Executive Member)
Independent Member	: Ismet MILOR (Independent Member)
Independent Member	: Dilek Nam (Independent Member)
Member	: Ibrahim Fikret POLAT (Non-Executive Member)

Background of the Board of Directors Members and the General Manager:

15.2 Those in charge with executive board of Board of Directors

Deputy Chairman of Board of Directors : Bulent ZIHNALI

15.3. Background of the Board of Directors Members and the General Manager:

İBRAHİM POLAT

He keeps office as a Member of the Board of Directors.

Ibrahim Polat was born in the town of Askale in Erzurum in 1931. At a young age, he started to work as a construction contractor and built numerous exclusive buildings in Istanbul. He added ceramic healthcare equipment and mining and energy to his enterprises in the industrial sector which he started by erecting the Ege Seramik Factories in Izmir in 1972. He entered the tourism sector with the Istanbul Polat Hotel in 1993. Besides being a businessman and an entrepreneur, Ibrahim Polat, who places importance on social aids and investments, has also been involved in several foundations established for social and cultural purposes as well. He is also the author of a book entitled "My Sweat Blood" published in 2007.

BÜLENT ZİHNALİ

He keeps office as a Member of the Board of Directors.

Bulent Zihnali was born in Izmir in 1949. He graduated from the French Language and Literature Department of the Faculty of Administrative Sciences of the Hacettepe University with a master's degree. He served as a Social Worker at the Embassy of the Turkish Republic at Paris in 1974-1975. He started to work for Ege Seramik Sanayi ve Ticaret A.S., which was then being established, on 1 April 1975. After he has served as Personnel Supervisor, Commercial Assistant Manager, Commercial Manager, Assistant General Manager, General Manager, Industrial Coordinator and Head of Ceramic Group respectively, he keeps office as the Deputy Chairman of the Board of Directors and Head of Operations Group.

BARAN DEMİR

He keeps office as a Member of the Board of Directors.

He was born in Ankara in 1960. He graduated from the Economics-Finance Department of the faculty of Political Sciences. He attended graduation studies in Economics at the Western Michigan University in USA. He started his career as a Deputy Financial Analyst at the Ministry of Finance. Upon keeping offices as Financial Analyst and Chief Financial Analyst, he kept office as the Department Head at the General Directorate for revenues in the Ministry of Finance between 1991 and 1996. He started to work for Ibrahim Polat Holding A.S. in November 1996. He kept offices as the Holding General Manager and Financial Affairs Coordinator. He is now acting as the Head of Financial Affairs Group of Ibrahim Polat Holding A.S. and keeping offices as Deputy Chairman and Member of the Board of Directors in the group companies. He holds a certified public accountant's license and has articles published on taxation.

İBRAHİM FİKRET POLAT

He keeps office as a Member of the Board of Directors.

He was born in Boston, Massachusetts on 23/09/1984. He attended his primary education at Sisli Terakki Junior High School and his high school education at Ata Senior High School. He graduated from the Yeditepe University in 2010. He kept several offices at the group companies of Ibrahim Polat Holding during his education. Acting as a member of the Board of Directors at the group companies, Ibrahim Fikret POLAT started to act as a member of the Board of Directors of Ege Seramik Sanayi ve Ticaret A.S. in 2011. He speaks English.

İSMET MİLOR

He keeps office as an Independent Member of the Board of Directors.

He was born on 07.09.1935. He graduated from Staatliche Höhere Fach Schule (Germany) in 1967 and from the Ceramic Department of the Chemical Arts Institute (Ankara) in 1954. He acted as General Manufacturing and Technology Manager at Canakkale Seramik San. ve Tic. A.S.; Member of the Board of Directors and General Manager at Sogut Seramik Sanayi A.S.; Member of the Board of Directors and General Manager at Ege Seramik San. ve Tic. A.S.; Chairman of the Board of Directors at Aktur Turizm ve Endustri San. ve Tic. A.S. respectively. He keeps his office as Board Member in Aktur Turizm ve Endustri San. ve Tic. A.S. He speaks German.

DİLEK NAM

She keeps office as an Independent Member of the Board of Directors.

She was born on 07.07.1961. She graduated from the 9 Eylul University Department of Law. She acted as General Coordinator Assisstant in BMC Otomobilcilik ve Tic. A.S.; lawyer, self-employed lawyer in Bulut& Bulut Law Office, respectively; still acting as legal advisor in USA Air Forces 425th Air Base. She speaks German and English.

GÖKSEN YEDİĞÜLLER

He keeps office as the General Manager.

Goksen Yediguller was born in Izmir in 1963. He graduated from the Department of Economics of the Izmir Vocational College of the Dokuz Eylul University. He worked as a senior executive at such ceramic factories as Kutahya Seramik, Kalekim and Kale Pazarlama between 1986 and 2010. He started to work as the General Manager at Ege Seramik Sanayi ve Ticaret A.S. on 16 February 2010 and still keeps his office.

Statements of Independence of the independent members of the Board of Directors as included within the information document of General Meeting of Shareholders were made public on PDP on 17/04/2017 and such statements may be accessed on the web site of our Company.

Approval is obtained from the General Meeting of Shareholders as per the articles 395-396 of the Turkish Commercial Code in terms of the probability of the Chairman and Members of the Board of Directors to perform any operations contained in the subject matters of the Company on their own or on other parties' behalf or to be a shareholder in those companies performing similar operations.

There are no limitations on the members of board of directors concerning their appointments for various tasks either within the Group or outside of our Group.

Although there is no provision as to the election criteria of the members of the board of directors in the articles of incorporation of the Company, the existing members of our Board of Directors satisfy the criteria as contained in the Corporate Governance Communiqué serial no. II-17-1 of CMB. We do not have any members of the Board of Directors who fail to satisfy such criteria.

Two independent board members are nominated for the Nomination Committee and submitted to the approval of Board of Directors accompanied with the 11.04.2017 dated decision of Nomination Committee indicating that the nominated candidates are qualified with the independence criteria.

16. Operating Principles of the Board of Directors

According to the articles of incorporation of the Company, Board of Directors meets whenever it is required by the affairs of the Company. However, it is mandatory for the Board of Directors to hold a meeting minimum once in a month. Board of Directors convenes with minimum 4 members. Decisions of board of directors may be taken with the absolute majority of the meeting participants who participated into the board meeting both physically and over the electronic environment. The meeting form, meeting and decision-making quorums of the board, voting procedures and the duties, rights and powers of the board of directors are governed by the relevant provisions of Turkish Commercial Code and Capital Markets Code. Meetings of the Board of Directors were held and 30 individual resolutions made on various dates during year 2016. Members are convened for meetings in written and verbal forms through a convocation sent by the secretary of the General Manager.

It is stipulated in the articles “regulating the duties and powers of the Board of Directors” of the articles of incorporation of our Company that the Board of Directors should carry out task division at its very first meeting after their election by the General Meeting of Shareholders. Members of the Board of Directors carry out task division among themselves. They have appointed a General Manager or managers from among themselves or from the outside for the performance of the all or part of the operations of the Company. Members of the Board of Directors do not have any weighted and/or veto rights.

Members of our Board of Directors are given the permissions as stipulated in the article 395 regulating the prohibition of doing business with the Company and article 396 regulating the prohibition on competition of the Turkish Commercial Code at the General meeting of Shareholders every year. Resolutions for giving such permissions are included in the items of agenda prior to the meeting.

Board of Directors determines its members or external people whom it authorizes to represent the Company, the limits in which the general manager, managers and officials shall exercise their signatory powers and in what issues and the duration of such powers. Names and limits of power of the members of the Board of Directors and other people who have signatory powers are announced in detail in a circular letter. Although the powers and responsibilities of other the executives are not contained in the articles of incorporation, job descriptions showing powers and responsibilities of all the other employees including the senior executives have been established throughout the Company.

17. Number, Structure and Independence of the Committees Established within the Board of Directors

Due to the structure of the Board of Directors, structures and activities of the currently existing committees are being reviewed within the framework of the provisions specified in Communiqué on Corporate Governance (II-17-1) of the Capital Markets Board and with the participation of two persons among the members of the board of directors, the Audit Committee responsible from audits and Corporate Governance Committee were established accordingly. Duties and liabilities under the Early Detection of Risks Committee, Nomination Committee and Wage Appraisal Committee are being performed and fulfilled by the Corporate Governance Committee of our Company.

Audit Committee:

Audit Committee comprised of the independent members of the Board of Directors of our Company consists of non-executive members.

Chairman of Audit Committee : İsmet MİLOR (Independent Member)
Member of Audit Committee : Dilek NAM (Independent Member)

Audit Committee meets on quarterly basis and consists of two members. Audit Committee continuously receives information about their duties as stipulated in the legislation and reports to the Board of Directors their views and findings about the financial statements which show the quarterly performance of the Company and which shall be made public.

Corporate Governance Committee:

Corporate Governance Committee members were elected among the members of board of directors during 05.05.2016 dated General Meeting of Shareholders in order to officiate until the next General Meeting of Shareholders to be held and their task distributions were realized on the same date as follows:

		<u>Start Date</u>	<u>Leave Date</u>
İsmet MİLOR	Head of Corporate Governance Committee (Independent Member of Board of Directors)	05.05.2016	-
Baran DEMİR	Member of Corporate Governance Committee (Non-executive Member of Board of Directors)	05.05.2016	-
Aysel HATIPOĞLU	Member of Corporate Governance Committee (Investor Relations Director)	05.05.2016	-

Within the scope of the assignation carried out in the Board Resolution no. 2016-16 dated 05.05.2016, Corporate Governance Committee undertakes the tasks of;

- Nomination Committee,
- Early Detection of Risks Committee, and
- Wage Appraisal Committee. Early Detection of Risks Committee reviews the risk management systems at least once a year.

Committee members are elected from among those board members who have ability, experience and potential to execute their duties without prejudice.

The internal charters concerning the working rules and principles of the above mentioned committees can be accessed over the internet site of our Company from: www.egeseramik.com

18. Risk Management and Internal Audit Mechanism

Our Company is audited in terms of the compliance of any operations and activities carried out with both the legislation and the company policies by the Audit Committee and internal auditors. Audit Committee meets at regular intervals audits the financial statements and reports which are subject to or not subject to independent auditing of the Company, inspects the balance sheet and profit-and-loss accounts and their compliance with the accounting principles and standards as stipulated by CMB and submit the same to the Board of Directors for approval. Ege Seramik Sanayi ve Ticaret A.S., is awarded to hold Information Security Management System certificate in accordance with ISO/IEC 27001:2013 standard, that is to be effective as from 15 August 2016, through its proving itself in applications that are in compliance with the arrangements and towards certification procedures; and has performed significant developments in business processes.

Audits are carried out by independent external auditors and the results thereof are directly reported to the senior management of the Company. Remedies are sought and policies established for those problems reported via multi-directional publicity.

Corporate Governance Committee is responsible for making efforts for early diagnosis of the risks which may endanger the existence, development and continuation of the Company, for taking any necessary measures for identified risks and managing such risks and reviews the risk management systems at least once a year.

19. Strategic Goals of the Company

Our Company follows up any developments and innovations and brings the most advanced technologic investments in the country, creates employment, tries to take its exports further at all times and, most important of all, is aware of the fact that it is a “leading industrial corporation”. Our strategic goals are identified by the Board of Directors and our budgets are prepared on annual basis and any developments related to the budget targets are evaluated on monthly basis. Vision and mission of our Company have not been further made public, but disclosed in our activity report as well as in our corporate internet site.

20. Financial Rights Granted to the Board of Directors

Our waging policy for the Board of Directors and senior management has been published on our Company web site. As stipulated in the articles of incorporation of our Company, upon the deduction of the primary reserve fund and primary dividend from the distributable term’s profit, eight percent of the remaining amount is allocated to the holders of Group A shares and five percent to the holders of Group B shares. The resolution of Board of Directors with respect to no distribution of the profit of the year 2015; has been approved and accepted in the General Assembly Meeting. Company did not lend any credits, nor make available any loans to any members of the Board of Directors or executives nor make available any loans under the designation of personal loan through third parties nor extend such guarantees as surety in their favour.

Amounts and payment dates of any attendance fees, remuneration and similar benefits other than dividends which may be paid to the members of the Board of Directors are determined and fixed by the General Meeting of Shareholders. Principles for fixing the remuneration of the members of the Board of Directors and senior executives have been put into writing. Waging policy is submitted to the shareholders for information as a separate item at the General Meeting of Shareholders and shareholders are provided with an opportunity to give their opinion on the matter. The waging policy arranged for such

purposes is available on our company internet site. For the remuneration of the independent members of the Board of Directors, payment schemes basing upon the share certificate options or company's performance shall not be employed. Remuneration of the independent members of the Board of Directors is fixed at a level which shall allow them to maintain their independence pursuant to the regulations of the Capital Market Board.

It was resolved at the General Meeting of Shareholders held on 05.05.2016 that those members of the Board of Directors who had been elected as independent members of the Board of Directors would be paid an attendance fee of TRY 5.500,- per month.

Also, health and life insurance is purchased for our senior executives every year. Such payments as salaries and bonuses amounting to TRY 3.250.686,- were made to our senior executives in 2016.

18. RELATED PARTY TRANSACTIONS IN THE YEAR 2016 AND FORECASTING REPORT ON WIDESPREAD AND CONTINUOUS RELATED PARTY TRANSACTIONS IN THE YEAR 2017

The detailed table concerning the transactions realized with the related parties in year 2016 within the scope of General Communiqué on Corporate Tax includes the transactions with regard to transfer pricing.

The main area of activity of Ege Seramik Sanayi ve Ticaret A.S. consists of manufacturing and sales of wall and floor ceramic tiles. The sales revenues earned by the Company as a result of its overall activities during the period of 01.01.2016- 31.12.2016 is amounted as TRY 332.908.946,92.

Our sales analysis realized in 2016, as total sales; TRY 332.908.946,92 (Domestic Sales TRY 209.453.171,86 + Export Sales TRY 118.362.056,80 + Other Income TRY 5.093.718,26) and 29% of this sales amount consisting of our sales realized with the related parties, has been given in the table. Related party sales concerning the main area of activity were realized as 28,79% of the total sales. Detailed information has been submitted to your information through balance sheet footnotes.

During the determination of the arm's length price for the activities realized by Ege Seramik Sanayi ve Ticaret A.S., the function/risk/utilized assets analyses were conducted and in the light of the internal precedents, Comparable Uncontrolled Price Method and Resale Minus Method were selected as the most suitable pricing methods.

Pursuant to the provisions of Article 10 under the heading "Widespread and Continuous Transactions Realized With Related Parties" of the "Communiqué on Corporate Governance" with Serial No: II-17-1 of the Capital Markets Board of which was published in the Official Gazette No. 28871 on 03.01.2014 and in line with the sales data of our Company during year 2016, the following were forecasted within the scope of financial sales and purchase forecasts report for year 2017 in relation to the Widespread and Continuous Transactions Realized With Related Parties of our Company, namely; **Egeseramik İç Ve Dış Ticaret A.S.** and **Ege Seramik America INC.** trade named companies. With regard to the total amount of widespread and continuous transactions to be realized with the aforementioned companies within one accounting period, the following matters were forecasted and disclosed to the public pursuant to the regulations of the CMB as indicated in our annual financial statements as follows:

- a) Total of sales to cost ratio occurred according to the final annual financial statements that were disclosed to the public during the purchase transactions of our Company, and plus
- b) Sales to revenue ratio occurred according to the final annual financial statements that were disclosed to the public during the sales transactions of our Company are forecasted to reach up to 10% and more.

In the said Forecasting Report it was examined that whether or not the sales realized by our Company in year 2016 to **Ege Seramik İç Ve Dış Ticaret A.S.** and **Ege Seramik America INC.** trade named companies were reasonable or not when compared with the prices and profit sharing ratios that were applicable to the unrelated third parties. Accordingly, within this scope, we hereby confirm that the conditions and profit sharing ratios applicable for the transactions realized with the related parties were fair and reasonable within fair market conditions.

19. PROPOSAL FOR THE DISTRIBUTION OF 2016 PROFIT

Out of our Company's post-tax term's profit of TRY 25.283.356,89 which occurred according to the financial statements dated 31.12.2016 issued pursuant to the provisions of the Procedural Code of Taxation, a net distributable term's profit of TRY 24.019.189,04 occurs in our legal records upon the allocation of TRY 1.264.167,85 as general legal reserve fund. On the other hand, out of our Company's post-tax term's profit of TRY 29.125.872,00 which occurred according to the financial statements dated 31.12.2016 issued pursuant to the provisions of the Capital Market Legislation, a net distributable term's profit of TRY 27.861.704,15 occurs in our legal records subsequent to allocation of TRY 1.264.167,85 as general legal reserve fund and a donation-added; net distributable term's profit of TRY 27.861.704,15 is calculated; as there is no donation made in the year 2016.

Accordingly, it has resolved unanimously to submit for the approval of shareholders in the General Assembly, the following items in the meeting to be held with reference no. 2017-10 and date 17/04/2017 of our Board of Directors;

- No dividend from net distributable term's profit shall be provided to the members of Board of Directors,
- To pay TRY 5.572.340,83 to the Shareholders as the first dividend,
- To distribute TRY 2.897.617,23 to the privileged shareholders as dividend,
- The remaining amount subsequent to deduction of TRY 471.995,81 as general legal reserve, in the financial statement arranged pursuant to Procedural Code of Taxation; shall be entered in our legal records as extraordinary reserves.
- To make the payments to the beneficiaries on 2 June 2017.

Statement of Profit Distribution is as follows :

EGE SERAMİK SANAYİ VE TİCARET A.S. Year 2016 Profit Distribution Statement (TRY)			
1. Paid-in/Issued Capital		75.000.000,00	
2. General Legal Reserve Fund (by legal records)		-15.431.359,66	
Information on any privilege in profit distribution pursuant to the articles of incorporation, if there is any such privilege		Out of the portion remaining upon the allocation of primary dividend, - 8% to holders of Group A stocks - 5% to the holders of Group B stocks	
		As per CMB	As Per Legal Records (LR)
3.	Profit for the Period	33.442.636,00	31.461.008,26
4.	Payable Taxes (-)	(4.316.764,00)	(6.177.651,37)
5.	Net Term's Profit (=)	29.125.872,00	25.283.356,89
6.	Losses of Previous Years (-)	0,00	0,00
7.	General Legal Reserve Fund (-)	1.264.167,85	1.264.167,85
8.	NET DISTRIBUTABLE TERM'S PROFIT (=)	27.861.704,15	24.019.189,04
9.	Donations made during the year (+)	0,00	
10.	Donation-added net distributable term's profit	27.861.704,15	
11.	Primary/First Dividend to Shareholders (*)	5.572.340,83	
	-Cash	5.572.340,83	
	-Free	0,00	
	- Total	0,00	
12.	Dividend Distributed to Holders of Privileged Stocks	2.897.617,23	
	Holders of Group A Stocks	1.783.149,07	
	Holders of Group B Stocks	1.114.468,17	
13.	Other Distributable Dividend	0,00	
	- Members of Board of Directors		
	- Employees		
	- Dividends to other persons other than shareholders		
14.	Dividend Distributed to Dividend Stocks	0,00	
15.	Secondary Dividend to Shareholders	0,00	
16.	Secondary Legal Reserve Fund (-)	471.995,81	
17.	Statutory Reserves	-	-
18.	Special Reserves	-	-
19.	EXTRAORDINARY RESERVE FUND	18.919.750,28	15.077.235,17
20.	Other Resources Prescribed to Distribute		
	- Profit of Previous Year		
	- Extraordinary Reserves		
	Other Distributable Reserves		

DIVIDEND RATES CHART						
INFORMATION OF DIVIDEND PER SHARE						
	GROUP	TOTAL DISTRIBUTED DIVIDEND		TOTAL DISTRIBUTED DIVIDEND / NET DISTRIBUTABLE TERM'S PROFIT	DIVIDEND FALLING UPON A SHARE WITH A FACE VALUE OF TRY 1,-	
		CASH (TRY)	FREE (TRY)		AMOUNT (TRY)	RATE (%)
GROSS	A	1.783.149,07			148.595,76	14.859.575,55
	B	1.114.468,17			61.914,90	6.191.489,81
	C	5.572.340,83			0,0743	7,4298
	TOTAL	8.469.958,06				
NET	A	1.515.676,71			126.306,39	12.630.639,21
	B	947.297,94			52.627,66	5.262.766,34
	C	4.736.489,71			0,0632	6,32
	TOTAL	7.199.464,35				
AMOUNT OF DIVIDEND DISTRIBUTED TO SHAREHOLDERS (TRY)	RATIO OF DIVIDEND DISTRIBUTED TO SHAREHOLDERS TO DONATION-ADDED NET DISTRIBUTABLE TERM'S NET PROFIT (%)					
5.572.340,83	20,00%					