


## Corporate Governance Rating Report

This Report has been prepared by JCR-ER in compliance to the regulations of Capital Market Board of Turkey

**REIT**

		<b>8.53</b> AAA(Trk)/a (Positive)
Corporate Governance Score & Outlook	<b>8.66</b> AAA(Trk)/a (Stable)	<b>8.66</b> AAA(Trk)/a (Stable)
	<b>8.89</b> AAA(Trk)/a (Positive)	<b>8.89</b> AAA(Trk)/a (Positive)
	<b>7.91</b> AA(Trk)/bb (Stable)	<b>7.91</b> AA(Trk)/bb (Stable)
	<b>8.26</b> AA(Trk)/bbb (Positive)	<b>8.26</b> AA(Trk)/bbb (Positive)

İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.							
Financial Data	Sept, 2012	2011*	2010*	2009*	2008*	2007*	2006*
Total Assets (USD mn)	731	615	709	672	640	772	631
Total Assets (TL mn)	1,304	1,161	1,096	1,012	968	899	887
Equity (TL mn)	1,054	1,034	990	952	914	883	828
Sales (TL mn)	97	123	96	89	81	213	59
FFO (TL mn)	66	81	71	73	78	42	83
EBITDAR (TL mn)	64	83	68	63	54	180	83
Net Profit (TL mn)	50	67	61	60	53	55	49
Net Profit Margin (%)	n.a	54.22	63.76	67.82	65.64	25.83	82.55
ROAA (%)	n.a	5.94	5.79	6.10	5.70	6.17	n.a
ROAE (%)	n.a	6.63	6.28	6.47	5.92	6.44	n.a
Equity/Total Assets (%)	80.82	89.10	90.31	94.06	94.44	98.23	93.43
NW Capital/Assets (%)	12.41	10.16	6.26	12.90	10.54	13.09	-2.84
Debt Ratio %	19.18	10.90	9.69	5.94	5.56	1.77	6.57
Asset Growth Rate (%)	12.33	5.91	8.36	4.56	7.62	1.42	n.a

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Company Information	
<b>Trade Name</b>	İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
<b>Address</b>	İş Kuleleri Kule-2 Kat:9 4. Levent 34330 İstanbul
<b>Chairman</b>	Mr. Aydın S. ÖNDER
<b>General Manager</b>	Mr. Turgay TANES
<b>Investor Relations</b>	Phone: +90 (212) 325 23 50 investorrelations@isgyo.com.tr
<b>Web</b>	www.isgyo.com.tr
<b>Corporate Governance</b>	Mrs. Ayşegül ŞAHİN KOCAMEŞE

\*End of year

### Overview

İş Gayrimenkul Yatırım Ortaklığı A. Ş. (Company or ISGYO) was established under the name İş Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. by parent company İş Bankası A. Ş. and its affiliates in September 1998. After taking over Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. the Company was converted into a real estate investment trust (REIT), completed its IPO and began public trading on the Istanbul Stock Exchange (ISE) in December 1999. As of September 2012, the Company had a free float of 42% of its capital. ISGYO currently ranks as the 3<sup>rd</sup> largest REIT with 6% of market share in terms of Mcap.

ISGYO carries out activities in the investment and development of real estate project in Turkey. The Company has a profitable and debt free balance sheet; its investments were funded with its equity. Since 2005 the Company has been listed on the ISE's Dividend Index due to its consistent distribution of dividends to shareholders.

The controlling shareholder with 42.2% of shares İş Bankası A.Ş., one of the largest retail banks in Turkey, holds privileged shares of ISGYO that determine the majority of the Board. In addition, some Bank affiliates have 16% of the capital.

ISGYO not only stands out for its main activities but also for good corporate governance practices such as investor relations, transparency, internal control and risk management. The Board of Directors is composed of 5 non-executive members, two of whom are independent. Three functional committees have been established under the scope of the Board; Audit, Corporate Governance and Risk committees.

### Strengths

- A functional Shareholders Relations Unit
- An effective transparency platform in Turkish and English languages through the Company's website
- Effective system of reporting, monitoring and auditing
- High Board Member and Senior Management qualifications in terms of education and track record
- A management very eager to progress in the corporate governance field
- Absence of any lawsuit against the Company from stakeholders
- Consistent distribution of dividends to the shareholders

### Constraints

- Absence of internal regulations to broaden the exercise of minority rights beyond the current legislation
- Absence of an incentive system based on performance evaluation for Board members
- Absence of any regulation in the articles of association with regard to shareholders' rights to demand a special auditor as an individual right

Publication Date: December 27, 2012

"Global Knowledge supported by Local Experience"

## 1- Executive Summary and Rating Rationale

This report was prepared in light of JCR-ER's original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Market Board (CMB) and states the Company's level of compliance with corporate governance principles as of December 2012.

CMB Corporate Governance Principles were first published in 2003 and important revisions and changes were made at the beginning of 2012. The Principles, detailed in communiqué Serial: IV, No: 56 are accessible on [www.spk.gov.tr](http://www.spk.gov.tr)

The Board of Directors, shareholders' rights, stakeholders' rights and Company practices in terms of public disclosure and transparency have been assessed within the framework of the CMB regulations and information as well as findings ascertained therein and has been quantified by assessments regarding weighting factors on which JCR ER has predicated the subcategories.

Subject to the preservation of integrity of regulations by the CMB and compliance with the limitations thereof, this report also covers such topics as implementations regarding "Outlook" determinations and "Financial Efficiency" analyses all of which exist in JCR ER's original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Company to the public through various channels and also submitted to JCR ER in writing and verbally, as well as reports and statistics by the CMB and Central Registry Agency (CRA).

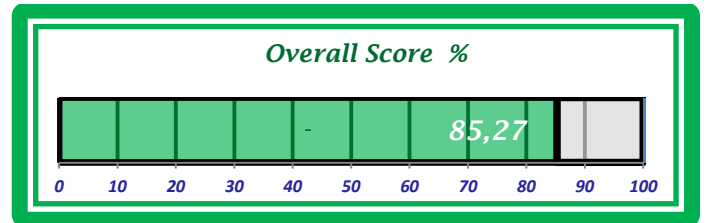
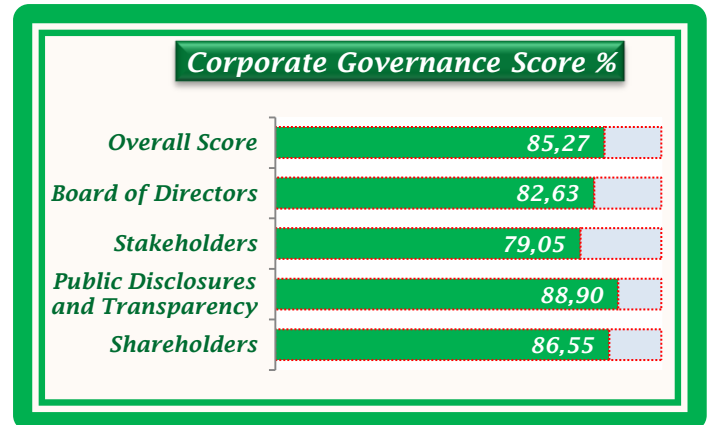
Through the analysis of JCR ER's original methodology, the general compliance level of ISGYO with corporate governance principles as of December 2012 and the corresponding levels within the JCR ER's notation have been determined as follows;

- Numerical value of **8.53**
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree (**a**) representing the category of "**Excellent**",
- Outlook (**Positive**)

Distinct levels of 4 main categories regarding compliance with the corporate governance principles are exhibited in the following table. Overall score has been assigned based on weightings assessed for these 4 categories by CMB regulations.

Fields	Numerical Value	Convergence Level	Notch Degree	Outlook
Shareholders	86.55	AAA (Trk) (Distinctive)	(a) (Excellent)	Stable
Public Disclosures and Transparency	88.90	AAA (Trk) (Distinctive)	(a) (Excellent)	Positive
Stakeholders	79.05	AA (Trk) (Merit)	(bb) (Good)	Stable
Board of Directors	82.63	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
<b>Overall</b>	<b>85.27</b>	<b>AAA (Trk) (Distinctive)</b>	<b>(a) (Excellent)</b>	<b>Positive</b>

JCR ER's notation system may be reached via the following link:[http://www.jcrrer.com.tr/Administrator/files/436\\_kyder\\_notation.pdf](http://www.jcrrer.com.tr/Administrator/files/436_kyder_notation.pdf)



Corporate Governance Overall Results
<b>8,53</b>
<b>AAA (Trk)/a</b>
<b>Positive</b>

## Outlook

JCR-ER believes that the compliance level attained by the Company in the Overall will be maintained during the 12 month monitoring period. Additionally, the Company plans to make some improvement in the Public Disclosure and Transparency and the Board of Directors sections,

therefore has determined the outlook for the overall to be "Positive".

## 2- Company Overview

İş Gayrimenkul Yatırım Ortaklığı A. Ş. was established under the name İş Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. by its parent company İş Bankası A. Ş. and its affiliates in September 1998. The Company aims to invest in real estate, real estate project, rights based on real estate and other capital market instruments. After taking over Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. the Company was converted into a real estate investment trust (REIT) and completed its IPO. Shares began public trading on the Istanbul Stock Exchange (ISE) in December 1999. As of September 2012, the Company had a free float of 42% of its capital.

According to 3Q2012 financial statements, the Company had an asset size of TRY1.304 bn., an equity amount of TRY1.054 bn., a total sales TRY97.1 mn. and a net profit of TRY49.6 mn. Some of the key balance sheet figures and ratios can be found in Table: 3 in the appendices.

As of September 2012, the number of total REITs on the ISE reached 24 with a market capitalization of TRY7.614bn. ISGYO is currently the 3<sup>rd</sup> largest REIT with a 6% market share and \$520mn. Mcap.

According to the current shareholder structure disclosed on the Company's website, İş Bankası A.Ş. is the major shareholder, with a 42.2% share. Additionally, 857.142 shares (0.14%), which have the privilege of determining the majority of the Board members, are owned by İş Bankası A.Ş. Of the other remaining shares, Anadolu Hayat Emeklilik A. Ş. holds 7.1%, Anadolu Anonim Türk Sigorta Şirketi A. Ş. 4.8%. 3.9% are held by other shareholders and 42% are publicly traded on the ISE.

Kanyon Yönetim İşletim ve Pazarlama Limitet Şirketi and Nest in Globe B.V. are the two affiliates of ISGYO These consolidated affiliates are shown in the Table: 2 in the Appendices. The aim of Nest in Globe B.V. is to invest in real estate projects abroad.

The Group carried out its operations with a labour force of 53 as of December, 2012. The average age of the Company's staff is 36. 47 percent of employees are women, and 57 percent has received a graduate and 28 percent a postgraduated level education.

ISGYO's Board of Directors consists of 5 members. All members are non-executive and two independent. The Audit, Corporate Governance and Risk committees, composed of all independent members, were established under the scope of the Board. Detailed information on the Board is presented in Table: 4.

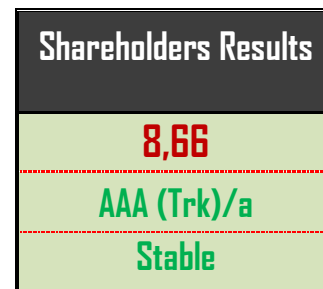
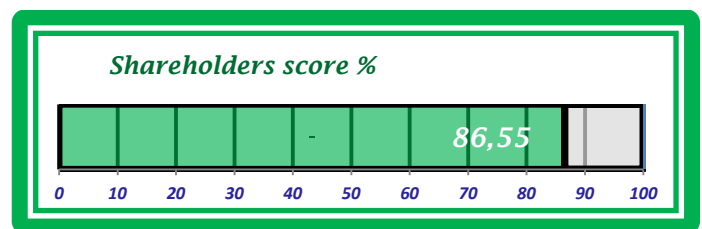
## 3- Shareholders

Within the content of the Shareholders field and in accordance with CMB regulations and original methodological procedures of JCR-ER, the findings of levels attained in the following topics have been further highlighted: assurance of individual and minority rights by internal regulations, execution of implementations which facilitate the exercise of these rights, providing flow of exact, timely and accurate information to the shareholders.

Voting rights, right to information, dividend rights, right to share on balance of liquidation, preferential rights, right to transfer of shares and right to sue against decisions of a general meeting have been analyzed as the most important topics among individual rights of the shareholders. Among minority rights, the right to call a general meeting, right to raise a point of order in a general meeting, right to demand a special auditor, right to adjourn balance sheet discussions for 1 month and right to file a liability suit against board of directors and auditors has been analyzed.

Through the analysis of data gathered during the rating process, the compliance level of ISGYO in the Shareholders section and the corresponding levels within the JCR ER's notation have been determined as follows;

- Numerical value of **8.66**,
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree (**a**) representing the category of "**Excellent**",
- Outlook (**Stable**)



Compliances, non-compliances and aspects to be improved by ISGYO within the rules and implementations in the Shareholders section are summarized in the table below:

<b>Synopsis Table - (Shareholders)</b>	
<b>Plug-Compatible</b>	
1	Having a functional Investors Relations Unit
2	Holding general meetings in high compliance with the Code
3	Disclosure of related general meeting documents to the public
4	Consistent and regular distribution of cash dividends
5	Facilitating the use of shareholders' rights
6	Absence of any internal regulations impeding share transfers
7	Absence of any evidence indicating discrimination among shareholders
<b>Not Compatible</b>	
1	Absence of any regulation in the articles of association with regard to shareholders' rights to demand a special auditor as an individual right
2	Absence of any regulations in the articles of association to broaden the exercise of minority rights beyond the current legislation

The Shareholders section is composed of 7 subsections. The compliance level of Company with and the activities conducted for the standards under these subsections are detailed below:

### 3.1- Simplifying Exercise of Shareholding Rights

ISGYO has a functional Shareholders Relations Unit with three specialists operating in the Risk Management and Investor Relations Department. Ms. Mine Kurt conducts the activities and the department is lead by manager Ms. Ayşegül Şahin Kocameşe who has the corporate governance rating certificate which is compulsory according to CMB regulations. Operating procedures regarding tasks and delegations of the department are put into writing and known by the staff.

The unit, in addition to its basic responsibilities of securing the flow of information between the Company and its shareholders and facilitating the exercise of the shareholding rights, organizes the general meetings and manages capital increases. Reasonable questions by current and potential investors are addressed by the Unit Manager via phone or email. Relations with MKK (Central Registry Agency) are conducted by this Unit and the shares in circulation are closely followed up.

In addition, publicity meetings and presentations aimed at potential institutional and individual investors are also arranged by this department with the support provided by top level managers. In 2012, 77 meetings with 108 foreign and domestic investors were organized locally and abroad by the Company.

### 3.2- Rights to Information and Examination

Shareholders are provided with all necessary information and documentation by the well-organized shareholders Relations Unit via web site, phone or email. Through this flow of information, no evidence of discrimination among shareholders was observed. Within the internal regulations of the Company, there can legally be no hindrance to the exercise of shareholders' rights to sue. Additionally, no revocatory action against the general meeting resolutions by the shareholders in the past was found.

Shareholders have no right in the Articles of Association to demand the appointment of an independent auditor to investigate a special case – as is the common practice in Turkey. Altogether this right exists for the minority shareholders in the Turkish Commercial Code; the shareholders other than the minority with less than a 5% share in capital are not entitled to the right to demand the appointment of an independent auditor.

### 3.3- Right of Access to General Shareholders Meeting

The Shareholders Relations Unit organizes the general meetings. The ordinary general meetings are held at the end of March. It can be stated that these meetings were held in compliance with legislation and corporate governance principles.

The shareholders were informed of invitations to meetings 21 days prior to the meetings via national newspapers, trade registry gazette, the Public Disclosure Platform (PDP) and the website. The invitation text contains a detailed document depicting shareholder participation process and agenda. Financial statements, annual report, amendments to the articles of association, current and to-be-amended texts of the related clauses and other relevant documents with the agenda are disclosed to the public via the website 3 weeks prior to the meeting.

Meetings are held in İş Towers in a hall large enough to host all participating shareholders. It is understood through interviews with managers that the meetings were held in compliance with code and democratic rules. Following the presentations by the managers and auditors, the agenda items are individually discussed, each shareholder has the opportunity to speak and their proposals and queries are answered by the auditors and managers. Agenda items are individually voted and votes are counted and placed on the minutes before the end of the meeting. Moreover, the dissenting opinions by the shareholders are included in the minutes.

Such documents as text of invitation, meeting agenda, list of attendants, minutes and other relevant documents are placed on the official website of the Company in a reasonable timeframe both in Turkish and English languages.

On the other hand, there is no provision in the articles of association to invite stakeholders and media to meetings without any right to speak.

### 3.4- Voting Rights

Of the 2 categories of the shares, A and B, the A group shares have only the privilege to determine the majority of the Board members. This situation does not comply with corporate governance principles. However, the major shareholder İş Bankası A. Ş. which holds these privileged shares already owns the majority of the shares of the Company. Therefore, the election of the Board members is based not on the privileges but by the shares constituting the innate majority. Thus, the privileges on A Group shares constituted through the articles of association become dysfunctional. Additionally, the mentioned privilege is disclosed to the public clearly on the Company's website.

There are no privileges other than mentioned above paragraph on the Company's shares in other matters and the rule of one-share-one-vote is applied. The voting rights stem from the possession of shares and voting rights may be exercised both by the shareholders themselves or their proxies. Proxy forms are made available to the shareholders both on the website and invitations.

The Shareholders Relations Unit mobilizes all facilities for the shareholders to exercise their voting rights. The guide describes how to participate in the general meetings and how to vote is placed on the website.

As a result, with the exception of the existence of the dysfunctional privileged shares, ISGYO fully complies with the rules and implementations in this subsection.

### 3.5- Minority Rights

Shareholders with more than 10% and 5% shares according to the Turkish Commercial Code and Capital Market Law, respectively, are entitled to minority rights. The recognition of minority rights to all shareholders beyond the current legislation was recommended by CMB Code. However, publicly traded companies have not shown any action to date in this regard. There are no clauses in the articles of association of ISGYO to broaden the exercise of minority rights beyond the current legislation. However, despite this non-compliance, the Company respects all rights of the shareholders and there is no evidence of violations to minority rights.

### 3.6- Dividend Rights

ISGYO has a publicly disclosed dividend distribution policy which fully complies with CMB principles by the Board and approved by the shareholders in the general meeting.

No shareholder has any privilege in terms of dividend rights. The Board of Directors' resolution is approved by the shareholders in the general meeting. The retained amounts of profits are transferred to extraordinary reserves by disclosing the grounds for the action and its uses. The Dividend Distribution Table of recent years can be easily reached through the website of the Company.

Because of the consistently dividend distribution, the Company was included on the ISE Dividend Index.

There is no provision in the articles of association about the advance dividend and consequently no implementation in the advance dividend so far.

### 3.7- Share Transfer

There is no provision in the articles of association to hindrance on the transfer of shares. Hence, the Company is fully compliant in this subsection.

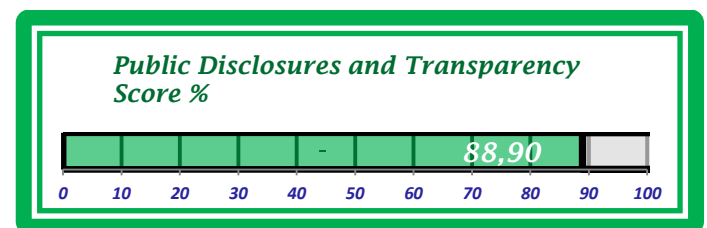
### Outlook

With the opinion that the high compliance level of the Company will be maintained during the 12 month monitoring period, the outlook for this main section has been determined as **"Stable"**.

## 4- Public Disclosure and Transparency

The compliance level of the Company with the rules and implementations in this main section set by the CMB Code which provides the disclosure of information and documents needed by shareholders and stakeholders while protecting trade secrets and the corresponding levels under the JCR-ER notation system are presented below:

- Numerical value of **8.89**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree (**a**) representing the category of **"Excellent"**,
- Outlook (**Positive**)



<b>Public Disclosures and Transparency Results</b>
<b>8,89</b>
<b>AAA (Trk)/a</b>
<b>Positive</b>

The Company's compliance and non-compliance within the rules and implementations in the Public Disclosures and Transparency section are summarized in the table below:

<b>Synopsis Table (Pub. Discl. &amp; Transparency)</b>	
<b>Non-Compliant</b>	<b>Plug-Compatible</b>
1	Existence of an information policy and the equipment and expert staff necessary to implement this policy
2	Official KAP disclosures performed in an exact, accurate and timely manner
3	Disclosure of all information and documentation about the Company within a reasonable time in Turkish and English in the website
4	Transparency of the shareholder structure and disclosure of ultimate shareholders
5	Utmost safety measures taken for protection of trade secrets and significant information
6	Periodic disclosure of commercial and financial affairs with the related entities
<b>Non-Compliant</b>	<b>Partially Compatible</b>
1	Annual reports needed to be improved regarding full compliance with the Code

The Public Disclosures & Transparency section is composed of 3 subsections. The compliance level of Company with and the activities conducted for the standards under these subsections are detailed below:

#### 4.1- Guiding Rules and Facilities for Public Disclosure

A comprehensive information policy has been prepared by the Board of Directors to serve as a basis for all disclosures to the public and is disclosed on the Company's website. The Shareholders Relations Unit and Corporate Communications Unit are responsible for the implementation of this policy. Disclosures to the PDP, press releases, presentations to the researchers and investors, etc. are realized within the scope of this policy.

Ms. Ayşegül Ş. Kocameşe and Ms. Mine Kurt are responsible for disclosures to the PDP, to which 89 material disclosures were sent in 2012. An information policy and system has been established that allows for seamless disclosure. The functioning of the system is also highlighted as the Company was not asked for additional information following these disclosures, was not delisted from the ISE and did not receive any warning and penalty from ISE and CMB on the grounds of misleading or missing information.

ISGYO provides information and documentation to the e-Governance Portal in the CRA's website in order to facilitate the use of shareholders' rights.

The Company also discloses expectations and predictions which are consistent with its financial statements and results about its activities if requested by investors and analysts.

The Information Technologies Unit both meets the software requirements of the Company and secures the protection of commercial information in the electronic environment. Significant information on customers and suppliers and Company data are backed up in the headquarters and different sites in Istanbul.

#### 4.2- Web Site

ISGYO's website, [www.isgyo.com.tr](http://www.isgyo.com.tr), is a good transparency platform, kept up-to-date to provide important information about the Company to its investors and stakeholders in Turkish and English. The website contains:

- ✓ Trade registry information
- ✓ Information about the Company
- ✓ Information about the REIT Sector
- ✓ Articles of association
- ✓ Annual and audit reports, portfolio tables, investors presentations,
- ✓ General shareholder meeting documents; invitations, meeting minutes, list of attendees, proxy voting form etc.
- ✓ Board members and top managers' CVs
- ✓ Stock performance
- ✓ Disclosure of material events
- ✓ Dividend and capital increase tables
- ✓ Company policies; dividend, disclosure, code of conduct, human resource, social responsibility and donations etc.
- ✓ Contact information

The Company has no individual controlling shareholder. All institutional controlling shareholders and the Company's capital structure were disclosed on the website.

#### 4.3- Annual Report

The Company regularly publishes an annual report about its last period activities which is disclosed on the website. This report was prepared with a high level of compliance with the code. However, some information necessitated by the code is not included. Inclusion of this information in the reports in the following periods will improve the compliance level of the annual reports. The subjects not included in the annual report are:

- ✓ Information about the meeting of Board and committees,
- ✓ Information about the remunerations of Board members and top managers per person,
- ✓ Annual targets, degree of realization and grounds for departures from these targets,
- ✓ Information on internal control and audit systems and opinions of independent auditors on these systems,
- ✓ Information on suits filed against the Company,
- ✓ Warnings, penalties, commendations, etc. by public authorities,
- ✓ Information about the related parties' transactions.

Stakeholders Results
<b>7,91</b>
<b>AA (Trk)/ bb</b>
<b>Stable</b>

Compliances, non-compliances and necessary improvements by the Company within the rules and implementations in the Stakeholders section are summarized in the table below:

### Outlook

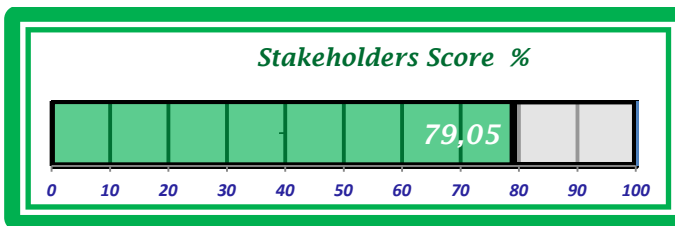
JCR-ER believes that the compliance level attained by the Company in Public Disclosures and Transparency section will be maintained during the 12 month monitoring period. Additionally, the Company plan to publish the annual report with the information which mentioned above. This improvement will increase the Company's compliance level. Therefore, the outlook for this main section has been determined as "**Positive**".

### 5- Stakeholders

Company employees, it's the exception of upper-level managers, customers, suppliers, creditors, public authorities and the public in general are considered stakeholders of an institution. The rules and practices in this main section primarily aim to secure the rights of stakeholders and to facilitate exercise of their rights, thus to maximize their contributions to the institution.

Through the analysis of the data gathered during the rating process, the compliance level of ISGYO in this section and the corresponding levels within the JCR ER's notation have been determined as follows;

- Numerical value of **7.91**,
- Convergence Level **AA(Trk)** representing the category of "**Merit Compliance**",
- Notch degree (**bb**) representing the category of "**Good**",
- Outlook (**Stable**)



<b>Synopsis Table-(Stakeholders)</b>	
<b>No</b>	<b>Plug-Compatible</b>
1	Absence of any lawsuits by stakeholders against the Company
2	Strong personnel commitment
3	Existence of the mechanisms to provide participating of the staffs To the making-decision process
4	Good relationships with customers and suppliers
5	Establishment of a comprehensive and publicly disclosed set of ethical rules
6	Social Responsibility and Donation Policy and Good implementations
<b>No</b>	<b>Not Compatible</b>
1	Absence of an communication channel to securely inform the audit committee of illegal and unethical activities

The Stakeholders section is composed of 5 subsections. The compliance level of the Company with and the activities conducted for the standards under these subsections are detailed below:

#### 5.1- Company's Stakeholders Policy

ISGYO has a Personnel Regulation and an established human resources policy and all Employees sign a service contract. These internal personnel regulations provide the protection to the staff and encourage them to join the making-decision process.

The Company arranged contracts in accordance to relevant law to manage relationships with customers and suppliers. Relations with staff, customers and suppliers are conducted within the scope of these contracts and internal regulations. It is considered that the Company's management deals fairly with fulfilling the commitments ascribed by these contracts. In this respect, no evidence of any substantial lawsuit by stakeholders against the Company was found.

Through meetings with officials during the rating process, it is believed that the Company's Board conducts its role of a moderator at a level sufficient to solve problems impartially through settlement in the resolution of conflicts of interest and disputes arising between the various stakeholder groups.

The staff and other stakeholders were informed regularly on issues which concern them. The staff is able to inform the internal audit department via phone or email in the event of any illegal or unethical activity. However, a more secure communication channel for the user in these cases has not been yet established.

### **5.2- Supporting the Stakeholders for Participation in the Governance by the Company**

ISGYO's Board is composed of three İř Bankası A. Ş. representatives and two independent members. There is no representative from the stakeholders. However, the representation of staff and other stakeholders in the Board is not an observed practice in Turkey. This is also valid for ISGYO.

The Company and the controlling shareholder İř Bankası are managed by professionals. It can be suggested that the participation level by staff in particular and other stakeholders in managerial implementations and decision-making process in ISGYO is higher than other publicly traded companies. The company also considers the stakeholders' demands and expectations in the decision-making process.

### **5.3- Company's Human Resources Policy**

Personnel Regulation includes the rules in this field in detail. For the implementation of this policy, a Human Resources Unit led by Ms. Pınar Ersin Kollu was established, exclusively employing 3 specialists in a separate office space with adequate technical infrastructure. All personnel files are securely archived.

Recruitment, promotion, assignment and dismissal are realized within the framework of the staff regulation. Decisions pertaining to these activities are taken following meetings between the human resources manager, related department manager and general manager. The Company hired 9 employees and two employees resigned in 2012. No suit was filed against ISGYO by the staff in this period.

The criteria on which assignment, promotion and incentives are based are determined through performance evaluations held periodically covering all Company staff and performed by the employee's manager.

Staff training activities are also performed under the responsibility of the Human Resources Unit. Each department manager identifies staff training needs and submits it to the Human Resources Unit. Taking the general staff profile into consideration, ISGYO can be assessed as

a Company with well-educated staff. Currently, 57% of the staff holds undergraduate degrees and 28% graduate degrees. Additionally, professional educations in technical fields are continuously maintained.

As a general assessment, no finding has been observed evidencing any discrimination on the bases of religion, race or sex among the staff in terms of recruitment, promotion, dismissal, educational facilities and performance evaluation. 46% of the staff is composed of women. In addition, women hold managerial positions in the Company.

The staff does not have any union organization; however this noncompliance does not create any abuse or conflict of interest with regard to the Company's scale.

### **5.4- Company Relations with Creditors, Depositors, Customers and Suppliers**

ISGYO's customers' base is composed of lessees and buyers. Customer relationships are conducted under the framework of signed contracts and managed by the Corporate Communication and Marketing Department. Customer complaints and queries can be submitted to the department manager and via phone or email in the Company website. No lawsuit was filed by the customers against the Company. No warning or penalty was inflicted upon the Company by CMB and ISE regarding its customers during 2012.

The Company's suppliers are business entities such as contractors, sub-contractors, independent audit firms, credit rating agencies, etc., which offer services in specialized areas. The relations with these are also realized through framework contracts. During 2012, no suits were filed by the suppliers against the Company.

Trade secrets and inside information of customers and suppliers are secured by the Company as its own ones. There are provisions in the ethical rules and staff regulations regarding this and the IT department takes measures to prevent unauthorized access to this information in the electronic environment.

### **5.5- Code of Ethics and Corporate Social Responsibility**

ISGYO has a set of ethical rules submitted for approval of the Board of Directors and disclosed to the public. The Board is responsible for implementation of rules arranging the relations of all of the staff with the Company, customers, competitors and other stakeholders. Additionally, there are provisions in the staff regulation obliging the staff to act in accordance to business ethics. In the event of breaches of these rules, sanctions written in the staff regulation are applied by the Disciplinary Committee depending on results of investigations made by the Internal Audit department. The Human Resource Committee is composed of the General Manager, relevant department managers and the HR manager.



The Company, by its nature of its business, maintains its activities in a sector without any potential of significant harmful effects to the environment. Therefore, no warning or penalties was inflicted upon the Company by public authorities on these grounds.

ISGYO established a social responsibility and donation policy. In this respect, the Company sponsored the Rotary Institute Organization and İzmir Konak Municipality Ladies Football Team in 2012 and also donated to the Turkish Red Crescent. All sponsorships and donations were disclosed on the website and are considered reasonable in comparison to the distributable profit.

### Outlook

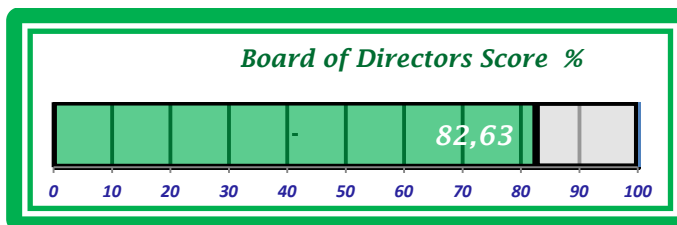
JCR-ER is of the opinion that the compliance level of ISGYO will be maintained during the 12 month monitoring period and has therefore determined an outlook for this main section of Stakeholders as **"Stable"**.

### 6- Board of Directors

Content of this main section consists of Board functions, qualifications, duties, powers and responsibilities of its members and the upper-level managers, rules and practices related with established systems for effective supervision and control.

Through analysis of data gathered during the rating process, the general compliance level of ISGYO with this section and the corresponding levels within JCR ER's notation have been determined as follows;

- Numerical value of **8.26**,
- Convergence Level **AA(Trk)** representing the category of **"Merit Compliance"**,
- Notch degree (**bbb**) representing the category of **"Outstanding"**,
- Outlook (**Positive**)



<b>Board of Directors Results</b>
<b>8,26</b>
<b>AAA (Trk)/bbb</b>
<b>Positive</b>

Compliances, non-compliances and necessary improvements within the rules and implementations in the Board of Directors section are summarized in the table below:

<b>Synopsis Table (Board of Directors)</b>	
<b>N</b>	
<b>o</b>	<b>Plug-Compatible</b>
1	Vision and mission of the Company defined and disclosed to public
2	Separate and effective risk management department reporting to the Board
3	Audit, Corporate Governance and Risk Committees within the Board
4	Separate Internal Audit Unit that conducts effective audit activities
5	Comprehensive Internal Control System
6	Highly qualified secretariat services offered to the Board
7	Well-defined and written tasks, authorities and responsibilities of all managers
8	High qualifications of the managers in terms of education and experience
9	Two independent Board members according to criteria expressed in the Code
10	Chairman of the Board and CEO being different people
<b>N</b>	
<b>o</b>	<b>Not Compatible</b>
1	Absence of executive members in the Board
2	Absence of an incentive system based on performance evaluation For the Board Members
<b>N</b>	
<b>o</b>	<b>Partially Compatible</b>
1	Disclosure of remunerations of top managers as a whole but not individually
2	Need for annual review of the internal control and risk systems

The Board of Directors section is composed of 6 subsections. The compliance level of the Company with and the activities conducted for the standards under these subsections are detailed below:

#### 6.1- Basic Functions of the Board

The vision and mission set by the Board have been disclosed to public. The basic strategies, policies and annual plans to achieve these goals have been determined by upper level management. The Board monitors and supervises all activities to ensure that they are performed within fundamental targets, plans and relevant legislation through the Audit and Corporate Governance Committees.

The Board of ISGYO has the necessary qualifications to effectively perform the three basic functions of leadership, supervision and arbitration. İş Bankası A. Ş. having a determining role in the formation of the Board, uses the necessary diligence in electing the members who can perform the mentioned functions.

The Board can be said to be effective in the resolution of conflicts of interest between the Company and stakeholders and among the stakeholders themselves. Board members' professionalism allows them to remain impartial in these conflicts of interest.

### **6.2- Working Principles of the Board**

Tasks and authorities of the Board and its working procedures, though not included in the articles of association, were put into writing as internal regulations and submitted to the members. It is assessed that the Board members act as prudent managers in performing their duties.

The Board of Directors Secretariat, under the management by Mr. Tuğrul Gürdal, organizes meetings, communicates with members and archives the relevant documents. The members who gather at least once a month meet together also in emergent cases. The casebook is maintained in accordance with the rules. Some decisions are taken without holding formal meetings by signatures of the members separately on the decision text.

The agenda of the meeting is generally determined together by the chairman, members and the Company's management. It is understood through interviews with members that meetings were held in compliance with democratic rules. In the event that the necessary quorum is not obtained after voting decisions are postponed to the next meeting agenda. If this case persists, the decision is denied.

The Board established separate internal control, risk management and internal audit systems and supervises these systems regularly. The Chairman and CEO are different individuals in the Company and these two post's authorities and responsibilities are well-defined and separate.

### **6.3- Structure of the Board**

The Board of Directors is composed 5 members, two of which are independent and one is female. This number is adequate with regard to the Company's scale. The three members selected from department managers at İş Bankası A. Ş. are presumed to be effective regarding their educational levels, experience and business ethics. Each member of the Board has the attributes to perform the tasks identified in the legislation and the code.

In March, 2012, member meeting the criteria for independence expressed in the principles was selected to the Board in the 2011 general meeting. The independent member, as equipoise to the major shareholder, is assumed to improve the management quality of the Company.

However, the complete formation of the Board with non-executive members is notable as a noncompliance item. Although the General Manager participates in all meetings, he is not an official member of the Board. This case indicates a situation where an organic link is missing between the Board and the Company.

### **6.4- Rules of the Board Meetings**

Board of directors meetings are held once a month at minimum and members can gather at any time if required. All members attend the meetings with a few exceptions. Meeting and decision quorums have been written in the articles of associations.

Meeting agendas are determined by the Chairman with the suggestions of Company management and the CEO. Board members have the rights to propose agenda items. At the meeting, all items are discussed and voted separately according to democratic rules and each member has only one vote.

The Board complies with the code and related laws in terms of the related party transactions' decisions.

### **6.5- The Committees within the Scope of the Board**

Three committees, Audit, Corporate Governance and Risk, have been established within in the scope of the Board. Each committee's tasks, authorities and operational procedures were put into writing and the members were informed.

The Audit Committee, consisting of 2 independent members, plays an active role in the selection of the independent audit firm, conducting the necessary relations and monitoring internal audit activities. Committee members gather at least 4 times a year and meet whenever the need arises. The documents of the Committee, which also submits proposals regarding internal audit and independent audit to the Board, are archived.

The Corporate Governance Committee coordinates the tasks defined in the principles. Tasks, authorities and operational procedures of the Committee were identified and members were informed. Additionally, because of the lack of a Remuneration and Nomination Committee, responsibilities normally belonging to this Committee are carried out by the Corporate Governance Committee.

### **6.6- Financial Rights Provided to the Board Members and Executives**

All Board members receive the same remuneration by the approval of the shareholders in the general meeting and remunerations are disclosed to the public per person. No other payments are made, and the Company does not provide debt and extend credit to members.

However, the same remuneration for all members irrespective of their performances is a notable noncompliance. The determination of the remuneration depending on the time allowed and performance will be a factor to improve the compliance level.

Although top managers' remunerations are not disclosed per person, it is disclosed in term of total amount to public.

## Outlook

JCR-ER believes that the compliance level attained by the Company in the Board of Directors section will be maintained during the 12 month monitoring period. Additionally, the Management plans to review regularly the internal control and risk systems in the end of each year, therefore has determined the outlook for this main section to be "Positive".

## 7- Financial Efficiency

REITs are counted as a capital market institution in the Capital Markets Legislation. Establishment of a real estate investment trust rests upon approval by the CMB. Real Estate Investment Trusts can be established by forming a new firm according to Turkish Commercial Code or converting an established firm into real estate investment trust by changing articles of incorporation in line with the Securities Exchange Act. Generally, although operating within the framework of investment trusts, REITs are regulated by the CMB as a publicly held joint stock companies that invest in real estate. In this context, REITs, considered to be mixed qualified companies, are a special type of portfolio management companies and situated in the financial and real estate sector.

REITs invest in capital market instruments based on real estate:

- Real estate projects
- Rights based on real estates
- Capital market instruments

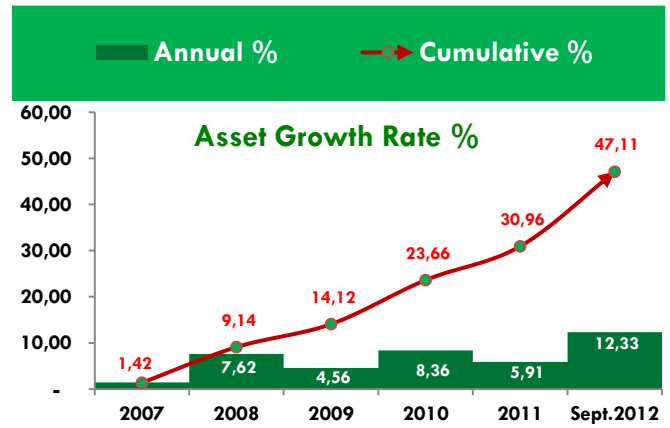
Capital market institutions may be established in the form of an ordinary partnership to carry out particular projects and make investments and may operate in other activities allowed under CMB regulations.

REIT activities are subject to certain limitations and they can only operate in the field of real estate-based portfolio management. In this regard, real estate investment trusts cannot have machinery and equipment as assets.

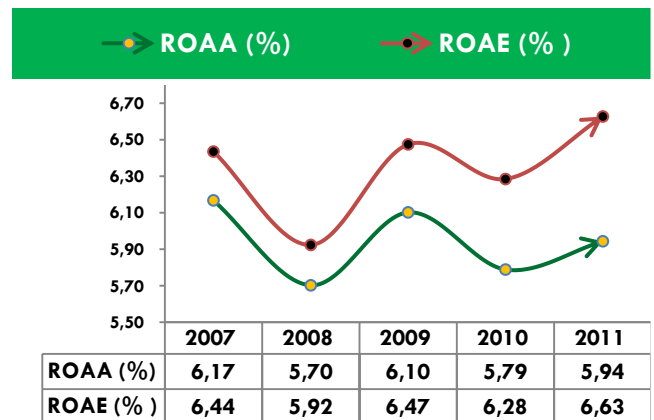
Additionally, REITs are prohibited from carrying out construction and project operations although they may provide funding for construction undertaken by other companies. Therefore, REITs must have a free float of a minimum of 25 per cent. Under the Corporate Tax Law, REITs are exempt from corporation tax aiming to promote institutionalization, to increase the participation of the public offering in the real estate sector and to reduce the scope of informality. Thirty organisations operate in Turkey as REITs, 4 of which are not publicly offered.

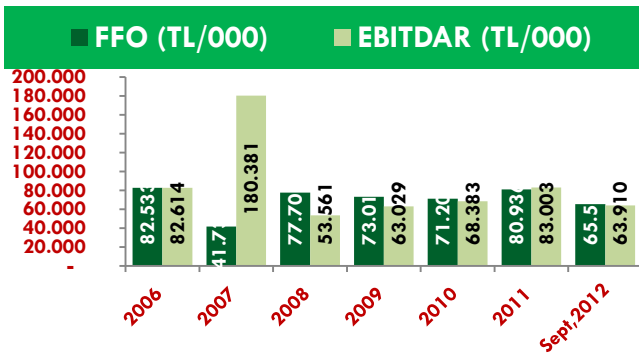
According to the latest data, ISGYO ranked 3th with a market share of 6% behind Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş., Torunlar Gayrimenkul Yatırım Ortaklığı A.Ş. The total market share of the top 5 firms is around 76.6%.

Since 2007, the Company has exhibited a variant frequency growth on an annual basis and realized a cumulative asset growth rate of 47.11% during this period.

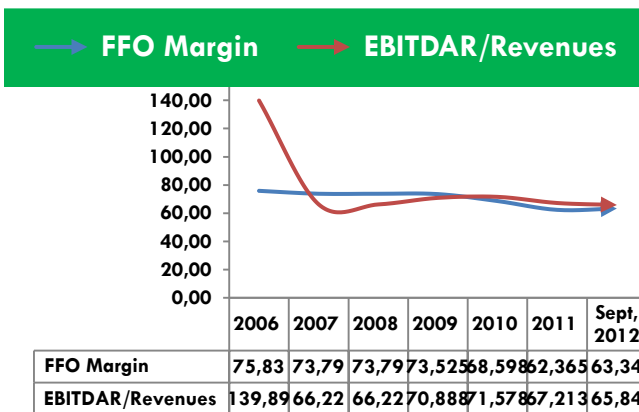
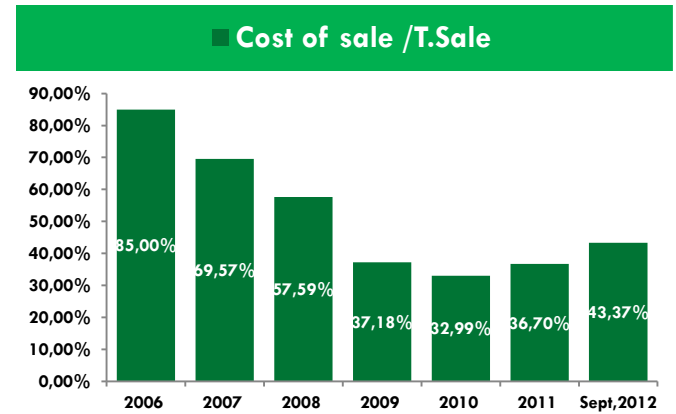


The Company, in terms of basic performance indicators such as profitability, ROAA and ROAE, followed a parallel course with average levels of local and international reference values. 50.62% of the equity figures in FY2006 was comprised of cumulative profit.





Despite the escalating operational expenses, the conservation of profitability reaching a high-level equilibrium was sustained through the downward trend in COGS amounts.

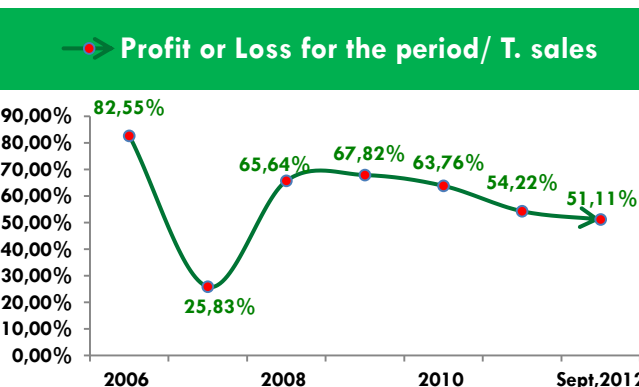
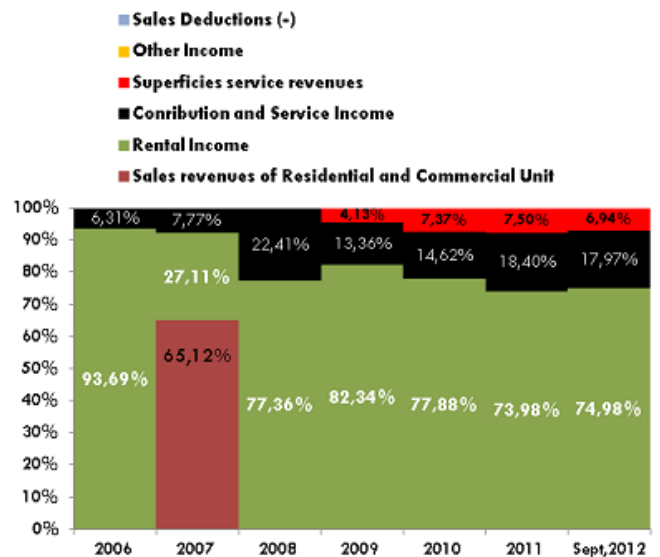


ISGYO's rental income had the highest share in net sales revenue. Tenant contribution & service income and income from the right of construction revenues ranked second and third, respectively. As of September 2012, the share of rental income in total sales was 74.98%, contribution and services income was 17.97% and income from the right of construction was 6.94%.

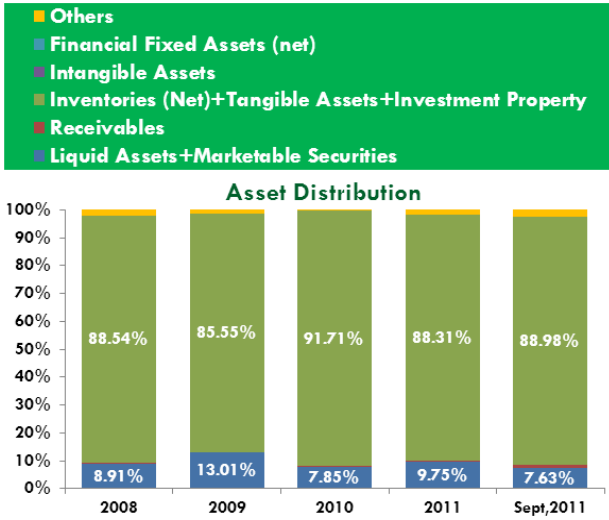
Between FY2006 and September 2012, EBITDAR and Fund From Operation (FFO) values performed similarly, with the exception of 2007 inasmuch as Isgyo's rent expenses were not remarkable. This is an indication of the stability and sustainability of resources of profit and profitability.

In 2007, EBITDAR and FFO values were significantly different due to peak levels of impairments allocated for the portfolio and macro-economic developments during the same year.

Excluding the decrease in profitability due to portfolio impairment, net profit to total sales ratio remained stable between 50% and 67% and was higher than reference values.



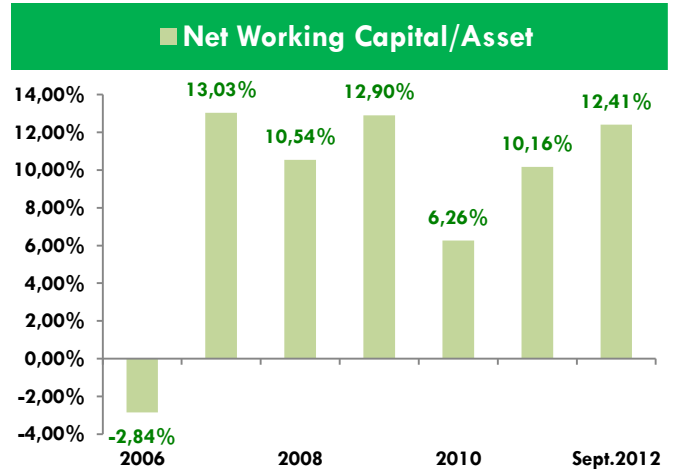
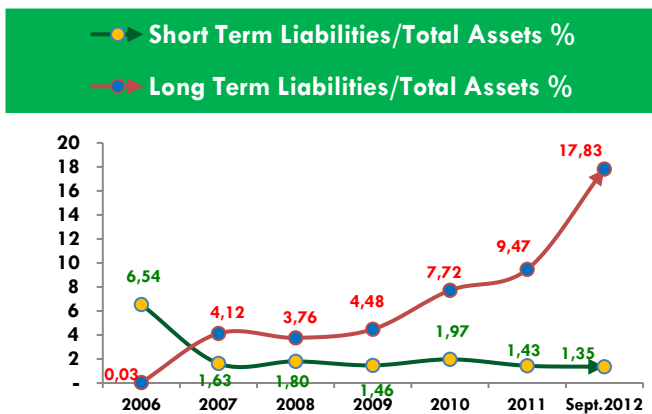
As of September 2012, the shares of Inventories (Net) + Tangible Assets + Investment Property in total assets and cash assets stood at 88.89% and 7.63%, respectively. The balance sheet exhibited the same composition in the previous periods due to this protection of income generating levels.



Taking into consideration the improvement in leverage ratios it can be determined that the Company has an adequate capital structure in its balance sheet composition. In the existing structure, equity was the largest resource and the source of the fastest growth.



Long-term liabilities increased faster than the growth rate of short-term liabilities as a result of their contribution to working capital, providing convenience for the liquidity management of the Company.



Due to intra group loan-to-deposit transfers, interest coverage ratios are essentially high enough and reflect the level of real situation. However, off-balance sheet obligations demonstrated a slight increase as of September 2012.

Low FC deficit and long positions occurring from on and off-balance sheet transactions are unable to exert negative pressure on profitability.

Consequently, the high level of equity maintained in previous balance sheets of ISGYO and the upward trend in positive profit performance provide adequate support to retain the level of compliance with the corporate governance principles.

**8-Appendix**

(4 Tables)

**Table:1**
**İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.  
SHAREHOLDING STRUCTURE**

Years	2008	2009	2010	2011	Sept.2012
TL (000)	450,000	450,000	450,000	600,000	600,000
USD (000)	297,560	298,864	291,074	317,645	336,191
	Share	Share	Share	Share	Share
Shareholders	%	%	%	%	%
İş Bankası	42.23%	42.23%	42.23%	42.23%	42.23%
Anadolu Hayat Emeklilik A.Ş.	7.11%	7.11%	7.11%	7.11%	7.11%
Anadolu Anonim Türk Sigorta A.Ş.	4.77%	4.77%	4.77%	4.77%	4.77%
İş Net Elektronik Hizm. A.Ş.	1.33%	1.33%	1.33%	1.33%	1.33%
Others	2.60%	2.60%	2.92%	2.60%	2.60%
Public	41.96%	41.96%	41.64%	41.96%	41.96%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Table: 2**
**AFFILIATES AND SUBSIDIARIES as of September 2011**

	Head Quarters	Fields Of Activities	Total Assets TL(000)	Net Profit TL(000)	Capital TL(000)	Interest Share %	Acquisition Date
<b>Consolidated Subsidiaries</b>							
Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti.	Istanbul-Turkey	Shopping Center Management	7.725.710 TRY	702.592 TRY	100.000 TRY	50%	06.10.2004
Nest in Globe B.V.	Amsterdam-The Netherlands	Construction	11.338 TRY	143.378 TRY	41.522 TRY	50%	07.07.2011

**Table:3**
**İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

<b>Financial Data</b>	<b>Sept, 2012</b>	<b>2011*</b>	<b>2010*</b>	<b>2009*</b>	<b>2008*</b>	<b>2007*</b>	<b>2006*</b>
<b>Total Assets (USD mn)</b>	731	615	709	672	640	772	631
<b>Total Assets (TL mn)</b>	1,304	1,161	1,096	1,012	968	899	887
<b>Equity (TL mn)</b>	1,054	1,034	990	952	914	883	828
<b>Sales (TL mn)</b>	97	123	96	89	81	213	59
<b>FFO (TL mn)</b>	66	81	71	73	78	42	83
<b>EBITDAR (TL mn)</b>	64	83	68	63	54	180	83
<b>Net Profit (TL mn)</b>	50	67	61	60	53	55	49
<b>Net Profit Margin (%)</b>	n.a	54.22	63.76	67.82	65.64	25.83	82.55
<b>ROAA (%)</b>	n.a	5.94	5.79	6.10	5.70	6.17	n.a
<b>ROAE (%)</b>	n.a	6.63	6.28	6.47	5.92	6.44	n.a
<b>Equity/Total Assets (%)</b>	80.82	89.10	90.31	94.06	94.44	98.23	93.43
<b>NW Capital/Assets (%)</b>	12.41	10.16	6.26	12.90	10.54	13.09	-2.84
<b>Debt Ratio %</b>	19.18	10.90	9.69	5.94	5.56	1.77	6.57
<b>Asset Growth Rate (%)</b>	12.33	5.91	8.36	4.56	7.62	1.42	n.a



**Table: 4**  
**BOARD OF DIRECTORS**

Name	Task	Profession	Election Date	Experience (Years)	Education	Executive/Non Executive	Independent/Not Independent	Committee Membership
Aydın S. ÖNDER	Chairman	Banker	2011	26	Graduate	Non Executive	Not Independent	
M. Kemal FETTAHOĞLU	Vice -Chairman	Banker	2012	22	Postgraduate	Non Executive	Not Independent	
Kemal ŞAHİN	Member	Banker	2004	24	Graduate	Non Executive	Not Independent	Early Recognition of Risk Committee Member Corporate Governance Committee Member
D. Sevdil YILDIRIM	Member	Manager	2012	24	Postgraduate	Non Executive	Independent	Corporate Governance Committee Chairman Audit Committee Member
H. Cemal KARAOĞLU	Member	Engineer	2012	24	Postgraduate	Non Executive	Independent	Audit Committee Chairman Early Recognition of Risk Committee Chairman