

Koç Group
UN Global Compact
Communication on Progress
2016



Report Content

- Initiatives carried out by Koç Group
- Projects conducted by the Group Companies Arçelik, Aygaz, Ford Otosan, Koç Information Technologies Group, Opet, Otokar, Otokoç Otomotiv, Tat Gıda, Tofaş, TürkTraktör, Tüpraş and Yapı Kredimmis
- Joint projects conducted by NGOs supported by the Group, The Vehbi Koç Foundation and affiliated institutions

www.koc.com.tr

For more detailed information regarding our operations as well as any updates and news beginning 1 January 2017, you may visit Koç Holding corporate website along with the websites of the individual Group companies and Vehbi Koç Foundation. You may find the PDF version of Koç Group Sustainability Report on the corporate website.

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Your feedbacks, suggestions and critics are the most valuable source we have to improve our reporting studies.

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The Global Compact

United Nations Global Compact (UNGC) consists of 10 principles of human rights, labor conditions, environment and anti-corruption. These principles are based on a guiding perspective for businesses and organizations in order allow them to achieve further objectives in terms of risk management, efficiency growth, motivation and fidelity of employees, brand awareness as well as access to new markets.

Adopted on a voluntary basis, the Global Compact has been made gradually more widespread since the year 2000 while the studies conducted in order to ensure compliance with the aforementioned principles are reported through the UNGC website.

According to current data provided on the UNGC website (www.unglobalcompact.org), the Global Compact has reached over 13,500 participants from 162 countries, more than 9,500 of those participants are businesses and the remaining 4,000 include public agencies, local administrations, associations, foundations, trade unions, professional organizations and academic bodies. With 245 participants in Turkey, the UN Global Compact has established a local network.

In signing the Global Compact, our aim was to share our new business culture and our cognition of social responsibility internally with our Group as much as externally with our stakeholders and those around us. Today, we proudly stand at the point where we are delighted to have acted in favor of Turkey and the world by demonstrating an exemplary corporate citizenship comprised of our Group employees, distributors, and vendors.

We consistently improve our corporate structure, operations, and social responsibility, all of which are illustrated through our projects in parallel with the principles and values inherited from our founder, Vehbi Koç. Since signing the Global Compact in 2006, we have been acting with a perspective that reflects these global principles. We closely monitor the data from portals and principles that we ourselves have established within this scope and shape our decisions, accordingly.

As a Board member of the Global Compact Local Network Turkey, we continued to support efforts to extend and institutionalize the Global Compact in Turkey. Furthermore, we signed UN Women's Empowerment Principles (WEPs) in 2015. We took an active role in Global Compact Turkey Women's Empowerment Study Group, which was established in order to support the learning processes among companies and contribute to spreading them across the country by merging private sector initiatives on gender equality.

In March 2008, we published our first Corporate Social Responsibility report. Since then, we have regularly published Communication on Progress reports where we reflect upon those projects already completed and the progress of our long-term projects. We are continuously working to improve and disperse best practice among group companies.¹

¹ Data used in this COP cover the companies representing 77% of our Group employees and 82.8% of combined turnover of the Group, as of 2016. Further information may be retrieved from Koç Group Sustainability Reports.

The 10 Principles of the UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses

Labor Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: The elimination of all forms of forced and compulsory labor;

Principle 5: The effective abolition of child labor; and

Principle 6: The elimination of discrimination in respect of employment and occupation

Environment

Principle 7: Businesses are asked to support a precautionary approach to environmental challenges;

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: Encourage the development and diffusion of environmentally-friendly technologies

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

CEO's Letter

Koç Group signed the United Nations Global Compact in 2006, since then the Principles became our framework in shaping our sustainability approach. Our aim at Koç Group is to help Turkey with the pioneering steps we have taken in innovation, digital transformation and sustainability and thereby transform our leader position in the country to global success stories.

With the opportunity, I am pleased to confirm that Koç Group reaffirms its support of the Ten Principles of the United National Global Compact and UN Women's Empowerment Principles. Our Communication on Progress describes the actions taken and the progress made throughout 2016.

Yours sincerely,

Levent Çakırođlu

CEO

Sustainability Management

From year one, we have been aware that corporate sustainability is only made possible with complete social welfare. “Fulfilling our responsibilities towards current and future generations is the essential principle by which we pioneer.” These visionary words from the late Vehbi Koç, the founder of Koç Holding, constitute the basis of our management approach.

At the Koç Group, we manage sustainability efforts in a manner to foster business strategies and stakeholder engagement. Accordingly, we identified three focus areas with the sustainability model: Management, Practice, and Communications.

Regarding the first focus area, we aim to bring all relevant teams together so that they can review global trends and share their experiences as part of sustainability management efforts. To this end, the Koç Group Sustainability Team, which consists of environmental, human resources, audit, purchasing, legal, and corporate communications managers from public companies, convened in October to share their experiences and to identify areas for collaboration. The Group plans to organize these sustainability meetings at least twice a year.

The second focus area involves the implementation of sustainability efforts in the field, or in other words, in practice. These efforts include the analysis of the current situation, establishing and updating related procedures, performance monitoring, and spreading shared standards. In 2016, as Koç Holding, we performed an internal evaluation of Group companies with regard to their sustainability efforts. The purpose of this evaluation, which will be repeated every two years, is to provide insight into the development of sustainability leadership roadmaps of Koç Group companies and to create a common denominator for the companies’ efforts. During the same period, we also conducted a stakeholder survey to obtain stakeholders’ opinions about sustainability. Opinion leaders and representatives of public entities, civil society organizations, international institutions and universities that work in areas such as environmental issues, innovation, transparency, employee rights, and diversity participated in the survey. We shared the findings with the Koç Group Sustainability Team and included in the planning process. As a result of these initiatives, Koç Holding Sustainability Department started working on a sustainability implementation guide, which will consist of sections such as Issue Management, Stakeholder Integration, Performance Indicators and Best Practice Criteria.

The third focus area is about creating a common language for sustainability efforts and tackling sustainability issues within a shared framework. United Nations Sustainable Development Goals adopted in 2015, did not only shape the global agenda, but also remained at the center of our sustainability efforts. Sustainable Development Goals, which focus on 17 key areas from ending poverty to fighting climate change, from sustainable consumption and production to innovation, set specific targets to be achieved globally by the year 2030. These 17 goals also serve as a framework for our sustainability efforts.

Our sustainability performance was reflected in the Borsa Istanbul (BIST) Sustainability Index, which was launched in 2014 and continued in 2015. All Koç Group companies included in the BIST 50 fulfilled the Index criteria in 2016. In addition to Koç Holding, Arçelik, Ford Otosan, Otocar, Tat Gıda, Tofaş, Tüpraş, Türk Traktör and Yapı Kredi were all included in the Index.

Corporate Governance

Koç Holding's accountable, transparent and equitable management approach, which adheres to ethical business values, and its business conduct, which strives for full compliance with applicable laws and regulations, supports universal human rights principles, and embraces corporate citizenship, have served as a role model for a large number of organizations.

As Turkey's largest company, Koç Holding is a pioneer in the Turkish business community for embracing corporate governance principles and adopting an accountable, transparent and responsible management approach. The Koç Group owes this leadership position primarily to its values and code of ethics.

The principles of integrity, respectability, ethical behavior, and compliance with applicable laws, rules and regulations form the backbone of the corporate governance approach adopted by Koç Holding and Group companies. Contemporary elements of good corporate governance, such as appointing independent members to the Board of Directors and basing executive pay on sustainable financial and operational performance criteria, were adopted by the Company before they became legally required. Full compliance with laws, rules and regulations, and the establishment of an accountable, transparent and responsible management approach are indispensable principles for Koç Holding and Group companies.

Koç Holding and Group companies have adopted the Capital Markets Board (CMB)'s Corporate Governance Principles in their corporate governance models, and they constantly undertake improvement efforts in order to increase the level of compliance with these principles. Improvements in this area are presented for the information and opinions of stakeholders in annual Corporate Governance Principles Compliance Reports. Arçelik, Aygaz, Otokar, Tofaş, TürkTraktör, Tüpraş and Yapı Kredi, Group companies listed on Borsa İstanbul, commission corporate governance rating assessments and are included in BIST's Corporate Governance Index as a result of their corporate governance rating scores.

Business Ethics and Anti-Corruption

Koç Holding's business ethics approach was documented in the [Koç Group Code of Ethics and Business Conduct and Implementation Principles](#). This document was updated in 2016 and is available on our website in Turkish and English. The Code of Ethics and Business Conduct is binding for all Koç Group operations and employees as well as business partners such as suppliers and dealers.

The Ethical Conduct Boards, set up separately within Koç Holding and Group companies, are responsible for overseeing compliance with the The Code of Ethics and Business Conduct. These rules and principles have been communicated to all Koç Group personnel, while they are conveyed to new staff members during orientation training. Suppliers and dealers are informed of these rules and norms when the Group establishes business relations with them.

Group companies also issue company-specific ethical conduct norms documents that meet sector-specific expectations while complying with the The Code of Ethics and Business Conduct. As also stipulated in the The Code of Ethics and Business Conduct, Koç Holding and Group companies do not champion any political thought or support any political entity or person financially, in-kind or in any other way.

Koç Holding and Group companies do not engage in communications with public authorities in the countries they have operations in except for the commercial relations established within the framework of the related laws, fair competition norms and transparency; responses to requests for information and input; and social responsibility projects.

Koç Holding and Group companies' internal audit departments conduct essential Risk Management Auditing, Process Auditing, Financial Statements Auditing, Regulations and Compliance Auditing, and Anti-Bribery and Anti-Corruption Auditing activities each year. In addition to the existing internal control procedures and preventive approaches, Group companies conduct special-purpose auditing efforts to eliminate all types of bribery and corruption risk, and undertake preventative initiatives.

In 2016, audits against bribery and corruption risks were also part of the scope of audits conducted at Koç Holding and Group companies. When encountering behavior that is suspected to involve bribery or corruption, stakeholders can file a report through the Group companies' channels of communication or reach Koç Holding Audit Team managers via their direct telephone numbers.

These systems enable employees and all other related parties to report bribery and corruption allegations directly and without fear of retribution. Managers and personnel of Group companies also receive training on anti-bribery and anti-corruption policies and implementation processes. In 2016, 23 executives and 3,956 staff members of Group companies attended training on anti-bribery and anti-corruption policies and procedures. Further, a 78 man-hour portion of the Work Life Training that was conducted within Koç Holding with the participation of 39 HR managers was reserved for anti-bribery and anti-corruption topics.

Similarly, employees of business partners such as suppliers and contractor firms attended approximately 3.600 employee-hours of training on anti-bribery, anti-corruption and human rights. In addition to this, supplier auditing efforts of Group companies, which encompass such areas business ethics, employee rights and human rights, serve to manage sustainability risks in the supply chain. Within this scope, over 1,300 suppliers were audited in 2016. Meanwhile, 1,183 suppliers were audited in terms of human rights criteria. Some 10% of suppliers across the Group are subjected to human rights audits.

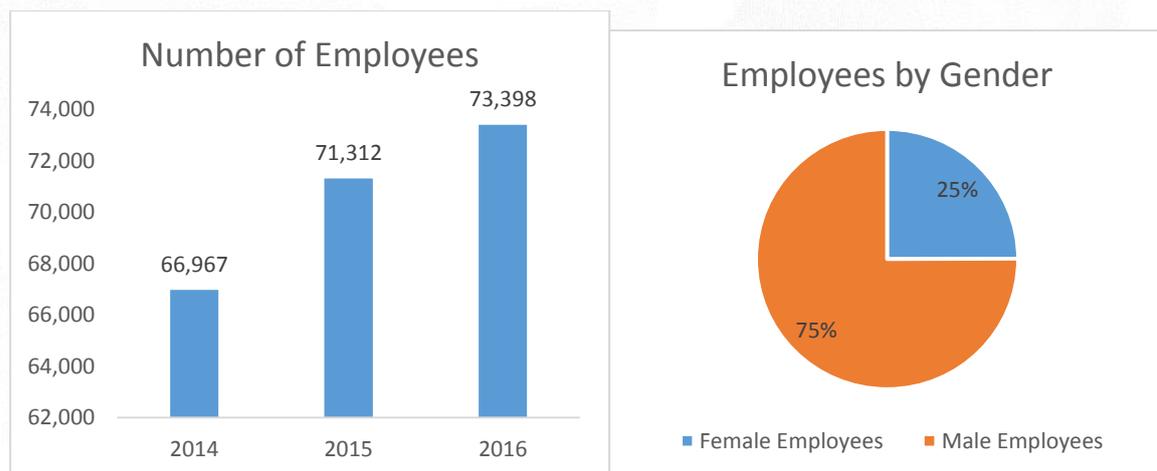
According to Koç Group Procedures, the moment the possibility of bribery or corruption arises, the manager of the related department informs the company's General Manager about the situation. Meanwhile, the General Manager, in turn, immediately informs the Audit Group Presidency in addition to the Business Unit Presidency he or she reports to at Koç Holding. The results of the bribery and corruption audits and inspections are also shared with Koç Holding's senior management. Koç Holding Board of Directors is informed on the audit and inspection activities through the Audit Committee, which is composed of independent board members.

Talent, Diversity and Inclusion

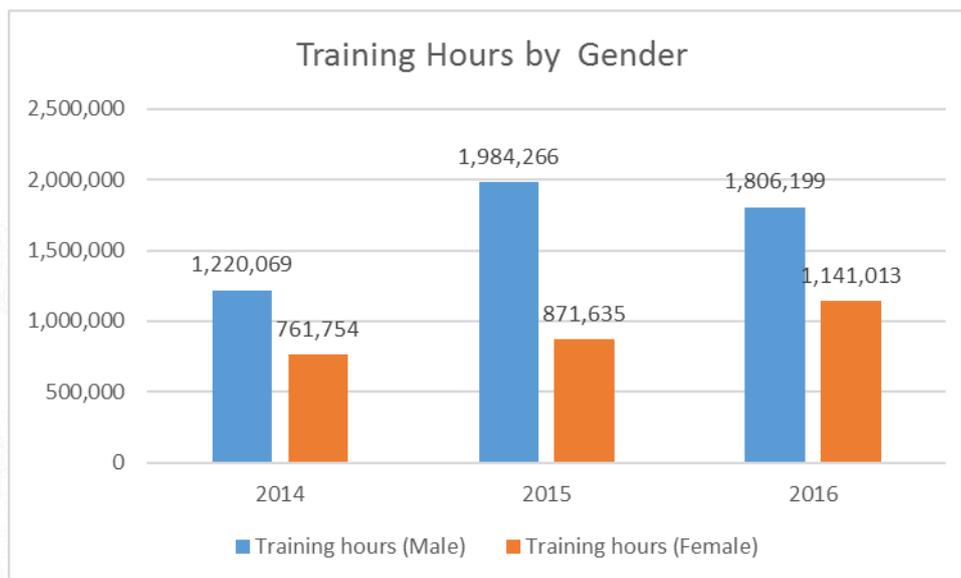
Viewing our employees as our most valuable capital is a common understanding shared across the entire Koç Group. We conduct our business activities keenly aware that moving Koç Group forward into the future depends upon recruiting well qualified professionals and generating value jointly with them. To this end, Koç Group companies supports their employees throughout their careers starting at the recruitment phase via human resources practices. We foster a fair and equal opportunity working environment that is conducive to both personal and professional development.

Diversities are being respected and no discrimination is made at any stage of work life. Improving and ensuring the efficiency of our human resources processes is the responsibility of the human resources departments of Koç Holding and Group companies. All employees, with the support of these departments, implement our human resources approach as well as the policies, strategies and processes developed in accordance with this approach. Group companies publish human resources guidelines in order to ensure broad adoption of this approach and to raise awareness among the staff. Efforts to ensure the continuity and sustainability of our workplace culture are guided by the Koç Group Code of Ethics and Business Conduct. Employees are expected to abide by the Code of Ethics and Business Conduct. The Code of Ethics and Business Conduct serves as a major reference guide that personnel can consult whenever they need direction.

None of the Koç Group companies employ child labor or engage in forced or compulsory labor practices. Our suppliers are also expected to operate with the same sensitivity in such matters. In order to ensure compliance with these requirements, we collect written commitments from our suppliers and monitor their practices. Koç Group respects its employees' rights to join trade unions and participate in collective bargaining. Group staff members can be elected to the local and central management bodies of employee or employer associations in addition to serving as members of their respective professional organizations. Besides these memberships and representations, a number of Koç Group employees are engaged in Provincial Employment Boards, Chambers of Industry and Commerce, and in various civil society organizations in order to contribute to job creation, the Turkish economy, and societal development.



	2014	2015	2016
Number of Hourly Wage Employees	31,284	32,666	33,236
Number of Monthly Wage Employees	35,683	38,646	40,162
Number of Male Managers in Board of Directors	-	132	123
Number of Female Managers in Board of Directors	-	15	16
New Hires (Male)	9,261	11,101	10,535
New Hires (Female)	3,542	2,934	3,179
Employees Left (Male)	7,344	9,571	9,334
Employees Left (Female)	2,024	2,04	2,252
Number of employees who went on maternity leave	899	991	1,052
Number of employees returned from maternity leave	717	890	923
Number of employees in the CBA	46,006	51,973	50,421
Total Number of Employees²	66,967	71,317	73,398



Gender Equality

Koç Group adopted providing jobs that respect human rights as a principle. Our Group is committed to providing equal rights to all employees. Creating a workplace culture sensitive to gender is an important element of Koç Group's human-centered employment policies. In line with this perspective, Koç Group joined a number of local and international initiatives and made commitments to create workplace environments that are sensitive to gender equality issues. In 2013, we became a signatory to the Declaration on Equality at Work, in 2015, we signed the Women's Empowerment Principles. In line with our commitments, we stepped up efforts to integrate the "Equality at Work" concept in the management approach and business processes. As a result, we created a management model, starting from the human resources processes, in order to reinforce gender equality within Koç Group. As a first step toward establishing gender equality, we adopted "Koç Group Equality Principles and Implementation Principles" in our workplaces. Modeled after the Koç Group Code of Ethics and Business Conduct and Implementation Principles, the Equality Principles set forth the strategic background and supporting practices regarding gender equality.

One of the most important elements to ensure the best implementation of core principles and practices stipulated in the Equality Guidelines is to increase the Group workforce's knowledge on gender equality. To this end, we developed a series of training programs with the support of expert civil society organizations, international organizations, and universities for various needs of a diverse set of target audiences. These training programs span a broad spectrum, from training that highlights gender norms to leadership development training for women. The gender equality-related training initiatives are being carried out as part of the "Supporting Gender Equality for My Country" project. The project aims to extend practices that target increase in the share of female employees throughout the Koç Group and to create a gender sensitive work environment. Seminars are also organized to raise the awareness of employees, managers and dealers. As a part of the project we collaborated with Mother Child Education Foundation, UNESCO, Koc University Center for Gender Studies (KOÇ-KAM) and Turkey Family Health and Planning Foundation (TAPV).

In 2016, we continued to support the "HeForShe" movement as the only Turkish company and collaborated with the global business representatives to find solutions to common problems. Koç Holding Chairman Ömer M. Koç took on the leadership role, within the framework of the Impact Champions, which was designed to advance gender equality. We achieved our goal of reaching 4 million supporters by 2017 through this program, and made significant progress towards achieving the goal of delivering gender equality awareness education to at least 100 thousand people by the year 2020, and recognizing gender sensitive workplace culture to help establish equality.

Furthermore, as a signatory of Women's Empowerment Principles (WEPs) we took an active role in Global Compact Turkey Women's Empowerment Working Group, which was established to support the learning processes among companies and contribute to spreading them across the country by merging private sector initiatives on gender equality.

We are also a part of Women Employment and Gender Equality Working Group in Business World and BCSD Turkey (SKD Türkiye). In 2016 the Working Group published a report which includes case studies on gender equality from Koc Holding and other companies. The report was also introduced with a panel hosted by Koc Holding.

Brand communication activities carried out by Group companies were identified as another important area of intervention since mass media can be a very effective tool for breaking gender stereotypes. “Gender Equality in Marketing Communications” workshops were held with the participation of marketing and corporate communications teams and advertising agencies of Group companies, and guidelines were prepared. These workshops are now being expanded to include all Group companies and their advertising and marketing communications partners.

Occupational Health and Safety

Fostering a work environment where employees and related stakeholders can do their work under healthy and safe conditions, while eliminating risks that may prevent the establishment of this environment, is an indispensable, core priority for Koç Holding and Group companies. To this end, occupational health and safety is managed proactively and systematically across the Group. Occupational health and safety specialists, work place physicians, other health of officials, and service providers in this area that are employed by Group companies monitor related developments closely and implement needed improvements in line with globally-accepted standards. Of the 85 facilities owned by Group companies, 68 are covered by OHSAS 18001 “Occupational Health and Safety Management System” certification. Certified facility ratio stands at 80% as of year-end 2016.

Koç Holding Occupational Health and Safety Coordination Board is responsible for implementing the particular importance we place on occupational health and safety. The functions of this board include:

- Reviewing Group-wide practices regularly on an issue-by-issue basis,
- Developing recommendations for improvement and broader adoption,
- Ensuring that best practices are adopted by Group companies,
- Tracking occupational accident statistics regularly and providing recommendations for improvement and development to achieve the zero-accident goal,
- Managing the processes to ensure complete compliance with applicable laws, rules and regulations.

In addition to the Occupational Health and Safety Coordination Board, which is charged with coordinating at the Holding level, the occupational health and safety issue is managed by Occupational Health and Safety Committees at Group companies. As of 2016, Koç Holding and Group companies have 123 active working OHS committees, 1,270 representatives and 1,506 members working in these committees. Occupational Health and Safety is implemented in Group companies via practices that begin with the recruitment process. Employees are asked to provide health information as well as medical reports stating that they are fit and healthy for the job as part of the hiring process. In addition, regular health screenings as well as medical examinations and health screenings for special tasks are performed across the Group. Workplace physicians, occupational health and safety specialists, and additional health personnel as needed at the Group facilities provide the requisite health services for the staff.

Health and occupational safety-related provisions of collective bargaining agreements are adhered to fully and completely. In addition to various workplace practices, training activities and projects are also conducted for personnel and their families. Group companies organize training activities in order to raise and bolster occupational health and safety awareness. As a result, measures implemented against identified risks are expanded in scale and scope. To this

end, processes and practices were implemented throughout the year to eliminate occupational health and safety risks that were identified as a result of risk assessment activities; training was administered to employees of Group companies and contractor firms as needed. During 2016, 561,916 employee-hours of training was provided to 89,898 personnel of Group companies, and 77,663 employee-hours of training was provided to 29,234 contractor firm staff members.

	2014	2015	2016
Injury Rate	0.64	0.90	0.95
Occupational Disease Rate	0.01	0.02	0.02
Lost Day Rate	10.39	24.32	11.26

Environmentally Friendly Practices

Environmental Management

Improvement of environmental performance is a core business goal across Koç Group. Consequently, the Group executes environmental management with a top-down organizational approach, extending from Koç Holding's executive leadership down to the operational units of Koç Group companies. As a Group-wide practice, the overarching strategies and policies set by the platforms formed by Koç Holding's executive team are converted to industry-specific strategies and policies by the Group companies. Koç Group companies boost their performance by implementing the operational goals that are set in line with these strategies and policies.

The results of initiatives undertaken are reviewed by the senior management of Group companies, Koç Holding's executive management, and other related high-level administrative bodies. In turn, these results are used to devise the strategic approaches for the upcoming periods.

Compliance with environmental laws and regulations of the countries the Group operates in constitutes the minimum level of implementation of Koç Group's environmental management system. Group companies monitor environmental laws and regulations continuously and execute proactive compliance efforts. The level of compliance is monitored by individual Group companies as well as by Koç Holding.

In addition to fully complying with legal and regulatory requirements, the Group adheres to other guiding principles as set forth in Koç Group Operating Principles and the environmental policy documents published by individual Group companies, pursuant to related international standards and initiatives led by the UN Global Compact. In addition, Koç Group Environmental Vision and Mission, Koç Group Environmental Policy, and Koç Group Climate Change Strategy are other policy documents laying down the common principles that shape the policies of Group companies.

The details of Koç Holding's environmental management approach can be accessed [here](#).

Koç Holding and Group companies focus on three core areas as part of their environmental management efforts. All Group companies:

- Seek to limit the environmental impact of their operations, energy and water consumption in particular as well as emissions and waste generation; increase recycling and protect biodiversity; and carry out improvement activities in light of "existing best practices" to achieve these goals;
- Monitor the environmental impacts of their products and services throughout their lifecycles, from the design and planning stages to the end of their economic lives; develop environmentally-friendly products; and reduce the potential detrimental impacts; and
- Implement environmental protection-related educational activities to raise awareness among and increase the knowledge base of broad segments of society, led by its employees, customers, dealers, suppliers, subcontractors, and other operational stakeholders.

Established within Koç Holding with the participation of Group companies' environmental, energy and sustainability specialists, the Koç Group Environmental Council is the highest-level

coordinating body for environmental management issues at Koç Holding. The Council is responsible for identifying long-term environmental management strategies in addition to action plans for implementing these strategies, sharing examples of best practices among Group companies, carrying out efforts to ensure compliance in keeping with changes in environmental regulations, organizing environmental training activities, and developing environmental management systems across the Group. Various working groups are formed under the Koç Group Environmental Council to expand activities and improve performance in certain focus areas.

Staffed with participants chosen from among the Environmental Council membership, these working groups aim to determine and ensure Group-wide adoption of existing best practices; execute joint initiatives to increase synergy; and formulate plans geared toward improvement. Environmental Council formed working groups to focus on the key issues of Water, Soil, Integrated Environmental Permits, Waste Management, Greenhouse Gases, and Biodiversity. The working group structure is updated on an as needed basis.

The long-term strategic plans devised by the Koç Group Environmental Council are converted into actionable goals by the companies. Group companies ensure organization-wide adoption of these goals starting from their senior management teams. Efforts of related units are evaluated by way of numerical performance indicators. The Koç Group Environmental Council created a long-term strategic plan to be effective until 2020. Under this strategic plan, Koç Group companies are expected to certify their facility environmental management systems in accordance with international standards such as ISO 14001 and ISO 50001; implement best practices in energy and water efficiency; initiate efforts to achieve zero-waste operations; adopt green procurement processes and environmentally-friendly product practices; undertake anti-climate change related initiatives; and execute efforts to create environmental awareness among the entire society.

Annual performance evaluation reports are drafted in line with the key performance indicators determined by the Group Environmental Council; these reports are presented to Koç Holding's senior management. Further, the Audit Group conducts policy- and performance-based periodic audits and reports the results to the related company senior management team. In addition to the audits conducted by the Audit Group with the contribution of the Environmental Council, the environmental policies and performance of Group companies are also subject to intra-company and independent auditing processes. Improvement efforts are carried out to address the target areas of improvement identified via these audits. Shortcomings identified after the Environmental Audit are tracked via quarterly interim reports; registered in the target cards of the companies for that year; and improvements are implemented. The environmental management systems of Koç Group companies are based on the ISO 14001 Environmental Management System Standard and other internationally-accepted standards. These systems are certified through periodic external audits in order to ensure the integrity of implementation.

Eighty-two of the 85 facilities owned by Group companies that fall within the scope sustainability reports are ISO 14001 certified. The share of certified facilities increased to 96,5% in 2016, from 89% in 2014. In addition to ISO 14001, other methods widely used by Group companies include the ISO 50001 Energy Management System Standard; ISO 14064-1 for Quantification and Auditing of the Greenhouse Gas Emissions System Standard; OHSAS 18001 Occupational Health and Safety System Standard; ISO 9001 Quality Management System Standard; ISO 10002 Customer Satisfaction Management System Standard; ISO 27001 Information Security Management System Standard; ISO 17025 Laboratory Management System Standard; EFQM; Six

Sigma; and Total Productive Maintenance (TPM). Group companies also use Supply Chain Management System standards such as ISO 28001 and CIPS; ISO 20000 Information Technology Service Management System Standard; ISO 22301 Business Continuity Management System Standard; and social responsibility systems such as BSCI and SEDEX. Additionally, Group companies conform to sector-specific or generally-accepted local and international product and process quality standards, norms, product information and labeling practices. For example, REACH, RoHS, EuP, and WEEE are regulations governing the consumer durables sector that set the environmental attributes of products.

Group companies bring their environmental management efforts and accomplishments to the attention of their respective senior management teams as well as to the executive management of Koç Holding. This information is also shared with the related stakeholders via sustainability reports and other various tools.

Koç Group companies approach environmental risks with a holistic approach, from procurement and logistics to sales and consumption of products and services. The aim is to mitigate the impacts across the value chain. To this end, Group companies expect their suppliers to adopt environmental policies and a governance approach that is identical to theirs; include environmental management criteria in supplier auditing methodologies; and execute capability enhancement initiatives. In 2016, 10.2% of active suppliers of Group companies were audited based on environmental management criteria. In addition, environmental training administered to the personnel of supplier firms totaled 2,976 person-hours. As part of their environmental management activities, Group companies also conduct environmental awareness training initiatives for their employees, business partners, and society at large. Within this scope, Group companies administered more than 91,500 person-hours of environmental training attended by nearly 69,000 persons during 2016. During 2016, Group companies channeled more than TL 77 million to environmental management and training activities, and approximately TL 309 million to environmental performance improvement initiatives, for a total of over TL 386 million for environment related efforts. More than TL 345 million of these outlays and investments were realized by Tüpraş. Largest share of the TL 1.3 billion R&D spending by Group companies in 2016 was for activities designed to reduce the environmental footprint of products and production processes.

	Training sessions administered to group employees	Training sessions administered to contractor employees to firm	Training sessions administered to society at large
Number of participants	21,961	20,334	26,441
Training hours (person*hours)	31,776	20,117	39,618

Koç Holding strives to improve its sustainability efforts by actively engaging with different stakeholders. To determine material issues for NGOs, universities, public enterprises and opinion leaders on environmental, human rights and transparency issues and to fully understand their expectations from Koç Group, in 2016, “Sustainability Stakeholder Research” was conducted. According to the research results, preserving existing resources while increasing productivity, taking actions on climate change and increasing energy efficiency to reduce greenhouse gas emissions are focal points on stakeholder expectations from Koç Group companies. Accordingly, Koç Group updated its material issues on sustainability and prepared a guide on material issue

management, stakeholder engagement, performance management and determining best practices.

In an effort to raise awareness on the environment and the problems it faces, a major element of the Group's environmental strategy, we began to organize World Environment Day under the auspices of Koç Holding's CEO in 2014. Focusing on a different environmental issue each year, the event's 2016 theme was "Eco-Innovation", an important aspect of Koç Group innovation strategy. The day's activities included presentations, attended by many experts to mark the occasion. The presentations discussed major issues such as eco-innovation and its effect on the today's business world, its importance regarding competitiveness and its links with Sustainable Development Goals.

Climate Change

There is consensus among the science community, international organizations and leading decision-makers that climate change figures among the most significant problems of the present day. The Global Risk Report of the World Economic Forum has identified climate change among the top three risks threatening the global economy for the past four years. To this end, climate change has rapidly started to become part of the strategic business plans and operational process of corporations. Koç Group closely monitors developments regarding climate change. Accordingly, Koç Group's strategic approach that assesses risks and opportunities arising from climate change, is developed, revised and updated in line with latest domestic and international progress such as Republic of Turkey 10th Development Plan, Sustainable Development Goals and Paris Agreement. Koç Group responds to climate change with this strategic approach that extends from Koç Holding down to Group companies. The Group's climate change initiatives are coordinated by the Koç Group Environmental Council. The Koç Group Climate Change Strategy, which was formulated based on SWOT analyses conducted with the participation of the Group companies, serves as the foundation for the climate change management-related activities within Koç Group. Group companies integrate this strategy into their business processes and develop action plans based on the specific requirements of their respective industries. These action plans encompass improvement targets for supply, production, product design and development processes. The results in relation to these targets are tracked by way of numerical, time-series performance indicators. Assessments are also influential in the compensation of responsible managers as part of corporate and individual performance evaluation systems.

Performance assessment results are reviewed by the Group Environmental Council; used to create future scenarios in light of expected developments; and reported to Koç Holding senior management for use in setting strategic guidelines. In addition, compliance with related policies, efforts carried out, and results obtained are also subjected to audits conducted by the company's internal audit function and Koç Holding Audit Group. Koç Group regards climate change as a major risk that has the potential to impose devastating impacts on environment in addition to social and economic welfare. The need for new products, services and business models to address this threat has emerged both for impact mitigation and for compliance as a result of the effects of climate change. The provision of financial tools, products and services to support these needs presents opportunities for the business community. Companies that agree to be part of the solution through their business models, next-generation products and forward-looking services will continue to exist and prosper in the future. To this end, Koç Group considers the combat against climate change as a major business and investment opportunity.

Generating effective solutions to the problem of climate change requires coordinated efforts of all related actors. Armed with this awareness, Koç Group assumes pioneering roles on various platforms in order to attract public attention to the subject and to produce solutions in conjunction with interested parties, in addition to the Group's internal efforts. Koç Group has been represented on local and international climate change platforms since 2011. In the international arena, the Group follows the United Nations Framework Convention on Climate Change (UNFCCC) processes and participates in the Climate Change Conference of the Parties. Locally, the Group supports the contribution efforts carried out within the scope of UNFCCC as well as the climate change initiatives of NGOs.

This term (for 2 years), Turkish Industry & Business Association (TUSIAD) Environment and Climate Change Working Group is led by a Koç Group senior executive. The Working Group contributes to improvement of Turkey's environmental policies and to developing legislation necessary for these policies. In this direction, at 2016 year-end "Addressing Climate Change from an Economic Policy Perspective" report has been published.

Group companies execute emissions reduction initiatives under the Climate Change Strategy, which consists of four main headings: products, technology, partnerships, and stakeholder relations. All companies that are within the scope of this report perform emission measurements according to IPCC Guidelines. The ISO 14064-1 certification initiative that launched in 2011 is ongoing with an expanding scope. **The Koç Group Climate Change Strategy can be accessed [here](#).**

Energy Efficiency and Emission Reduction Initiatives

A significant share of the activities carried out by Koç Group companies related to environmental policies, long-term environmental strategy and climate change strategies consists of projects that focus on reducing energy and water intensity, greenhouse gas emission, natural resource consumption and waste disposal. While lowering the impact on the environment and climate, these efforts also help the Group companies achieve operational efficiency, which in turn has a positive effect on costs.

Energy and Emissions Management

Group companies execute emissions reduction initiatives under the Climate Change Strategy. Arçelik, Ford Otosan, Opet, Opet Fuchs, THY Opet, Tofaş, Türk Traktör and Yapı Kredi Bank calculated their greenhouse gas emissions for 2015 in accordance with the ISO 14064-1 Greenhouse Gas Emission Reporting Standard. These figures were later confirmed and certified by independent accredited institutions. Arçelik and Tofaş also confirmed the Scope 3 consumption of their greenhouse gas emissions. In addition to this, GHG verification was completed for Tüpraş İzmit Refinery, which was selected as a pilot facility within the framework of the Partnership for Carbon Market Readiness (PMR) project carried out by the Ministry of Environment and Urban Planning. In addition to this, Arçelik, as a signatory to Science Based Targets, became one of the business leaders who pledged to reduce emissions in manufacturing, based on scientific data.

The overall energy intensity of the Group companies in 2016 was 891.64 GJ/TL million of net income while greenhouse gas emission intensity was 89.16 tons CO₂e/TL million of net income. In the energy sector, which has higher energy intensity due to the nature of the industry, these figures stand at 1,647.93 GJ/TL million and 115.64 tons CO₂e/TL million. The Group companies

operating in non-energy industries have an average energy intensity of 136.56 GJ/TL million and an average greenhouse gas emission intensity of 9.47 tons CO₂e/TL million.

Thanks to the energy efficiency initiatives executed by Group companies in accordance with the Long-Term Environmental Strategy, the Group's consolidated energy efficiency development and greenhouse gas emission reduction performance is rising noticeably. To this end, the energy efficiency projects implemented in 2016 conserved 1.5 million GJ of energy and reduced greenhouse gas emissions by 113,000 tons CO₂e. The Group's energy sector operations, more specifically the initiatives at Tüpraş refineries, account for the lion's share of this performance. Energy consumption and emission reduction initiatives also play an important role in efficiency projects carried out by Group companies operating in other sectors. In 2016, Group companies operating in non-energy industries reduced 210,000 GJ energy and 113,000 tons CO₂e emissions, thanks to these projects.

Energy Efficiency and Greenhouse Gas Emission Reductions via Projects

	2014	2015	2016
Energy savings (million GJ)	2.00	1.26	1.50
Emission reduction (thousand ton CO ₂ e)	149.9	91.2	113.0

Water Management

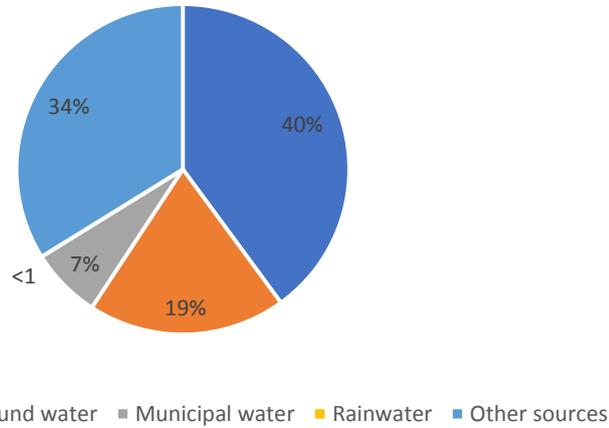
Water is the source of all life as we know it. Clean water sources, critical to sustain human life, are also a basic input for industry. Ensuring access to freshwater resources has become increasingly important in recent years for various reasons, population growth and particularly, climate change. To this end, a priority area for Group companies, as part of the Group's environmental strategy, is to reduce freshwater withdrawals by boosting water efficiency in production, recycling and recovery; to lower the stress on resources through resource diversification; to cut the amount of generated wastewater; and to further improve the quality of wastewater. All these parameters are evaluated within the scope of the risk management systems, and performance results are evaluated periodically, at least on an annual basis.

Group companies consumed approximately 40.8 million m³ of freshwater in 2016, corresponding to water consumption intensity of 327.69 m³/TL million of net income. Some 506.4 m³ of water was consumed in the energy industry for each TL 1 million of net income; the corresponding consumption levels were 204.6 m³ in the consumer durables sector, 64.6 m³ in the automotive industry, and 26.4 m³ in the finance sector.

Water Consumption (m³)

	2014	2015	2016
Total consumption	26,669,395	35,158,732	40,756,563
Surface water	17,690,320	19,007,510	16,285,619
Ground water	6,557,094	7,636,239	7,843,177
Municipal water	2,335,708	2,837,886	2,820,391
Rainwater	10,340	4,360	7,400
Other sources	75,933	5,672,737	13,799,976

Total Water Withdrawal by Source (%)



The share of surface water and underground water resources in the Group's total freshwater withdrawal went down from 91.1% five years ago to 59.2% in 2016. More than 106.34 million m³ of water was reverted to production through recycling and reuse. As a result, the share of water use that is recovered in production stands at 72.3%. The amount of water recycled and reused in manufacturing was raised by 9.8%, in comparison to the previous year.

Resource Efficiency in Waste Management

Waste management is one of the main pillars of environmental management in Koç Group. Due to its operations in various industries, Koç Group's priority is to initially reduce waste at its source and to ensure that the remaining wastes are recycled. In this respect, total amount of waste -according to (hazardous, non-hazardous and packaging)- are periodically reported since 2012 through quantitative KPIs by Koç Group companies. Management reports include many aspects such as waste management and minimization projects, the scope and effects of new regulations. Each company collects data on the performance indicators and all company data is gathered at Koç Group Environment Committee level.

In 2016, Koç Group companies generated 48,000 tons of hazardous waste, and 300.000 tons of non-hazardous waste. Furthermore, in Koç Group, the ratio of waste recovery was improved significantly. 95% of total waste in 2016 was recovered, while this rate was 78.6% in 2014.

The most significant reduction in non-hazardous waste stems from environmental-friendly product design and industrial efficiency projects carried out in the production process. In addition, effective waste management in operations and waste reduction in packaging due to reduction in raw material usage helps reducing hazardous waste. Specifications and management procedures for waste companies are initially defined and the companies are systematically assessed. The waste company audits take place in accordance with the documented procedures periodically and waste companies are supported in order to improve their waste management quality.

Biodiversity and Natural Resource Management

The degradation of ecosystems and loss of biodiversity throughout the world is linked to human activity. At the same time, biodiversity and ecosystem services are crucial for economic and social development, human welfare, and sustainability. In this sense, we believe that biodiversity and the wise use of natural resources are two of the most important components of sustainable development. Life Below Water (Goal 14) and Life On Land (Goal 15) two of the UN Sustainable Development Goals adopted in 2015 describe the international framework in this field.

Koç Holding companies monitor their environmental impact in a multidimensional way by identifying and preventing risks and develops preservation and improvement plans. In this context, in 2016 Koç Holding Environment Committee worked together with the Nature Conservation Centre, an NGO specialized in biodiversity, in order to establish a biodiversity approach and develop an action plan. The relationship between biodiversity and the industries and regions in which Koç Group operates, was examined and a biodiversity action plan was prepared after a prioritization study.

Accordingly, Koç Holding companies strive to sustainably manage their impact on biodiversity in order to preserve the capacity of natural resources for renewal.

In the process of achieving this objective, Koç Holding also focuses on ecosystems and the components helping their development, the ecosystem services from qualitative and quantitative standpoints, all species and particularly those whose existences are under threat as well as endemic species while avoiding soil degradation, and the preservation and improvement of the adaptation capacity of natural ecosystems to climate change.

Koç Holding manages biodiversity under four main pillars: Policy and Strategy, Planning, Operations and Implementation, and Capacity Development. **The Koç Group Biodiversity Policy can be accessed [here](#).**

Legal Disclaimer

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