



Koç Group
Sustainability Report
2016-2017



Lead
Together

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About the Report

As Koç Holding A.Ş. (Koç Holding), we prepared our 2016-2017 Sustainability Report to share our environmental, social and corporate governance performance with our stakeholders. The report covers the operations and sustainability performance of Arçelik, Aygaz, Ford Otosan, Koç Information Group*, Opet, Otokar, Otokoç Otomotiv, Tat Gıda, Tofaş, Tüpraş, TürkTraktör and Yapı Kredi, which are companies referred as the Koç Group. The scope of this report covers 77% of Koç Group employees, and 84% of the combined revenues. Our report highlights group-wide initiatives and some best practices implemented by Koç Group companies, more information on each company's sustainability performance can be found in their respective sustainability reports.

This report has been prepared in accordance with the GRI Standards: Core option. In this report, we have also linked our performance to United Nations Global Compact (UNGC) and Women Empowerment Principles (WEP) indicators.

The report mainly covers data from January 1, 2016 to December 31, 2017. We have also shared performance from previous years, where necessary. We are committed to disclose our sustainability performance annually.

For your questions, feedback, and recommendations regarding this report, you may contact us via iletisim@koc.com.tr.

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* Koç Information Group does not represent a legal entity, but a common name for KoçSistem and Bilkom all of which are Koç Group companies. Within this report, unless otherwise stated, all performance and practice related information disclosed regarding Koç Information Group consists of the shared data and practices of these three enterprises.

Ömer M. Koç / Chairperson Statement



Dear Stakeholders,

We live in a time of swift and constant change that has an impact on all aspects of our lifestyle and business models. The global agenda is shaped both by issues such as population growth, urbanization, and climate change, and opportunities offered by rapid advances in technology. Not everyone in the world has benefited equally from the economic, social and technological globalization of recent years. There is a perception that the global boom has not been shared fairly and that income inequality amongst populations, nations, regions and countries is on the rise. What is indisputable is that inequalities exist in levels of access to affordable and high quality education, technology and health services. More serious and frequent crises appear to loom in the near future: regional conflicts, adverse impacts of climate change, displaced populations, and ascendant xenophobia.

That there is a growing need for a more innovative, inclusive and collaborative growth model is unquestionable.

To this end, the United Nations Sustainable Development

Goals offer comprehensive guidance for the world, developed and developing alike. This framework prompts us to embrace responsibility to generate better solutions to global issues. As the Koç Group, we recognise the crucial role of the private sector in driving sustainable growth thanks to our flexibility and dynamism.

As the Koç Group, we are committed to maintaining our traditional position as the vanguard of economic and social advancement. We shall take bold steps where required and continue to support the dissemination of UN Global Compact Principles within our Group and our network. In 2017, we reiterated our commitment to sustainability as **Lead. Together**, which frames the way we manage sustainability issues and crystallises our role as a leader in fostering change in collaboration with our stakeholders.

I would like to take this opportunity to extend my sincere thanks to all our shareholders, customers, dealers, business partners, union members, and employees, who make it possible to bring our promises to life.

» » » We reiterated our commitment to sustainability as **Lead. Together**, which frames the way we manage sustainability issues and crystallises our role as a leader in fostering change in collaboration with our stakeholders.

Levent Çakıroğlu / CEO Statement

Dear Stakeholders,

Growing inequalities and climate change are the two major challenges of our times. Rapid changes in technology cause a fundamental shift in the way we do business and, at the same time, offer remarkable opportunities for economic growth. The world lags behind, however, firstly in managing the uncertainty amongst economic, social and technological changes, and secondly, in finding scalable solutions.

The adoption of the UN Sustainable Development Goals has marked a potential turning point in addressing these burning challenges. Businesses can unlock many untapped opportunities by mobilizing their capacity for innovation and technology for sustainable development. We, as Koç Holding, recognise the evolving role of business in delivering the SDG agenda and to that end, we support our global vision with the framework defined as **Lead. Together**.

Lead. Together is our approach for sustainable and profitable growth. It means that we will grow globally while putting people first, recognising the needs of the planet and investing in the communities that we operate in. We deliver **Lead. Together** across four pillars: business, people, planet and communities.

- **Grow the business. Together** is how we deliver sustainable, profitable growth globally,

- **Empower people. Together** is how we champion diversity and inclusion, and prepare employees for the future,
- **Act for the planet. Together** is how we leverage our scale and influence to address global climate challenges, and
- **Strengthen communities. Together** is how we create a ripple effect in society by partnering with our stakeholders.

All four pillars are interconnected, and all four are of equal importance. To achieve our ambition for these pillars, we have defined our strategic priorities as digital transformation, innovation, future talent, diversity and inclusion, and climate change. We develop comprehensive programmes for each of these priorities, scrutinise the relationships between the issues, build partnerships and spread good practices within and beyond our Group.

We acknowledge that our stakeholders expect us lead by example. **Lead. Together** sets up a framework for making collective progress, and helps us harness the power of our network to drive positive change. We can only bring **Lead. Together** to life by working together with our employees, distributors, suppliers, business partners, and local and global stakeholders.

Lead. Together is a journey. And our potential is huge.

» » » **Lead. Together** is our approach for sustainable and profitable growth. It means that we will grow globally while putting people first, recognizing the needs of the planet and investing in the communities that we operate in.



Our Manifesto

► ► ► **Lead. Together** is our approach for sustainable, profitable growth at Koç Group. It sets a framework for making collective progress and helps us harness the power of our network to drive positive change. We believe sustainability is directly connected to our business growth, and to our unique role in society, which drives us to inspire others and develop every person and organization we engage with.

Lead. Together means we will innovate and collaborate to find solutions to big, complex issues. It means we will be a positive

role model that drives change in society. It means we will act bravely to transform our business for the better.

Lead. Together reflects the difference we can make across Koç Group and our commitment to partnership. The expectations of our stakeholders inspire us to make a difference and the diverse abilities of our people mean we can bring our promise to life. We are progressing collectively across the board.

Lead. Together is a journey. And our potential is huge.

Lead. Together is a journey.
And our potential is huge.



Our heritage, our future

- ➤ ➤ Our founder Vehbi Koç once said that our prosperity is connected to the prosperity of our country. Our aspiration to become a global leader means elevating Vehbi Koç's vision on a global scale: We believe that our prosperity is connected to the prosperity of the world we live and work in.

Grow the business. Together

Empower people. Together

Act for the planet. Together

Strengthen communities. Together

Pathway to Lead. Together

- ➤ ➤ With Koç Group's global vision and evolving sustainability agenda driven by UN Sustainable Development Goals (SDGs), we revisited our material issues and started building our sustainability approach. Our main purpose is to maximize Koç Holding's impact by focusing on cross-cutting issues, to manage sustainability risks and opportunities effectively, to guide Koç Group companies to lead sustainability in their respective business areas.

Lead. Together and its focus areas are a result of an iterative process that includes cross-functional teams from Group companies, senior management across different industries, external stakeholders and opinion leaders.



We launched the processes by organizing preliminary workshops with 12 Group companies that represent the major operations of our business, to get a better understanding on the status of sustainability management across the Group. Different functions like human resources (HR), environment, corporate communications, supply chain and innovation participated in these workshops.

Following the workshops, we conducted 20 semi-structured interviews with Group companies' General Managers and other members of senior management to identify the most material sustainability topics for the top management.

Initial findings revealed the need to have a holistic approach to manage sustainability issues since each function or department focused on their own expertise area.

In addition to the internal workshops and interviews, a qualitative external stakeholder research was conducted by an independent research organization*. The stakeholders included government institutions, international organizations, NGO's, business organizations, research centers, opinion leaders, start-ups and universities both at national and international level. The specific institutions and individuals were determined according to the stakeholder map developed for Koç Holding to ensure that economic, social and environmental issues were included, such as climate change, biodiversity, water, innovation, digitalization, human and employee rights, transparency, OHS, gender equality and inclusion.

Stakeholders were asked to respond the following;

- Critical megatrends and sustainability issues at global level,
- Implications of megatrends and sustainability issues on emerging markets,
- Prioritization of SDGs for Turkey, for private sector and for Koç Group companies,
- The most material sustainability issues for Koç Holding, and
- Role of business and expectations from Koç Holding in managing sustainability issues.

Specific questions based on each stakeholder's area of expertise were also included to discover respective action points. The key output from the research indicated that our stakeholders consider climate change, inclusion, gender equality, transparency, digitalization and innovation among the most significant issues for Koç Holding.

Changing role of business

The analysis of the stakeholder research showed that Koç Holding was regarded as a corporation that can focus on the big picture with its holistic approach to deliver long-term value. Stakeholders expect us to cooperate, develop joint projects, actively share knowledge and experiences, become a pioneer and take the lead, rather than working solitarily for reaching our goals. Our stakeholders recommend us to work more actively together not only with NGOs, academy and government institutions but also with other private sector corporations and suppliers. We are attributed a transformative role especially for SME's, due to our close business relations with suppliers and distributors, to initiate a mobilization on sustainability.



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* Sia Insight, Koç Holding Stakeholder Research, 2016.

Pathway to Lead. Together

➤ ➤ ➤ Meanwhile, we developed the “Koç Group Sustainability Guide” to enable standardization of sustainability management across the Group, we developed the “Koç Group Sustainability Guide”. And to effectively implement this guide, we developed workshops with participation of a wide range of experts from the Group companies. The Guide provides direction firstly on defining how to manage material issues and focus areas, stakeholder integration, performance management as well as standards on best practices.

In accordance with the Sustainability Guide, each Group company held cross-functional workshops to determine

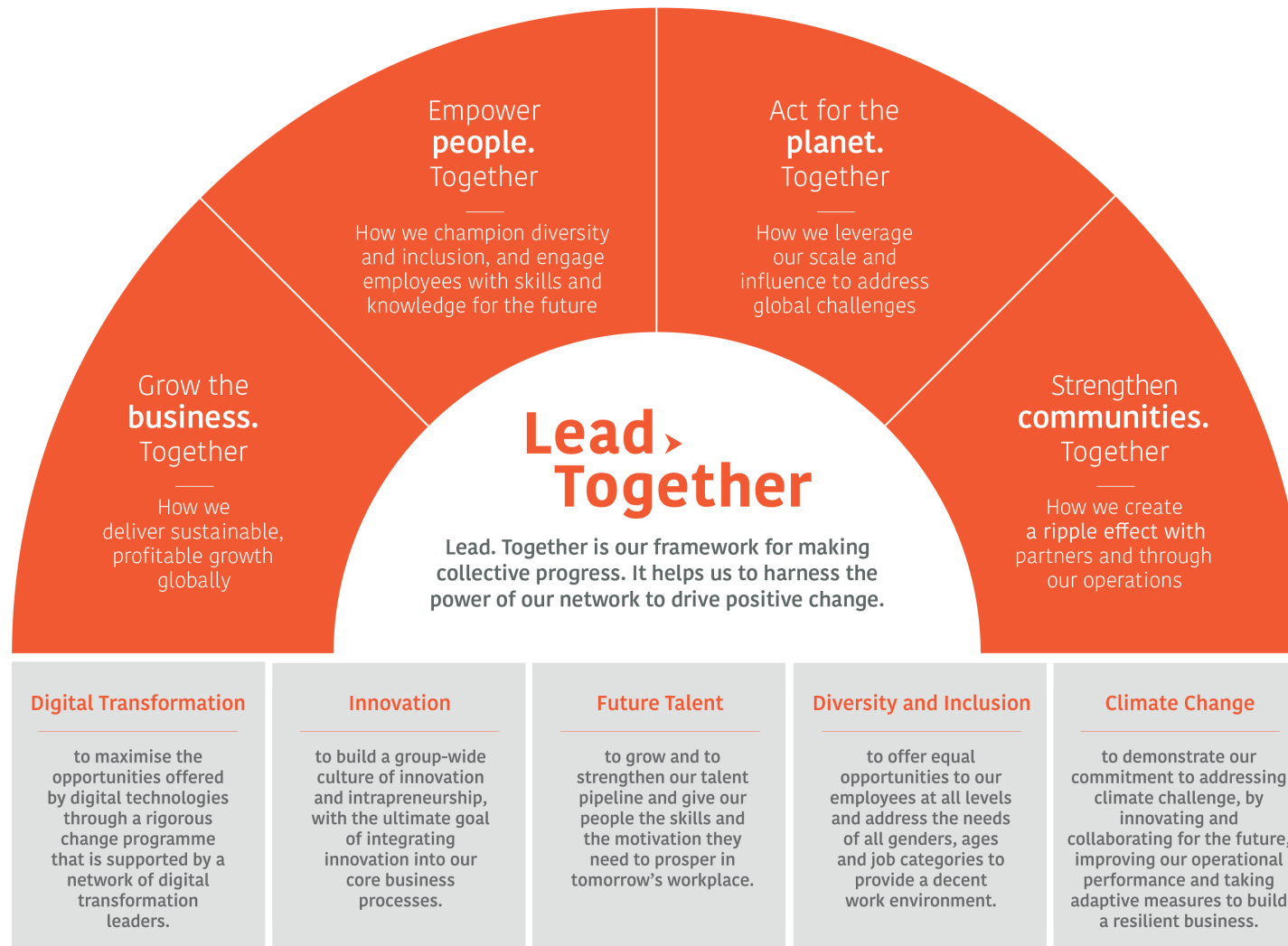
the material issues and 5 focus areas for their respective companies. Issues submitted by each Group company were assessed and recurrent themes were identified to be integrated into the material issues of Koç Holding. More information on the Guide can be found under Sustainability Governance and Stakeholder Engagement sections.

As a result, each item covered in this section, were consolidated and presented to the final approval of Koç Holding's senior management. 5 key issues and their related SDGs were prioritized under 4 focus areas which formed our new sustainability framework, **Lead. Together.**

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Pathway to Lead. Together



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Part of the Bigger Picture: Delivering the UN Sustainable Development Goals

- ➤ ➤ SDGs seek to mobilize global efforts around a common set of goals and targets for 2030 that aim to end poverty, protect the planet and ensure prosperity for all. At Koç Group, we recognize the business needs to understand and contribute to these goals as a driver for innovation and generator of economic growth. **Lead. Together** ensures we are part of this bigger picture.

We conducted extensive research and meetings to understand the implications of SDGs on our business and our opportunities to contribute. This culminated in a report on The Sustainable Development Goals and Their Implications on Business. The report summarizes the key mega-trends and their impacts on our main industries: Financial Services, Energy, Durable Goods and Automotive, with the aim of discovering and inspiring our opportunities to do more.

In this Report, we highlight how **Lead. Together** enables us

to deliver the SDGs through our sustainability agenda and ambition. To seize the chances, we now embrace the SDGs as the framework of our sustainability model.

SDGs trigger the need for systematic change; present us with new untapped opportunities in the pursuit of collective resilience and prosperity. When we consider the diversity of our sectors we have the opportunity to contribute to all 17 Goals. Our report The Sustainable Development Goals and Their Implications on Business identifies all these conveniences and contribution areas for each of our main sectors. It guides us in making the right connections between different functions and discovering the ways in which we can find solutions to issues, innovate, and transform our business. It also sheds light on the relevant megatrends which shape today's world and the future, and how they have a significant consequence on a number of SDGs. These megatrends also provide the basis for many opportunities presented by Global Goals.

Part of the Bigger Picture: Delivering the UN Sustainable Development Goals

► ► ► We need to ensure that all the Group companies and employees have a common understanding on our approach to SDGs and the implications for each of their sectors. By gathering teams across different industries and companies, we held an SDG workshop and discussed our sustainability model based on the framework. By using design thinking methodology, the workshop groups discussed challenges related to the SDGs and developed new business models,

products and services to address those challenges. The aim is to better understand SDGs, how they are interrelated and how to better respond to them. We will continue to develop new solutions during this journey; however we are aware that achieving SDGs depend on collaborative action. We urge others to join this movement and aim to work with civil society, governments and peers in making SDGs a reality.

Grow the business. Together



Empower people. Together



Act for the planet. Together



Strengthen communities. Together





**Grow the business.
Together**

Grow the business. Together

Aiming for sustainable, profitable growth

Our aim is to create a business that delivers sustainable, profitable growth. Our vision shows that this growth will come through expanding our global presence and establishing brands that have a competitive edge, wherever we do business. We will succeed by developing business models that are flexible, efficient and focused on creating long-term value.

Taking the lead with innovation, technology and our brands

Our technology, innovation capability and brand assets have long been key to our success and they will be vital tools for the future. But our influence extends far beyond the businesses and brands we manage. We have an opportunity to drive positive change on a global scale – both as a role model and through our long-term relationships with employees, partners, investors, suppliers and distributors. As an investor, we also create long-term shared value through the decisions and investments we make.

Growth is good for us, and good for society

We've always believed our prosperity is connected to the prosperity of the world; we only reach our goals if we align with changes in society, the environment, technology and business. Being sustainable means using our potential to its fullest by developing products and services that meet the pressing needs and expectations of society.

Our stakeholders expect us to lead by example. When we grow, others grow. When we innovate for the better, others follow. When we create more added value and respond to changes in technology, business and society, we start a ripple effect that extends out to all our industries, our business partners and the wider community.

At Koç Group, we aim to maintain our pioneering position by leading change. In this path, **digital transformation** and **innovation** are our strategic priorities to seize current and potential opportunities and SDGs serve as a driver into inclusive economic growth.



Digital Transformation

► ► ► Being global players means going digital

We've always been good at reading the spirit of the time and it's kept us in leading positions in our industries. Now, we aspire to lead the digital transformation and expand our horizons to deliver resource efficiencies, connect people and create new business opportunities.

Digital is changing lives – and redefining leadership

Digital has changed the way we interact with each other and with the world. With whole sectors being revolutionized by digital business models, the leaders of the digital world will be the leaders of the future: those that successfully integrate technology into their businesses will flourish. But the real success factor won't be technological advancement, it will be the cultural change that accompanies it – change with people at its heart.

Faster, easier, more sustainable

Digital enables us to serve our customers better, faster, with a fully customized experience and personalized products and services. It means we can rethink products, make best use of technological developments in production, make business processes leaner and more productive, encourage employee participation and creativity, and implement business models which up until now seemed technically impossible.

Koç Digital Transformation Program

We have set up a rigorous change management program designed to maximize opportunities offered by digital technologies. The program has the capacity to radically transform products, services, business processes and business models, to create added value for our businesses. Making production safer and more efficient, serving customers with a fully customized experience and implementing new business models will enhance the pioneering position of our companies. To achieve these goals, we have identified and road mapped more than 300 digital initiatives focusing on digital marketing and customer experience, digital supply chain and operations, digital lean workplace and digital participation of employees.

As a first step of the Program the each Group Company;

- conducted a "digital maturity" assessment evaluating strategy, culture, organization and capabilities comparing with best cases. The gaps and related recommendations and next steps were identified. This assessment has shown that there is a significant correlation between digital maturity, financial performance and shareholder value.
- evaluated existing and future digital projects according to the company's strategic objectives and priorities. In line with best cases and gap analysis new ideas and projects were offered. Accepted projects constituted the digital roadmap for the short term.
- identified employee competencies and new capability needs; accordingly, training and development programs have been planned and rolled out. The aim is to provide employees the required skillsets to keep pace with the fast-changing digital era.

Digital Transformation

- ➤ ➤ In addition to the initiatives and projects, key topics such as big data and data analytics, Industry 4.0, information technologies competence and new digital business ideas are managed by Group companies individually or across the Group.

Koç Group Companies manage the Program through their "Digital Transformation Leaders", teams and steering committees. They also disseminate implementation of the Program at the company level.

The companies also create dedicated positions to further enhance the Digital Transformation Program and it is becoming part of strategic planning while all companies commit to digital transformation targets.

Koç Digital Transformation Program yielded in success stories in 2017, this report deep dives into an example of customer experience and more information on the Program can be found in **Koç Holding Annual Report 2016** and **2017**.

Digital Transformation Themes

Digital Marketing and Customer Experience

Digital Supply Chain and Operations

Digital Lean Workplace

Digital Participation of Employees

Group-wide Enablers

Data ve Analytics

Industry 4.0

Readiness in IT

Digital New Initiatives

Cultural Transformation

Awareness and Communications

Competency Development

Teamwork

Governance

Digital Transformation

In Practice: Transforming Business for the Digital Age

- ➤ ➤ **Yapı Kredi**, Turkey's fourth largest private bank, serves 23.5 million people each year, 13.3 million of whom are active customers. The company designs its products and services with the changing needs of customers in mind, therefore considers digital transformation an opportunity to explore new business opportunities. Yapı Kredi, with its motto of “Digital bank of Turkey”, aims to implement integrations that will add value for customers, increase customer satisfaction, and ensure long-term growth in customer acquisition and revenue.



Digital Transformation

In Practice: Transforming Business for the Digital Age

► ► ► Touch One Screen Experience

Mobile applications have become an essential part of our daily lives and customers now have more touchpoint options with the banks than ever. As a result, Yapı Kredi positioned “mobile” as the remote control of the bank and make all touchpoints intercommunicate with each other under the same roof. They created the “Touch One Screen Experience”, to ultimately enhance customer experience. The project aims to allow customers to manage all channels from a single point. In line with this strategy, Yapı Kredi launched money withdrawal and deposit with QR code without touching the ATM, call forwarding without further authentication, branch density maps and priority queues, mobile payments using NFC-featured Android phones, money transfers from all Android messaging apps with “Banking Keyboard” and money transfers through Siri and iMessage. Additionally, “One Pin” was developed to spare customers the inconvenience of remembering multiple passwords. It therefore became possible to access Yapı Kredi Mobile and Internet Banking and Customer Relation Center with a single password. The bank also implemented a progressive mobile application login feature called Eyeprint-ID. Utilizing eye recognition technology for mobile banking login was the first of its kind in Europe. With “One App” strategy, individual and corporate mobile banking applications were merged. The Eyeprint-ID feature alone was used by more than 7 million users by the end of 2017. Almost 800,000 monthly withdrawals were made using Yapı Kredi Mobile's new QR Code feature, and almost 200 thousand direct calls were made from Yapı Kredi Mobile to the Customer Relation Center. In 2017, the number of active Yapı Kredi Mobile users rose 51 percent compared to the previous year.

► **7 million**
users by the end of 2017

► **800,000**
monthly withdrawals with
the new QR code

Don't Panic Button

In its efforts to innovate and improve customer experience, Yapı Kredi has also derived insights from customer calls leveraged by data. The bank, which receives almost 1.5 million card cancellation requests annually, observed that many customers found their cards shortly after reporting them lost. These customers had to wait unnecessarily for a new card and the bank had to deal with cost of printing an extra card. The feedback also revealed that panicked customers often had a hard time finding the number for the call center and expected a faster response in case of fraud. Based on these results, the bank took action to provide customers a better experience when they reported a lost or stolen card. The bank designed a unique experience for this specific need and they called it as “Don't Panic Button”. Inspired by the behavior of people in panic situation, it has been designed like an emergency button. This button can be reached on Yapı Kredi Mobile login screen by touching profile photo and enabled customers to temporarily suspend their card for 24 hours. It also allowed them to report stolen cards after this duration and request a new card as necessary. Customers had the ability to withdraw money using a QR code, make mobile payments and pay credit card debts without disrupting their daily lives. While many banks opted to bury their card suspension options in menus, YapıKredi's Don't Panic Button has given customers a more satisfying and efficient experience. Since the Don't Panic Button was introduced in April 2017, nearly 200,000 cards have been temporarily suspended on Yapı Kredi Mobile. Only 10,000 of these requests resulted in card cancellations. This process would take considerably longer if customers had to use call centers to resolve their card cancellation issues and printing unnecessary new cards is an avoidable expense for the bank.

Innovation

► ► ► Breakthrough innovation to improve lives and enhance services

We aim to grow our business with new business models, products and services that improve lives in bold and innovative ways. Our customers are often the first to benefit from our innovations but, by finding new ways of thinking and working, we also support the wider society to become more sustainable, connected and prosperous.

Keeping innovation on the agenda for sustainable success

To stay relevant and resilient, businesses need to develop innovative processes and business models that are based on creative and new ideas. Our stakeholders have a clear view that innovative businesses are sustainable businesses. We believe innovation and sustainability go hand in hand, especially when it comes to delivering business growth and solving complex sustainability challenges.

We frequently partner with other businesses - including start-ups and innovative small firms - to drive enthusiasm for innovation through our ecosystem. We also aim to gain competitive advantage by bringing a structured approach to innovation and entrepreneurship in our own businesses.

Innovation with a sustainability focus improves quality of life, protects the environment and serves communities. By looking for large-scale, transformative ideas and taking calculated risks when we find them, we can make substantial contributions to all the SDGs and ensure our customers, society and our business thrive together.

Koç Innovation Program

Innovation is among the top strategic priorities for Koç Group companies to enhance competitiveness and achieve profitable and sustainable growth.

Koç Group Innovation Strategy concentrates on;

- cultivating corporate entrepreneurship across the Group and supporting our employees' entrepreneurial spirit and efforts
- extending innovative endeavours not only across product and service development activities, but in all business units and operations
- increasing partnerships with external stakeholders, an important source of innovation, and managing these collaborations more effectively
- managing innovative operations via clear processes to ensure sustainability

Koç Innovation Program was launched in 2014 to build a group-wide culture of innovation and intrapreneurship, with the ultimate goal of integrating innovation into our core business processes. The Program adopts a unique innovation model that incorporates C-level sponsorship, intrapreneurship and open innovation. The key principles of the Program are rapid experimentation, learning by doing, being flexible and adopting a long-term approach.

As of end of 2017, 7 Group companies take part in the Koç Innovation Program and since the start of the Program, a total of over 100 in-house initiatives have been turned into projects. 11 new products and services have been launched.

More information on the new products and services can be found in **Koç Holding Annual Report 2017**. The below case study aims to inspire solutions on how innovation can be key to address sustainability challenges as well as building partnerships.

► 7
Companies

► 100 ◀
in-house initiatives

► 11
new products
and services

Innovation

In Practice: EasyRoute

- ➤ ➤ Automotive industry spots that changes in lifestyle and increasing urbanization are affecting people's quality of life more than ever. As stress, costs and emission levels rise, companies are taking greater responsibility to help drivers to get safely and comfortably from point A to B.
- Ford Otosan**, joint-venture Ford Motor Company and Koç Holding, has chosen Istanbul, a city of 15 million people with approximately 30 million travels per day, as the pilot city for which to develop "Smart Mobility" solutions.



Innovation

In Practice: EasyRoute

- ► ► In 2016, Ford Otosan took its first step by launching a campaign called "Innovative Mobility Solutions for a More Livable Megacity" in its internal innovation platform, Fikirhane. The company sought solutions from its employees for smart mobility solution ideas that will contribute to Goal 11 Making Cities Inclusive, Safe, Resilient and Sustainable. One of the 8 business ideas that Ford Otosan supported is EasyRoute.

The final product is a mobile app that can accurately predict traffic conditions and provide navigational services. The idea was firstly included in the intrapreneurship program and various acceleration programs. It was subsequently approved by the Ford Otosan Innovation Committee and given the financial support needed to develop it into an official product. A team of six people from the Product Development, Information Technologies, and Marketing, Sales and Aftersales departments developed the project.

Initial research revealed that drivers in Istanbul had trouble making accurate traffic predictions and they were concerned about increases in travel time and costs, especially as new toll roads come into use. These needs and expectations formed the basis of the Easy Route software. Using its smart algorithm, Easy Route can make traffic predictions up to 24 hours in advance. Its predictions are highly accurate as it considers parameters like peak congestion times, previous traffic data, weather conditions, public holidays, social events and school hours. The

app stands out from its peers with many features. It can display useful data like travel time, fuel consumption and costs associated with toll roads. It even flashes a driver's average speed upon entering a highway to reduce the risk of accidents. Users can display data about total travel costs, travel times, time spent in traffic and total emission rates on a daily, monthly or annual basis. They can also generate the three best routes according to traffic conditions by entering a proposed arrival time.

A team of six from three departments had to juggle their regular roles and responsibilities while working on this project. They had just one day a week to work on it, but managed to complete it in four months. The project's ready-to-use application has been available on Google Store and App Store since October 2017. It has over 239,000 downloads and more than 80,000 active users. The team aims to reach 475,000 users by the end of 2019 and has begun efforts to monetize the app through premium membership fees, advertising, and collaborations with big data providers. The team has signed an agreement to use the app as a native ad space with Opet, another Koç Group company. They are also in the final phase of integrating the application into vehicle multimedia systems through Ford's SYNC AppLink feature. Development continues to improve as the team implements feedback from current users. The project will focus on offline maps, an exclusive navigation service for truck and lorry drivers, and fleet management application models.

► **80,000**
the project's ready-to-use
application active users

► **475,000**
users aimed to reach by
the end of 2019

Innovation

In Practice: Open Platform for Start-up Collaboration - Arçelik Garage

- ➤ ➤ **Arçelik** has the most established R&D organization in Turkey and the company is the leader of the Turkey Innovation League and patent champion by far. Arçelik decided to position innovation as a more impacting competitive element, with the aim to increasing global competition environment in the industry and the acceleration of the transition from idea to product. To be successful in these challenging areas, the company acted in the second half of 2016, aiming to strengthen its ability to develop products that involve consumer insight.



Innovation

In Practice: Open Platform for Start-up Collaboration - Arçelik Garage

- ➤ ➤ Arçelik determined the following areas for improvement: Increasing the number of innovation-focused proposals and ideas by strengthening the employees' cooperation culture within or outside the company, shortening the transition from idea to product period, recognizing unsuccessful attempts early on by incorporating the customer into the entire innovation process. These findings led Arçelik to the concept of an "open innovation environment". The company has decided to create the conditions for open innovation in an environment that allows cooperation of all stakeholders in the Arçelik ecosystem, especially the employees of the company, subsidiary industries, the academic world, business partners and NGOs.

Since Arçelik Garage started its operations, R&D, Production, Product Management and Marketing departments have gathered around the same table which were previously included gradually in the process after the emergence of a product idea. The novelties brought by this groundbreaking working pattern generated resistance in the beginning. Continuous communication eliminated these shortcomings in a short time. The collaboration culture for innovation-focused projects eventually took hold.

Representing the same culture outside, Garage opens its doors to stakeholders outside the company. A digital platform, arcelikgarage.com, was established to manage the high demand and to set a standard for relations with start-ups. Thus, we have begun to accept the applications of the entrepreneurs who have ideas. Co-operations were formed with seven of the start-ups creating different models that got in contact with Garage; thus, a serious step was taken in Arçelik's goal of getting closer to the start-up world. Garage continues to collaborate on original models and aims to discover more start-ups it can partner with.

In 2017, the year Garage launched, 5,660 new ideas were developed. Of these ideas, 123 became prototypes of which seven were turned over to mass production project. One of the products was selected as the Hero product at 2017 IFA and it represented Arçelik at this fair. Between 2009 and 2013, 627 ideas in total were proposed, the ideas for which a project was conceptualized were 25, and six of these became products. In 2017, we reached seven mass production projects, and Arçelik aims to triple this number to 25 by 2018.

➤ **5560**
new ideas were
developed in 2017.

➤ **123**
ideas became prototypes
of which **seven** were
turned over to mass
production

➤ **25**
turned over mass-
produced products
aimed by 2018

Suppliers and Distributors

- ► ► Our vision to lead our industries forward means that while we strive to transform our suppliers, distributors, contractors, and all our business partners, along with our own operations. Our size and scale mean that we can accelerate change and lead by example. As a role model and through our long-term relationships with stakeholders in our value chain we have an opportunity to drive positive change.

Our core values honesty, integrity, and business ethics are the foundations of our business and we expect our business partners to act in line with these principles. Complying with all laws and regulations, delivering products and services in accordance with international standards form the fundamentals our business relations. We support our business partners to help boost their performance in business ethics, quality, environmental, human rights, and other social areas and we cooperate to achieve our goals.

The first step to improving our value chain is the diverse trainings we give to our suppliers and distributors. In 2017, hours spent on supplier trainings totalled 6,000 hours. Also, the Supplier Audit Program helps us to manage our supply chain risks and ensure that our supply chain complies with our standards. Beside quality and product safety audits, suppliers are assessed according to risk-criteria on social, environmental and ethical issues and high-risk suppliers are audited accordingly in these areas. This year 13.7% of our 1,929 suppliers, dealers and service points were audited on social, environmental and ethical criteria. We aim to widen the coverage of our audits every year and to go beyond business network, expanding the reach of our sustainability initiatives to ultimately cover our entire value chain.

Supplier Training Hours in 2017	Training on Environmental Issues	Training on Social Issues	Trainings on Ethical Issues
	2215	1700	2146

A photograph of three Ford employees in a workshop setting. A man in the center, wearing safety glasses on his head and a grey Ford work shirt, is smiling broadly. To his right, a woman in a similar grey Ford work shirt is also smiling and holding a black marker. A third person is partially visible on the far right, also smiling. The background shows green shelving units and a sign that reads "MICHAEL FORD STORE". A dotted line of small white triangles curves across the upper left portion of the image.

**Empower people.
Together**

Empower people. Together

Aiming for an equal, empowered workforce

We want to create a community of empowered, engaged employees who have the knowledge and skills to reinvent the business models of the future. In line with our vision to grow globally, our aim is to attract, retain and develop multi-skilled talents and strengthen employee engagement in all the countries where we operate.

Building on our people-first principles

We've always put people first, empowered them and helped them to thrive in an agile business environment. This approach has enabled Koç Group employees to reach their full potential and our companies to become viewed as role models in their industries

Empowering people drives sustainable development

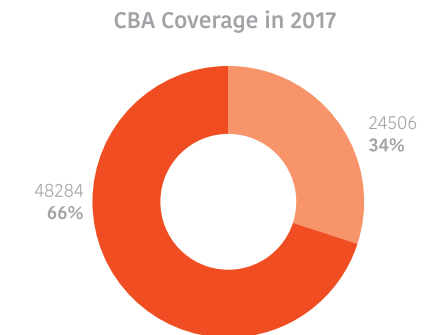
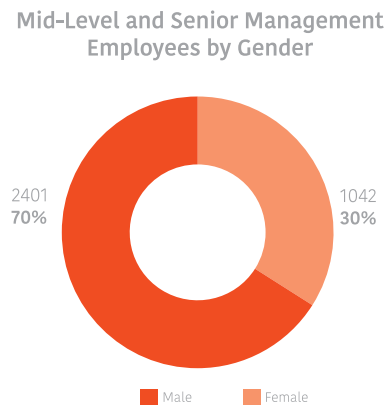
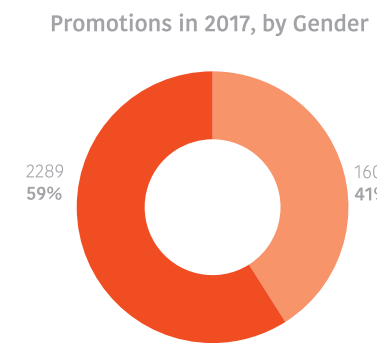
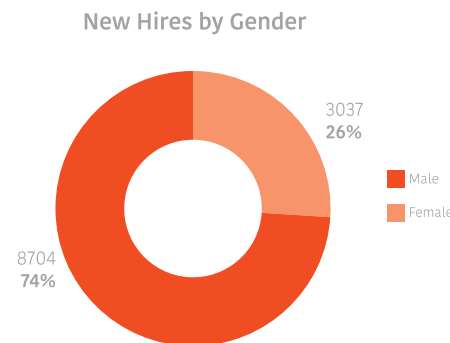
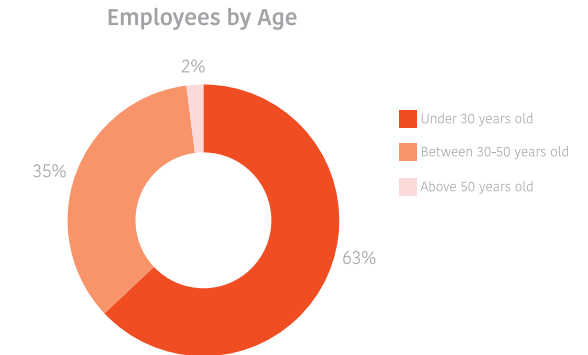
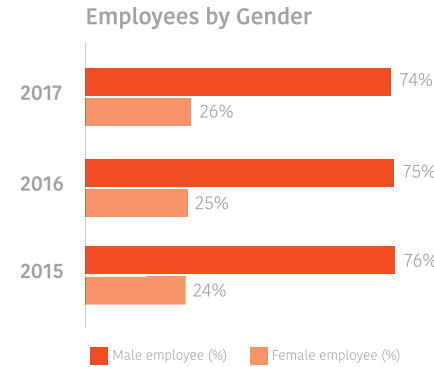
Today, we focus on giving people the skills they need and building the most talented and inclusive workplace. In this way, we maximise our collective potential to develop the solutions of the future: solutions that will meet some of society's most pressing challenges.

Across the Koç Group companies, employees are the most valuable assets. We develop their skill sets and aim to maximize their performance by providing a productive, healthy and decent work environment in line with Koç Group Code of Ethics and Business Conduct, and the SDGs.



Koç Group Employees in 2017

► ► ► **Koç Group** is the largest employer in Turkey with 94,111 people as of end of 2017. 99% of our employees work full time. This report covers 77% of total workforce representing 72,790 employees.



Future Talent

► ► ► Finding, training and keeping the best

Considering the future of our industries, it's important we understand what kind of skillsets will best support our globally competitive businesses. We want our workplace to be more flexible, agile, dynamic, bold, collaborative and entrepreneurial – and, accordingly, be more attractive for the emerging talents.

Developing talents and cultivating capabilities is our business as usual

We create opportunities for our people to grow their potential. Enabling progress through trainings, we address Industry 4.0's demand of ever more sophisticated skillsets. Advancing our human capital is our tradition and priority.

Industry 4.0 has big implications for future talent

Disruptive changes in business models will have deep implications for employment. The skills which are important today will not be the skills of the future and the workforce will be expected to possess new expertise, especially the ability to integrate more to the technology and innovation. Tomorrow's workplace will see people and machines working more closely alongside each other than ever before. Jobs and skills will change as processes become ever more automated. We think this can be an opportunity for all, but we must give people the skillsets they need to succeed in the new business world. Therefore, leveraging human capabilities and skills, defining new global competencies are essential for our work environment.

Facing the skills shortage

Globally, there's a shortage of some of the most skilled talent that businesses like ours need to grow and succeed. Science, technology, engineering and maths skills are in particular demand, as are multifaceted thinkers who can use their minds to tackle the complex interdisciplinary challenges facing business and society. The skills shortage in Turkey is a major issue for businesses and it is expected to emerge in the medium to long term. More than 60% of private firms are experiencing difficulties in finding employees with the required skills* thus this pressing issue is crucial to overcome for private sector.

At Koç Group, we always seek to work with the most qualified, highly competent, dynamic and proficient professionals to continue creating value in future's competitive world. It is also crucial for our employees' to have global vision to reflect our increasing global presence. By championing diversity and inclusion, we aim to provide solutions to tackle skills shortage and secure our successful growth in the long term.

We provide with the opportunities to our employees to enable them to go beyond their potential. This way they get ready for the future and keep pace with the change. We design and implement talent management strategies which combine creativity, flexibility and technology with productivity and employee engagement. We regularly roll out new training programs to prepare our employees for growing interdisciplinary challenges and help them build confidence in their knowledge and skills.

* OECD, Getting Skills Right, Assessing and Anticipating Changing Skill Needs, https://read.oecd-ilibrary.org/employment/getting-skills-right-assessing-and-anticipating-changing-skill-needs_9789264252073-en#page24

Future Talent

- ► ► Employees at all levels deliver career development plans at widely used Koç Akademi platform. Within the platform, there are online training modules, articles and other informative resources. The development planning process consists of assessment, goals, identification of areas improvement, and development plans. One-on-one coaching, mentoring and project initiatives are also essential tools to effectively manage talents and skills. In 2017, 281 employees attended coaching programs and 340 employees took part in the various mentoring program. Beyond professional trainings, we also support their personal development to set goals in order to realize and be motivated in the workplace. In addition, we introduce communication and collaboration platforms to share ideas and best practice among Koç Group companies.

Rotation among Group companies is another method we use in talent management. Through the KoçKariyerim (My Koç Career) platform, open positions in Group

companies are announced to employees giving a chance to professionals to transfer into new jobs within the Group. This practice equips employees with alternative perspectives and diverse set of competencies, prepares them for future roles, and increases synergy within the Group.

In 2016, we launched the LEAD platform to improve professional skills for different management levels by means of integrated programs incorporating online trainings, coaching and personal development. In addition, every year, 5 senior executives and 5 potential talents attend to Harvard Business School. Female talents expand their influence by Columbia Business School's Women in Leadership Program.

The following cases demonstrate how we invest in future talent through our flagship initiatives. More information on other employee programs can be found at our **Annual Report 2017**.

Future Talent

In Practice: Building Future Skills and Competencies

► ► ► Partnering with Udacity

Building future competencies and skills is a considerable goal of Koç Group's Digital Transformation Program. Highlighted as critical for driving change in WEF's The Future of Jobs Report*, the skills such as data analytics, machine learning and artificial intelligence are also key for making Koç Group a global company. From this point of view, Koç Holding has collaborated with Udacity, the world's most valuable online training company, to provide training programs on the critical capabilities and competencies of the future. These trainings help professionals to internalize the future skills of digital transformation and enable them to quickly apply what they learn. With this partnership, we aim to offer training programs for over 600 employees at different Group companies in two years, starting from June 2017. Such as today, 350 employees participated in online programs in data analytics, digital marketing, machine learning, self-driving cars, coding and business analytics.

Personal Development Program

Besides upskilling employees in technical competencies, it is essential to empower senior executives with future leadership competencies in the digital world. Covering all 300 senior executives in Koç Group, we designed the Personal Development Program (PDP) in cooperation with Harvard University, McKinsey and Aberkyn.

The PDP focuses on personal development and it is supported by online trainings and personal coaching. The program spreads over a six-month period and comprises three phases in which senior executives take part in groups of twenty-five. The first phase is a one-week camp with a theme of "Personal Awareness." This phase aims individual transformations through mental and physical awareness. In the interim period, the participants complete Harvard Business School's HBX - Disruptive Strategy program in smaller groups. The second phase, which is also a one-week camp, has the theme of "Change." During this phase, McKinsey instructors provide trainings on digital trends, design-thinking, digital marketing, big data, agility and change management, which are tailored to address leaders' specific needs in the digital age. The last camp period, carried out abroad and revolved around experience, features the theme of Renewal. This final phase aims to uncover the adaptability and flexibility of senior executives in challenging natural conditions and and empower their adaptive leadership skills.

One of the most important components of the program is that senior executives from different fields of ability, functions and companies enjoy a common developmental program together for the first time. Initial 71 participants were asked about the benefits and the effects sparked off by the program, they gave it a score of 6,4 out of 7.



* WEF, Future of Jobs 2016 (http://www3.weforum.org/docs/WEF_Future_of_Jobs.pdf)

Diversity and Inclusion

► ► ► Creating an equal opportunity workplace

We work hard to cultivate a diverse and inclusive place to work where men and women feel valuable and valued, whether they work in office or industrial roles. Our focus is creating an inclusive culture for a more productive and collaborative workplace across our industrial plants.

Staying true to our progressive values

Our values and track record for being a progressive organisation have led us to champion diversity and inclusion for many years. We continue to honour our progressive values and show our commitment to international best practices.

Staying true to our progressive values

We recognise the value of adopting international business norms where everyone's contribution counts and diversity is seen as strength. Diversity and inclusion cover many dimensions, but all are good for business. Diverse organisations outperform those that are less-well balanced. And organisations where everyone feels valued have higher employee engagement scores, which in turn results in increased productivity.

We also fundamentally believe that diverse and inclusive workplaces open up opportunities to drive sustainable behaviours. They are better governed, have richer skillsets, encourage creative thinking and align better with the varied interests of customers and stakeholders. At Koç Group, we are committed to provide equal rights to all employees regardless of their religion, sexual orientation, language, ethnicity, race, beliefs, faith, disability or any other personal attribute protected by law. Our human rights principles also comply with the international agreements issued by the International Labor Organization (ILO) and its international equivalents. We

respect and support employees' collective bargaining right. None of the Koç Group companies employ child labor or engage in forced or compulsory labor practices. Our business partners are also expected to follow Koç Group Code of Ethics and Business Conduct. We endeavor to address the needs of all genders, ages and job categories to offer a decent work environment. Accordingly, we have reformulated training programs and updated our support systems to cover all job categories. We also provided enhanced and equal means of communications for all of our employees. More information on the initiatives are provided in the following case study.

Since 2014, our company has a focus on gender and therefore we pioneered many initiatives within the Group. We firstly revisited our work environment with a gender lens so that all positions are more conducive to women, like mentoring during and after maternity leave, enhanced child care and workplace safety. In 2017, 1176 women went on maternity leave and 87% of them returned back to work after their official leave. 3392 women benefits from child care. In addition, we work with all the Group Companies to eliminate all kinds of discrimination and biases through trainings on gender norms.

Over the course of last 3 years, we participated and led initiatives on gender equality.

- Signing the Declaration of Equality at Work,
- Publication of the Koç Group Equality Guidelines and Implementation Principles,
- Becoming HeForShe IMPACT Champion,
- Signing the Women's Empowerment Principles (WEPs) with 30 Group Companies
- Raising awareness among all employees and business partners' through "I Support Gender Equality for My Country" initiative

► **26%**
female employment

► **35%**
under 30 years old

Diversity and Inclusion

In Practice: Strengthening Inclusion

- ➤ ➤ **Koç Group** works hard to create a work environment where all employees feel valued and respected, regardless of their job category, gender or age. Following the 2015 labor movements in Turkey's metal industry, Koç Group has reviewed its practices and procedures concerning production workers, Koç Group's new approach complies with UN SDGs, Goal 8 Good Jobs and Economic Growth and Goal 10 Reducing Inequalities.



Diversity and Inclusion

In Practice: Embracing Diversity

► ► ► Koç Group is expected to pioneer this new direction towards inclusion and model these new practices for other private sector companies. This is reflected in the 2016 Stakeholder Research*, which centred on sustainability and the participation of nongovernmental organizations, international organizations and academicians in sustainable practices. The participants expected Koç Group, with 66% of its employees covered in this unionized, to lead a transformation towards diversity and inclusion. As a result, the Group decided to review existing data and re-evaluate 500,000 open-ended questions given in the employee engagement surveys between the years 2011 and 2015. Through this comprehensive reading, the Group analyzed how an increasingly digitalized world changed work and lifestyle habits in the industrial environment. It also identified factors that create discrimination and prepared an action plan to eliminate these and increase employee engagement.

It all began with a change in terminology. A message from the Koç Group CEO emphasized the new focus towards equality in language. As a second step, corporate email accounts were established for all production workers. With these, production workers joined office workers in receiving simultaneous and immediate access to all Koç Group employee content, including announcements and online training programs. Revisions made to the Most Successful Koç Employees Competition to better reflect this new move towards equality at work.

* Sia Insight, Koc Holding Stakeholder Research, 2016.

Reviewing and comparing the production workers' rights and benefits, due attention is paid to private health insurance. Research revealed that production workers showed little interest in the existing practice, which had required employees to affiliate with Koç Group Pension and Support Fund Foundation and consent to a 6-percent salary cut. With these conditions the insurance rate among production workers was only 4%. To address this, the Group issued a review of the Complementary Health Insurance System and offered affordable healthcare opportunities to their families. As a result, Koç Group has achieved the most comprehensive corporate participation in Complementary Health Insurance in Turkey. According to the initial survey conducted in 2016, the engagement rate of production workers was 50% lower than that of office workers. However, the survey carried out at the end of 2017 showed that the engagement rate had increased and was now equal among the two groups for the first time.

Koç Group's practices in this area have drawn the attention of all players in the industrial world. The Group have set a new standard with their last collective labor agreement in the metal industry and paved the way for 180,000 workers to gain access to Complementary Health Insurance. The Group's successful practices has created momentum. Many more efforts are in progress, ranging from redesigning cafeteria layouts and workers' attires to a wider access to employee shuttle services.

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Diversity and Inclusion

In Practice: Investing in the talent pipeline

- ➤ ➤ In Turkey, only three out ten people at workforce are female and only 15% of them work in industrial sectors*. To address this, **Türk Traktör** launched a comprehensive project that will change the landscape in the automotive industry, where female employee rates are even lower. TürkTraktör began with Filizlerin Mucizeleri (The Miracles of Sprouts), a project that aimed to raise awareness of gender equality and attract more female employees. The project was developed with intervention instruments that will cover the talent pipeline.

* Women Facts and Figures, 2017. <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=27594>



Diversity and Inclusion

In Practice: Investing in the talent pipeline

- ➤ ➤ The project was primarily inspired by the facts that the company has had almost no female shop floor employees since its foundation in 1954. Türk Traktör's project team first analysed that female applicants mainly did not apply for these positions. While getting to the root of this challenge, the company realized that the rate of girls studying at vocational high schools for technicians was as low as 2%*. Thus, the project adopted another goal: to encourage girls to attend vocational high schools for automotive and agricultural technologies. Observing gender stereotypes as the main cause of the disparity between the number of male and female employees, the company decided that the best course of action was to conduct studies which would raise gender awareness and make workplaces more inclusive.

As part of project's talent pipeline pillar, TürkTraktör initiated a partnership with the Ministry of National Education, Ankara University Women Studies Center (KASAUM), the Turkish Education Foundation (TEV) and the Turkish Family Health and Planning Foundation (TAPV). The company also mobilized 110 volunteer employees and dealers.

Vocational and technical high schools were visited and shortlisted in several hubs of Turkish automotive industry. Volunteer employees from TürkTraktör and TAPV trainers organized seminars to communicate the gender biases in jobs. These seminars reached a total of 6,000 students in two years. To incentivize female students to study in the fields of machine and metal technology, motor vehicles, electrical-electronics technology, logistics and agricultural technology, 100 students were given four-year scholarships. Scholarship holders were also given priority towards internships and employment. TürkTraktör also prepared a research in collaboration with KASAUM on Vocational Students' Views and

* Ministry of National Education, General Directorate of Vocational and Technical Education, 2017.

Attitudes Towards Gender-Based Profession Choices. Within the scope of the Filizlerin Mucizesi Project, 92% of more than 3,000 TürkTraktör employees undertook gender equality training. Efforts were made to promote a culture of gender equality. These included the addition of education programs to train female managers and mentors. All female employees underwent holistic leadership and inclusion training, and the onboarding policy was revised to reflect this move towards gender equality. All managers and hiring authorities underwent training on discrimination and gender equality. Women have begun to be employed in traditionally male roles and this approach has been communicated through all communication channels. Furthermore, training seminars focussing on mother and child development were introduced and a postpartum mentorship program has been established.

Thanks to these efforts, the number of female employees in production grew from one to 68 by the end of 2017. The company's female office employees also increased by 13% compared to January 2016 and the number of female managers and supervisors rose 25% in the same period. In the next period, TürkTraktör aims to extend its training coverage to dealers and their employees, allowing it to spread its learnings on gender equality to the whole ecosystem. TürkTraktör continues to extend the impact of the project by supporting female farmers and their families to become entrepreneurs. Trainings and mentoring are provided on cooperative management, local production, good agriculture practices and cultivating buckwheat. This has been done so in collaboration with the Ministry of Food, Agriculture and Livestock (GTHB), Ankara University Development Studies Application and Research Centre (AKÇAM); and the Buckwheat Cultivators and Healthy Living Centre (KARSADER).

Health and Safety

- ► ► With the aim of achieving zero accidents throughout our operations, we strive to provide a healthy and safe work environment for our employees. We manage occupational health and safety issues with a precautionary and risk-based approach in accordance with regulations, globally accepted standards and the Koç Group Code of Ethics and Business Conduct. This mainly covers risk assessment activities, providing trainings and seminars, tracking occupational health and safety performance systematically and implementing new practices. As of 2017, 67 facilities owned by Koç Group companies were certified with OHSAS 18001 Occupational Health and Safety Management System, covering approximately 83% of all facilities.

Koç Holding Occupational Health and Safety Coordination Board is responsible for reviewing practices and efforts on health and safety, with the goal to continuously improve Group performance, whereas Occupational Health and Safety Committees are responsible for managing health and safety issues at each Group company.

At Koç Group, we seek to involve every employee in taking occupational health and safety actions and aim to instil this

culture as a shared responsibility. Trainings play a major part towards this goal. We provided 588,156 employee-hours of training to Group employees in 2017, resulting in a 16% increase compared to 2015 levels. Also, we gave 89,804 employee-hours of training to contractors, yielding a %34 increase for the same years.

Our work safety rules make up the core value of our work culture without compromise. Occupational health and safety indicators of contractors are also tracked periodically. Despite this fact, we are deeply saddened by the loss of our four contractor employees due to the storage tank explosion incident that took place in Tüpraş İzmir Refinery on October 11th, 2017. Following the incident, all the work processes, in line with international standards, have been reviewed and measures have been taken to further strengthen the safety of our colleagues.

Further information on our occupational health and safety management approach, practices and performance is available in our website and **2017 Koç Holding Annual Report**.

	2015	2016	2017
Injury rate	0.82	0.82	0.88
Occupational illness rate	0.02	0.02	0.02
Lost working days rate	24.23	9.74	9.46

Performance Management

- ➤ ➤ Performance management is an integrated set of applications that enables effective deployment of the corporate goals set in accordance with strategies at all levels within the Companies. We manage employee performance objectively according to the process that serves to measure and reward employees' accomplishments relative to their goals and skills. The goal of performance management is to ensure and reward sustainable value creation rather than short-term return. All office employees are evaluated annually relative to their previously set goals as part of performance management and promotions are made according to the results of performance evaluations.

Performance management is also important for the Koç Group's Compensation Management System including benefit packages.

For details on performance management, remuneration and bonuses, please refer to the Remuneration Policy for Members of the Board of Directors and Senior Executives and **Koç Holding's 2017 Annual Report**.

A man and a woman are standing in front of a large window, looking out at a lush green landscape. The man is wearing a pink polo shirt and glasses, and the woman is wearing a colorful patterned shirt. They are both smiling and appear to be in conversation. The window has vertical frames, and the view outside is slightly hazy. There are some small white decorative elements, like dots and lines, scattered across the upper part of the image.

**Act for the planet.
Together**

Act for the planet. Together

Aiming for a balanced approach to doing business

Sustainable economic development will only happen when protecting the environment is core to our decision making. Put another way, at Koç Group, we know our financial wellbeing is worth very little without the human wellbeing that comes with a healthily functioning natural world.

A connected, long-term perspective

We're in a strong position to act on complex global challenges with long time frames – like climate change. Our global scale and engagement present big opportunities to contribute to the progressive climate agenda. In doing so, we provide a role model for other businesses – both within our own ecosystem and beyond.

Climate change, with its widespread, unprecedented impacts, is one of the greatest challenges of our times. A changing climate has fundamental implications for businesses, governments and societies. As global temperatures move towards internationally recognized limits of 2°C, the challenge of climate change is more acute than ever.

Global markets play an important role in responding to the goals set in the Paris Agreement and in addressing the challenges of adaptation to the changing climatic conditions in the most affected geographies. In order to raise the level of ambition, continued and enhanced international collaboration is needed among developed and developing markets. A global shared vision needs to be embraced among all parties to accelerate the development of a global progressive climate agenda.



Act for the planet. Together

Koç Environment Committee

Through Koç Environment Committee, which is a uniting platform that brings together environment, energy and sustainability experts from all Koç Group companies, we aim to create a common understanding across all industries. The Committee is the highest level coordinating body on issues related to environment and it is responsible for creating long-term environmental management strategies*.

In line with the long-term strategies, each Group company develops its action plans in their respective industries. The action plans are revised and updated in line with the national and international regulations of the countries where Koç Group companies operate in.

The long-term strategic plan, which will be effective until 2020, endorses Group companies to address climate change challenges, to implement best practices in energy and water efficiency, to work towards zero-waste

* Koç Group Environmental Policy and Performance: <https://www.koc.com.tr/en-us/corporate-social-responsibility/environmentally-friendly-practices/environmental-management>

operations, to engage in green procurement practices, to develop environment-friendly products and to certify facilities with internationally recognized environmental management systems such as ISO 14001.

The progress against strategic plans is monitored through monthly meetings with participation of more than 20 Group Companies. The Committee is chaired by a senior executive who serves for at least two years. Annual performance reports are prepared under key performance indicators determined by the Committee and reported to Koç Holding's senior management. The Audit Group conducts both policy-and performance-based periodic audits and reports the results to the company senior management. Apart from the audits carried out by the Audit Group with the contribution of the Environment Committee, environmental policies and performance of the Group companies are also subject to internal and external audits. Through its issue specific working groups, the Committee follows up the global agenda and aligns its strategies with initiatives such as UN Global Compact, SDGs and Paris Agreement.



Climate Change

- ► ► Climate change and its adverse impacts are a key material issue for the majority of our industries. We aim to demonstrate our commitment to addressing this challenge, by innovating and collaborating for the future, increasing our operational performance and taking adaptive measures to build a resilient business.

Adopting the best available technology to optimize our operations is essential for reducing emissions and improving energy efficiency, increasing our use of renewable energy and adapting to the impacts of climate change across all our industries.

Developing effective solutions to environmental issues requires coordinated efforts between all related parties. We work with industry and sector peers, government institutions, public bodies, academia and civil society to drive forward the climate change agenda and support policy development, both nationally and internationally. Our stakeholder research indicated that NGOs, universities, opinion leaders and public institutions expect us to act on climate change, adapt to the shift towards a low carbon

economy and invest in renewable energy and energy efficiency.

Taking part for a better future...

Koç Group represents Turkish business community on local and international climate change platforms since 2011. In the international arena, we follow the United Nations Framework Convention on Climate Change (UNFCCC) and participate in the Climate Change Conference of the Parties (COP). Arcelik and Tüpraş shared their expertise and best practices on climate change, and their experiences at the COP23, at the panel organized by the Republic of Turkey Ministry of Environment and Urbanization. Arcelik became a signatory to the Science Based Targets initiative, jointly launched by the Carbon Disclosure Project (CDP), United Nations Global Compact (UNGC), World Resources Institute (WRI), and World Wildlife Foundation (WWF) and committed to reduce its greenhouse gas emissions.

Additionally, since 2015, Turkish Industry and Business Association (TÜSİAD), Turkey's top business organization, Environment and Climate Change Working Group is led by a Koç Group senior executive. In 2017, we contributed to the preparation of the "TÜSİAD Position Paper on Addressing Climate Change". *

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* https://tusiad.org/tr/cevre-iklim-degisikligi-cg/item/download/8919_06c373fb91e8727cb4d8ae1361874416

Climate Change

Improving our Energy Efficiency

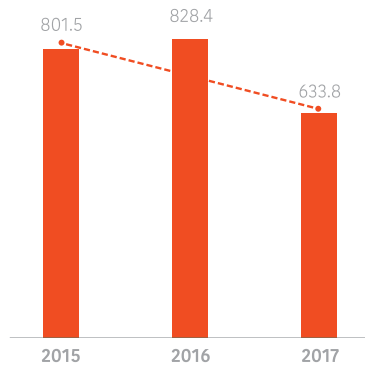
- ► ► Climate change is an emerging risk that has short to long term implications for businesses. We act with the awareness of the risks implied by climate change in maintaining our operations.

We are committed to do our share through our practices and investments aimed at constant improvement that minimize the environmental impacts of all our operational processes. We develop products that are less resource dependent and energy efficient. The overall energy intensity of the Group companies in 2017 was 633.8 GJ/TL million of net income while greenhouse gas emission intensity was 41.7 tons CO₂e/TL million of net income. In the energy

sector these figures stand at 1,168.5 GJ/TL million and 78.5 tons CO₂e/TL million. The Group companies operating in non-energy industries have an average energy intensity of 103.07 GJ/TL million and an average greenhouse gas emission intensity of 5.19 tons CO₂e/TL million.

We focus on ways to reduce energy intensity that deliver long-term benefits. Through the energy efficiency initiatives executed by Group companies in accordance with the Group's long-term environment strategy, the energy efficiency projects implemented in 2017 saved 1.1 million GJ of energy and reduced greenhouse gas emissions by 65,069 tons CO₂e.

► **21%**
decrease in energy
intensity



Koç Group Energy intensity (GJ/million TL)

	2015	2016	2017
Energy	1,472.7	1,647.9	1,168.5
Automotive	126.7	107.2	85.2
Consumer Durables	303.0	262.8	77.5
Finance	46.8	50.1	50.0
Koç Group	801.5	828.4	633.8

Energy intensity (GJ/million TL)

Climate Change

Managing water risks

- ► ► Achieving SDG 6: Clean Water and Sanitation is essential to human health, environmental sustainability and economic prosperity.* In addition, water risk is a significant concern for many of the industries that we operate in. Recognizing the importance of managing water risks across our operations, Koç Group Environment Committee prepared the “Koç Group Water Risks Analysis” to examine the physical, regulatory and reputational risks in the river basins that we operate.

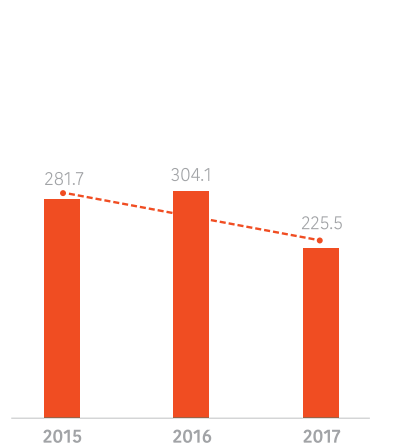
As a primary step to managing water risks, we aim to reduce freshwater withdrawals by boosting water efficiency in production, recycling and recovery; to lower the stress on resources through resource diversification; to cut the

* <https://sustainabledevelopment.un.org/sdg6>

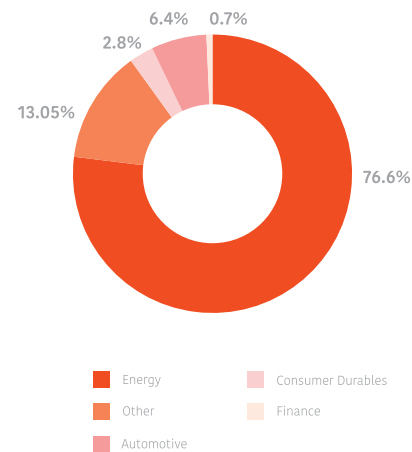
amount of generated wastewater; and to further improve the quality of wastewater. All relevant indicators are measured annually and performance results are evaluated across Group companies.

In 2017, Group companies consumed approximately 41.1 million m³ of freshwater, corresponding to water consumption intensity of 225.5 m³/TL million of net income. The share of surface water and underground water resources in the Group's total freshwater withdrawal went down from 59% last year to 55% in 2017. More than 105.8 million m³ water was recycled and reused. Hence, the share of water which is recovered in production stands as 72%.

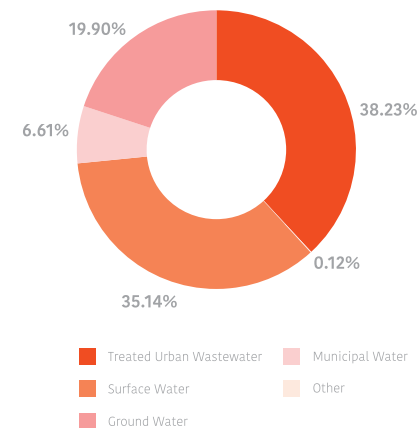
► **20%**
decrease in water intensity



Koç Group Water Intensity (m³/million TL)



Water consumption by sectors (%)



Total water withdrawal by source (%)

Climate Change

In Practice: Addressing Climate Change Impacts

- ➤ ➤ **Tüpraş**, Turkey's largest company and Europe's seventh biggest refinery, started addressing climate change impacts more than a decade ago. Currently, Tüpraş concentrates on energy efficiency, adaptation to the climate change impacts and focusing on R&D. Tüpraş shares its experience on climate change with various stakeholders through partnerships and collaborations.



Climate Change

In Practice: Addressing Climate Change Impacts

► ► ► Energy Efficiency

Operating in the high energy-consuming refinery industry, Tüpraş prioritizes energy-efficiency projects in line with its sustainability objectives. Thanks to company's investment on energy efficiency, the company has decreased its Solomon Energy Intensity Index (EII) to 102.2 from 105.2 in the past five years. The Index makes a comparison of the performance by Tüpraş possible. The decline represents an energy savings of approximately 1,850,000 GCal. During the same period, the company has reduced its greenhouse gas emissions by 522,000 tons and have generated \$75.9 million.

Adaptation to Climate Change

Tüpraş also works to adapt to the impacts of climate change. As such, it has taken action to mitigate water risks, a vital source for its operations, and support an effective use of natural resources. Tüpraş has launched the Urban Waste Water Recycling Project in collaboration with the Körfez Municipality, the local authority closest to its facilities. As part of the project, between 2014 and 2015, the company invested \$24.8 million for the urban waste water recycling facilities at the Izmit Refinery. The total production capacity at the facility is 1,500 m³/hour. Subsequently, 97 percent of the water used at the Izmit Refinery now comes from the waste water of the Körfez Municipality. In three years, 19.9 million m³ of water have been recycled as a result of the project, one of the very few initiatives around the world that aims to recycle urban waste water. This figure corresponds to annual water consumption of a city or town with a population of almost 495,000. The Tüpraş Izmit and Izmir refineries are also conducting work to recycle industrial waste water and reuse the processed waste water in the intermediate stages. In 2017, all Tüpraş refineries recycled 25.7 million m³ of water.

Research & Development

Tüpraş concentrates on R&D efforts to develop solutions to mitigate climate change impacts. Tüpraş has also developed a project partnerships within the scope of the Horizon 2020 program, while also promoting projects for energy efficiency, converting waste CO₂ into valuable products, developing advanced waste water treatment technologies, and manufacturing materials that cut down energy consumption. The main objectives of the partnership involve projects that are set to produce biosynthetic fuel with an eye for low-carbon development, foster innovative technologies aimed at the use of waste heat recycling, and achieve industrial sustainability.

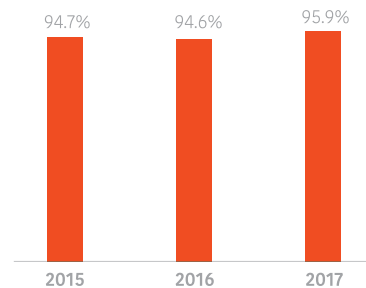
Collaboration

The company put an emphasis on sharing experience and disseminating good practices within and beyond the industry. Tüpraş presented the company's best practices and experiences in monitoring, reporting and verifying greenhouse gas emissions at the Turkey Pavilion during the 23rd session of the Conference of the Parties (COP 23) in Bonn, Germany. Tüpraş also made contributions to the reports prepared as part of the Partnership for Carbon Market Readiness (PMR) conducted by the Ministry of Environment and Urban Planning and to the "TUSIAD Position Paper on Addressing Climate Change" prepared by TUSIAD. Throughout the Körfez Municipality Urban Wastewater Recycling Program, the company shared knowledge and experience with local municipalities and the Ministry of Forest and Water Management and presented the system to municipalities, NGOs, and universities.

Waste

- ➤ ➤ At Koç Holding, our environmental strategy encompasses investments in waste reduction. In doing so, we contribute to a more sustainable world by advancing technologies to reduce waste increasing recycling and reuse, creating safer treatment and disposal, and sharing the benefits of our learning and innovation with our clients and collaborators. Our practices to improve waste management at our facilities in the previous year resulted in recovery of 95.9% of the total waste in 2017.

Waste recovery by year (%)



Biodiversity

- ➤ ➤ Globally, the combined effects of human activity have had profound negative impacts on biodiversity and ecosystems. We believe that, the sustainable use of biodiversity and ecosystem services is not only the key to economic development but is also of vital importance to human development. Therefore, our environmental strategy includes a focus on conserving biodiversity - evaluation and mitigation of our potential impact on biodiversity is one of our priorities. We manage biodiversity under four main pillars: Policy and Strategy, Planning, Operations and Implementation, and Capacity Development.

Between 2016 and 2017, Koç Holding Environmental Committee created a biodiversity action plan in cooperation with Nature Conservation Centre; an NGO specialized in biodiversity protection. In line with this plan, we aim to enhance remediation techniques and protect biodiversity at sites affected by our operations. Our action plan aims to provide effective land management and biodiversity conservation. The Plan incorporates ecosystem protection, habitat degradation, preservation all species and particularly those whose existences are under threat as well as endemic species in areas we operate in, and soil degradation. These actions also represent our contribute to the global effort to achieve the SDGs, particularly Life Below Water (Goal 14) and Life on Land (Goal 15).



**Strengthen communities.
Together**

Strengthen communities. Together

Aiming for better, across society

At Koç Group, we believe that strong and stable communities are vital foundations for building successful business. Over the years, we have been a first-mover in supporting community investment initiatives. Today, we focus on driving large-scale programmes that target widespread change. Through the impact we have our business becomes stronger, our family lives become richer, future generations have more opportunities, and everyone in society feels part of something that matters.

Leveraging our scale to drive change

Our scale means we have the potential to create a paradigm shift in the areas in which we invest. The collective power of our employees and distributors – combined with their families – is equivalent to more than half a million people. Engaging this many people in affecting change can start a movement that spreads through communities and beyond, creating a positive social transformation throughout society. Coupled with this, we work in a wide range of industries – from food processing to energy, consumer durables to finance. This means we can observe and make targeted interventions to scale prosperity in many high-impact areas.

Our special role in society

Our stakeholders recognize us as a driving force in society. We, too, see ourselves as a unique part of the socio-economic

landscape. As an early adopter of global best practices in areas related to the SDGs, we create momentum with our employees and partners, and use our scale and reach to trigger positive change. It all begins within our business networks before reaching out to the suppliers and the wider community.

It is important to think carefully about where we focus our efforts. Through our community investments, we aim for wide dissemination and lasting impact in the five focus areas of **Lead. Together** - digital transformation, innovation, future talent, diversity & inclusion and climate change. Focusing on the societal effects of complex issues material to Koç Group and partnering with stakeholders to increase the prosperity and equality of the world we work in benefits society as well as our business.

Diversity and inclusion is good for business and the society

At Koç Group, we aim to reflect diversity & inclusion in all areas of our business. For this goal, we undertake a number of initiatives, including development of policy and principles, and the dissemination of practices to transform workplace, and we engage in awareness-raising efforts for internal and collective action. Our experience in the area shows that gender-equality is one of the most prominent and complex issues of diversity & inclusion agenda. Therefore, we focus on the social transformation essential to gender equality.

Gender Equality

- ➤ ➤ Gender equality is vital to advance social progress, improve human development and build more equitable societies. Yet, much remains to be done. The world faces gender-related challenges. Turkey's performance in the area falls below the world average.*

We believe that innovation and creativity are two halves of the single greatest factor in progress. These can only be fostered in a workplace that encourages the diversity of voices. It is critical for us to create the right environment to foster gender equality in our workplace, among distributors and suppliers, and in the wider community.

Koç Group companies operate in various industries including the energy, durable goods, automotive and finance sectors. These sectors are traditionally male-dominated; thus, Koç Group's ratio of female employees does not accelerate quickly. We see that barriers in equal access to economic participation and gender-sensitive

workplaces can only be overcome by removing gender stereotypes in people's minds. For that reason, Koç Group works to shift traditional norms and be a role model to improve this situation.

The complexity of the problem calls for a joint action from diverse stakeholders. We feel privileged to be working with international organizations on powerful platforms including the HeForShe, and the Women Empowerment Principles (WEPs) that provide a roadmap towards our gender-equality objective.

Acknowledging that a society without women has no tomorrow, we collected best practices in 2016 and 2017. This report concentrates on HeForShe movement and For My Country initiative, more information on Group company investments can be found in their respective sustainability reports.

* Turkey ranked 131 among 144 countries in WEF Gender Gap Report, 2017.

Gender Equality

HeForShe



The UN Women's HeForShe movement plays a crucial role for gender equality, as it engages Head of States, global corporate leaders and university presidents to develop alliances and inspire others to create equal opportunities in every aspect of life.

In 2014, under the partnership agreement signed with the United Nations Entity for Gender Equality and Empowerment of Women (UN Women), **Koç Group** became the implementation partner in Turkey for the HeForShe campaign.



Gender Equality

HeForShe

- ► ► UN Women launched the IMPACT 10x10x10 Initiative in 2015 in order to engage key decision makers in governments, corporations, and universities around the world to drive change from the top. IMPACT Champions make gender equality an institutional priority by developing three bold, game-changing commitments to advance and achieve gender equality for all.

Mustafa V. Koç, former Chairperson of the Board of Directors of Koç Holding, was also selected as an Impact Champion. He supported the efforts personally and served as one of the ambassadors of the campaign.

Koç Holding Chairperson Ömer M. Koç took on the leadership role after late Mustafa V. Koç and in September 2017, he attended HeForShe IMPACT Summit on the sidelines of the United Nations 72nd General Assembly in New York.

Koç Holding's three commitments to the HeForShe movement are:

1. Fund implementation of the HeForShe campaign in Turkey and mobilize 4 million supporters by 2017.
2. Empower HeForShe mobilizers at Koç to shift gender norms across Turkey, reaching 100,000 people with gender sensitization training by 2020.
3. Strengthen gender sensitive work environment to drive towards parity.

For the first commitment, a dynamic communication strategy is developed and kick-started to create awareness around HeForShe in Turkey in collaboration with UN Women Turkey. The communication campaign ranged from a high-level launch event to a campaign video where Turkey's top celebrities and opinion leaders spoke in support of gender equality. HeForShe Turkey's social media accounts are still supported by Koç Holding. In addition, Koç Holding incorporates HeForShe into different events organized by Koç Holding and its affiliates. To shift gender norms across Turkey, gender sensitization trainings are conducted by Koç Holding and the Group companies separately. More detail on how we deliver our commitment can be found below.

Successfully completing the first two commitments through HeForShe communication campaign and For My Country trainings, now we focus on the transformation of our work environment. We monitor gender equality indicators annually and report them in our sustainability reports as well as in the **HeForShe Parity Reports**.

Gender Equality

For My Country

- ➤ ➤ “For My Country” platform was launched as a social responsibility initiative in 2006 to mobilize **Koç Group**'s vast network of employees, suppliers and distributors around different fields of sustainable development. The focus area of the platform changes every three years. In 2015, Koç Group agreed to focus gender equality to be the theme of its long-term awareness program.



Gender Equality For My Country

► ► ► “I Support Gender Equality for My Country”

► **84,000**

reached via the Gender
Equality seminars

► **350 / 90**
employees distributors

distributors took active
role for Ambassadors
and trained by AÇEV to
be trainers

► **200**

senior and mid-level
managers from Koç Group
companies participated
in awareness seminars by
KOÇ-KAM

Gender-based discrimination is a massive social and economic burden and it creates imbalances within the society. Explicit and implicit gender biases damage peaceful and prosperous societies, and they can only be addressed through long-term and sustainable awareness-building programs.

Since Koç Group's foundation, we work to build partnerships, develop long-term solutions and manage issues on participation and retention of women in the workforce as well as taking part in decision-making mechanisms. Our strategic and responsible approach to gender equality dates to 2013, when we signed the Equality at Work Declaration. In 2015, we signed WEPs, a joint text of UN Women and UN Global Compact.

In line with our focus on gender equality, For My Country Platform targets at raising awareness on gender equality among employees, distributors, suppliers and the wider community, and strengthening gender sensitive work environment to drive towards parity.

As part of the initiative, 350 employees and 90 distributors of the Koç Group participated in the project that witnessed cooperation between Koç Holding, the Mother and Child Education Foundation (AÇEV), the Turkish Family Health and Planning Foundation (TAPV) and the Koç University Gender Studies Centre (Koç-KAM). The long-running program of awareness-raising seminars has been held at 32 Koç Group companies and has so far reached out to 84,000 people.

Creating an ecosystem of equality

Following the signature of WEPs by 30 Koç Group Companies, we organized “Equality Marketplace” in November 2017. The main purpose of the event was to cultivate partnership opportunities between Koç Group companies with stakeholders working on gender equality. More than 150 representatives from 40 companies operating in 9 different sectors, 18 international and local NGOs, academicians and initiatives attended to the event. 19 expert speakers and 17 panellists shared their experiences in the parallel sessions. The event yielded into several partnerships between Group companies and different organizations. To name a few, two of the Group companies initiated community investment programs that focus on empowering daughters of their employees on digital skills. Creating an ecosystem enables us to empower our Group companies to build their own roadmaps on gender equality.



Gender Equality

Shifting Unconscious Biases

- ➤ ➤ At Koç Group, we also focused on developing diversity and inclusion standards for marketing materials, especially advertisements. Koç Group took a 2 phased approach to realize gender equality in communications. In each phase, there was research/report, training, dissemination, scale up and monitoring stages. To develop a gender equality approach and standard for the communications at Koç Group, **A Guide to Gender Equality in Communication** is prepared. The Guide offers Principles to gender sensitive communications, a methodology and a checklist. We also designed and organized interactive workshops tailored to initiate questioning and find solutions to gender-based biases in communications. Sponsored by the C-suite, Koç Group companies disseminated the Guide and workshops to the agencies they work with.

The impacts of the project spilled over to the Turkish Industry and Business Association (TUSIAD), Turkey's top business organization. The Guide's content and the workshop developed according to the needs of member companies and published as a TUSIAD publication. Besides TUSIAD, major sectoral associations such as Advertisers Association, Advertising Foundation, Association of Communication Consulting Companies, Public Relations Association of Turkey, and Association of Corporate Communicators became dissemination partners

of the Guide. These organizations now, circulate the Guide among their members and implement the workshops to their teams and agencies.

For March 8th, Koç Group developed a campaign video also emphasizing this issue. The slogan of the campaign was **“Gender roles have already changed; why not change what we watch on TV?”** and the ad navigated the audience to the Guide via its micro-site.

Although a considerable number of communicators have been reached through our efforts and the discussion on gender-based biases has been started, to address the issue in mass communications it was needed to create a major shift in TV series. Turkey sets a record worldwide with 5.5 hours average daily TV viewing time. The TV viewing times of children and youth are 1.5 hours more compared to their peers in other countries. Among all programs, the drama/comedy series are the most watched in TV programming. Recognizing the impact of TV series, they became the second area of intervention and a follow-up project has been initiated. This time, TUSIAD was positioned as the umbrella organization of the project, and representatives from UN Women Europe and Central Asia Regional Office and UNFPA Turkey took part in the Advisory Board, along with other national stakeholders.



Gender Equality

Shifting Unconscious Biases

- ➤ ➤ The first step was to create a baseline related to the current situation for building change upon. In order to enable all stakeholders to have the same understanding on the issue, an academic research is conducted. The research aimed to identify how gender roles and stereotypes are portrayed in the popular Turkish TV shows broadcast on Turkish television networks.*

After the research, all stakeholders are brought together around the issue and held a workshop to have an in-depth discussion on the individual roles and responsibilities of the contributors, potential opportunities that might be captured together and possible problem-solving scenarios. Most important outcome of the day was the Gender Equality Principles in TV Series.



* Details can be found at: <https://tusiad.org/tr/yayinlar/raporlar/item/9943-televizyon-dizilerinde-toplumsal-cinsiyet-esitligi-arastirmasi>

In the week of March 8, prominent sector representatives participated at a press conference and announced the following statement:

“We, as the Association of Television and Cinema Producers, Screenwriters Association, Actors’ Union of Turkey, Advertisers Association, will work to develop TV series that will adhere with the following five principles:

1. Promote diverse male and female characters and refrain from using stereotypes in appearance, character and occupation,
2. Illustrate the responsibilities for life, work and home in a balanced manner,
3. Stand against the normalization of violence,
4. Adopt a gender-mainstreamed discourse,
5. Ensure and increase the visibility of role models.”

What is next?

- ► ► A digital future awaits us, where our daily lives, relationships, working environment, economic and social lives are redefined by the increasing impact of digital technologies. In the new term of For My Country Project, we decided to focus on the emerging and intersecting topics of digital transformation, innovation and future talents.

The most critical element of any transformation is people. We imagine a world where all the members of the society have hope, ambition and courage for the digital future. As Koç Group's employees, suppliers and distributors, we rely

on our role in shaping the future for the better, and we will spark our vision through the new theme of For My Country project.

In the meanwhile, we also continue to create added value by organizing and supporting projects and events in the areas such as sports, culture, contemporary art, creativity and education. We particularly aim to raise awareness in these areas among youngsters. For more details on these projects, please see our 2017 **Annual Report** and **Vehbi Koç Foundation's website**.

102-43



Making It Happen with Stakeholders

- ► ► **Lead. Together** sets us a framework for making collective progress and helps us harness the power of our network to drive positive change and develop every person and organization we engage with. Increasing partnerships with external stakeholders is crucial for progress and managing such collaborations in a more efficient way.

Our stakeholders expect us to lead by example. When we grow, others grow. When we innovate for the better, others follow. When we create more added values and respond to changes in technology, business and society, we start a ripple effect that extends out to all our industries, our business partners and the wider community.

It is crucial for us to listen to our stakeholders and understand their expectations from Koç Group companies since we believe that we can only accomplish our goals through a sustainable, profitable business model, coupled with transparent and accountable communication with stakeholders. We manage all our sustainability efforts in a manner that is aligned with Sustainable Development Goal 17. Engaging stakeholders at different levels always provide important input for us in creating sustainability strategies and practices.

To nourish our business and profit from this diverse stakeholder ecosystem, we created a comprehensive approach to identify expectations and opinions of our stakeholders on environment, human and employee rights, transparency and ethics, innovation, diversity and inclusion. Stakeholder engagement is an essential input of the management and it is tracked via management performance targets. Group companies hold comprehensive communication tools in order to be in constant touch with stakeholders and to shape their performance targets.



102-44

Making It Happen with Stakeholders

Stakeholder Groups	Engagement Platforms & Tools	Why?
Shareholders Investors	General Assembly meeting, meetings upon requests in different countries, road shows and conferences, quarterly webcasts, investor relations bulletin, website, and the iPad app; e-mails, teleconferences, financial (quarterly and annually) and sustainability reports, credible stock exchange indices	<ul style="list-style-type: none"> To ensure sustainable and profitable growth To deliver the digital transformation and innovation agenda To become a role model that drives change in society
Employees	Intranet, electronic communication tools, monthly internal magazine "News from Us", meetings and organizations on regular basis, Website and the iPad apps, employee engagement surveys, volunteering programs	<ul style="list-style-type: none"> To be more appealing to the best emerging talent To create an inclusive culture for a collaborative workplace
Group Companies	Internal meetings and workshops, issue, function and industry specific committees	<ul style="list-style-type: none"> To transform our business for the better To provide guidance on managing sustainability
Distributors	Anatolian Meetings (with the participation of CEO, Chairman of the Board and Executives), "News from Us" magazine, capacity building trainings, workshops,	<ul style="list-style-type: none"> To support the transformation of SMEs To increase the standards related to sustainability issues
Customers	Communication form on the website, phone or e-mail, call centers, satisfaction surveys	<ul style="list-style-type: none"> To serve our customers better, faster, with a fully customised experience and personalised
Civil Society Organization	Memberships, cooperation and joint projects, workshops, project partnerships, annual and sustainability reports.	<ul style="list-style-type: none"> To unify efforts in order to offer solutions to sustainability issues To act in line with the expectations of beneficiaries and local communities To commit resources on areas that matter to stakeholders To enable sustainability of impact
Governmental Authorities and Entities	Workshops, cooperation on joint projects	<ul style="list-style-type: none"> To develop scalable action in order to solve complex sustainability issues
International Organizations	Multi-stakeholder initiatives and partnerships, cooperation and joint projects, roundtables, memberships	<ul style="list-style-type: none"> To develop scalable action in order to solve complex sustainability issues
Industry Associations	Multi-stakeholder initiatives and partnerships, participation in management level, memberships	<ul style="list-style-type: none"> To initiate joint action in order to contribute to cross-industry issues To initiate self-assessment, self-regulation tools for the transformation of the business world
Universities	Partnerships, cooperation and joint projects, support for research projects, know-how transfer through internship and courses	<ul style="list-style-type: none"> To collaborate and offer innovative solutions through research, design and project implementation

Making It Happen with Stakeholders

► ► ► The frequency of stakeholder communication activities depends on the nature, expectations and needs of the target audience. Koç Group companies mainly adopt three different levels of engagement with stakeholders regarding sustainability issues. These categories vary according to the complexity of the issue, the role of the company in the issue, as well as the nature of the partnerships.

1. **Supports:** This level of engagement covers one way and short-term engagement with stakeholders. It includes supporting events aiming to increase awareness or capacity building. Sponsorships, scholarships, and donations are also within this category.
2. **Partnerships:** We work together with external stakeholder partners such as private and public sector, international organizations, non-governmental bodies, universities to manage common and material sustainability issues. We assess partnerships

according to the potential to create value, enable further innovation, and foster creativity. This kind of two-way communication develops meaningful opportunities and results as partnerships lasting for a pre-determined period.

3. **Multi-stakeholder Initiatives:** Our stakeholders expect us to trigger the change reaching out to the whole community. With this in mind, we are ever-present in local and international multi-stakeholder initiatives that gather different parties such as private and public sector, international organizations, non-governmental bodies and universities to manage material topics in large scale. These initiatives are crucial for our sustainability leadership vision and to address all challenging material issues. As **Lead. Together** narrative outlines the value of stakeholder engagement, Koç Holding takes part in multi-stakeholder initiatives where an issue has wider effects within the society and requires the presence of various stakeholders.

Sustainability governance across Koç Group:

Inclusive, effective and dynamic

- ► ► Managing sustainability across diverse industries and structures can be challenging. Our tailor-made approach allows us to integrate sustainability into our business strategies by setting a framework centrally, and implementing through senior management in each business. This distinctive way of managing sustainability enhances our competitive advantage, enables a continuously improving business environment and means we get the win-win of an overarching perspective that also reflects the specifics of the industries we work in.

How we coordinate sustainability at Group level

At Koç Holding, the overall coordination of sustainability management is the responsibility of the Sustainability and CSR Unit within Corporate Communications and External Affairs Department. This department is led by Koç Holding Corporate Communications and External Affairs Director, who reports directly to CEO.

Functionally, the Koç Holding Sustainability and CSR Unit:

- provides guidance for Koç Group companies on cross-cutting issues,
- creates platforms to build a community of practice,
- develops relationships with internal and external stakeholders at different levels, and
- acts as a hub for learning and development on managing sustainability priorities.

The Sustainability and CSR Unit works closely with Koç Holding Departments and Committees, and the executives in the Koç Group Sustainability Coordination Platform, who are also members of the Koç Group Sustainability Community, to manage material issues and oversees the Group sustainability strategy.

Sustainability governance across Koç Group: Inclusive, effective and dynamic

► ► ► Koç Group Sustainability Coordination Platform

The Sustainability Coordination Platform consists of members from Koç Group's publicly listed companies and members report directly to General Managers or Assistant General Managers in their respective organizations. The Platform is managed by the Holding Company's Sustainability and CSR Coordinator and meets biannually to exchange know-how, insights and trends, to discuss the key focus areas in sustainability, and to share each company's strategic priorities and best practices.

Members of the Platform are:

- Arçelik Sustainability and Corporate Affairs Director
- Aygaz Corporate Communications Manager
- Ford Otosan Corporate Communications Manager
- Otokar Finance Manager / Corporate Communications Manager
- Tat HR Director / Product Development and Quality Manager
- Tofaş External Relations Director
- Tüpraş Corporate Communications Director
- Yapı Kredi CSR and Sustainability Manager

The main responsibilities of the Sustainability Coordination Platform include:

- reviewing sustainability trends and analyzing any potential impact on respective industries,
- transferring Koç Holding's sustainability agenda to the companies,
- contributing to the development of shared standards among the Sustainability Community (described below)
- leading the work on issue management, stakeholder engagement, sustainability performance management and best practice development in line with Koç Group Sustainability Guide (described below)

Koç Group Sustainability Community

The Sustainability Coordination Platform is supported by a sustainability community representing diverse functions from Group companies. This wider network, known as the Koç Group Sustainability Community, operates closely with the Sustainability Coordination Platform to help implement sustainability strategies within relevant functions of Group companies. The Community brings together mid-level managers from a wide range of expertise areas, including environment, human resources, innovation, digital transformation, audit, purchasing, legal and corporate communications functions. The entire Community meets biannually under the leadership of the Sustainability and CSR Unit to share best practices, discuss industry-specific issues, develop stakeholder engagement and highlight the contribution of each function within the overall sustainability journey. These meetings include, but are not limited to, team members from companies represented in the Platform.

Koç Group Committees

The Sustainability and CSR Unit works closely with issue-based committees within the Group, which report directly to Koç Holding C-level in their respective areas. Members of the Unit attend committee meetings to ensure that the strategic direction and actions taken are in line with Koç Holding's sustainability agenda.

Sustainability governance across Koç Group: Inclusive, effective and dynamic

Koç Holding Departments

Corporate Communications
and External Affairs

Human Resources

Legal Counsel

Strategic Planning

Investor Relations

Finance

Sustainability Coordination Platform

Koç Holding Corporate Communications and
External Relations Director

Koç Holding Sustainability and CSR
Coordinator

Arçelik Sustainability and Corporate Affairs
Director

Aygaz Corporate Communications Manager

Ford Otosan Corporate Communications
Manager

Otokar Finance Manager / Corporate
Communications Manager

Tat HR Director / Product Development and
Quality Manager

Tofaş External Relations Director

Tüpraş Corporate Communications Manager/
Environment Manager

Yapı Kredi CSR and Sustainability
Manager

Koç Group Issue-Based Committees

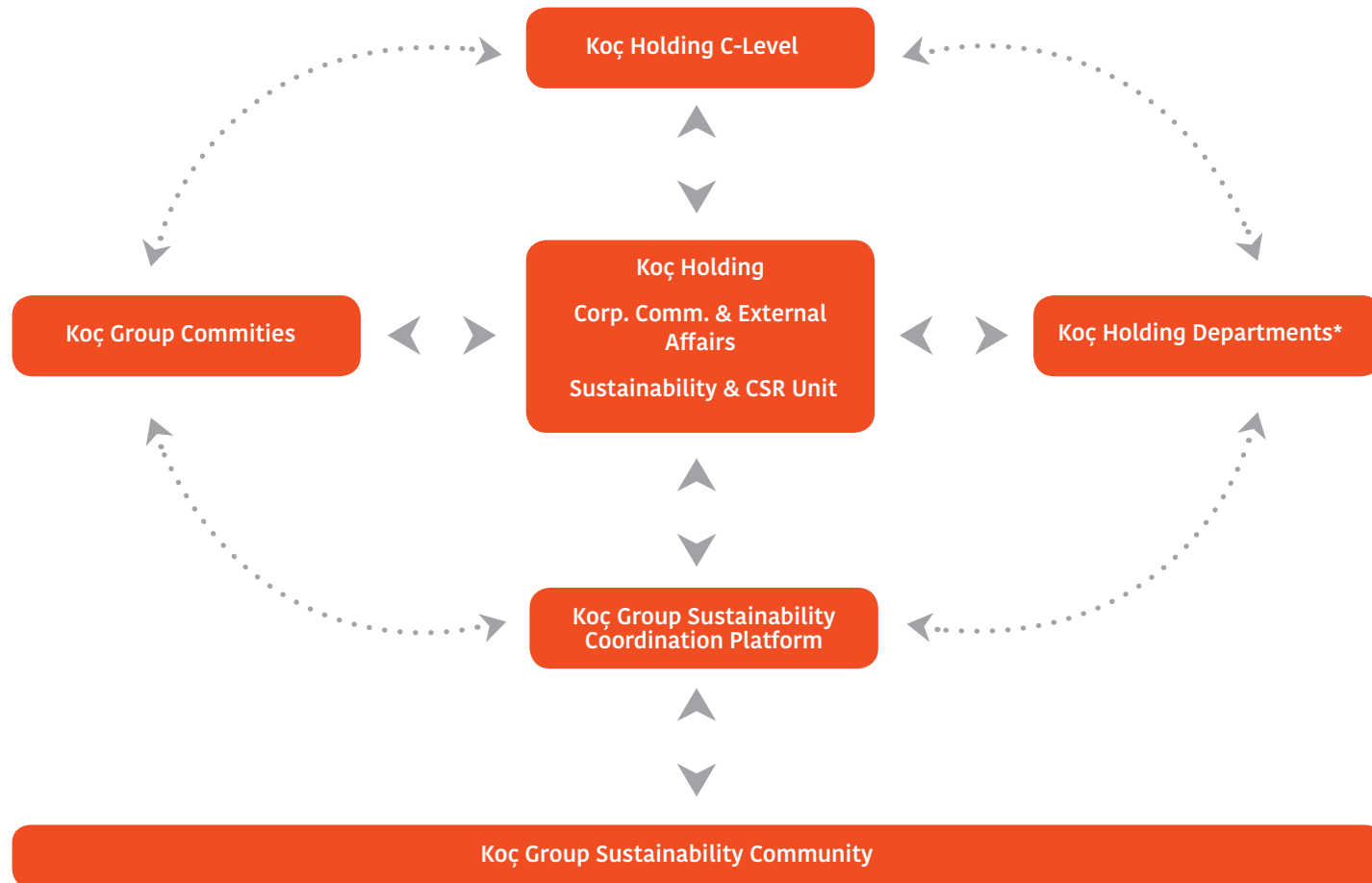
Environment

Innovation and Technology

Industrial Relations and OHS

Koç Group Sustainability Community

Sustainability governance across Koç Group: Inclusive, effective and dynamic



*Refers to sustainability-related work led by various Koç Holding departments, including Human Resources, Strategic Planning, Finance, Audit and Investor Relations.

Sustainability governance across Koç Group: Inclusive, effective and dynamic

► ► ► **Guidance Mandate of Koç Holding Sustainability and CSR Unit**

The Sustainability and CSR Unit strives to create solutions to complex issues through collaboration, positions Sustainable Development Goals as the framework for sustainability practices, and manages stakeholder outreach and integration as a key driver for success.

The focus areas include building and nurturing a community of practitioners, providing thought leadership to facilitate collective progress and developing engagement platforms to reach out to stakeholders and communities.

Building a community of practitioners

The Koç Group Sustainability Community represents different functions such as environment, human resources, innovation, digital transformation, audit, purchasing, legal and corporate communications.

The objective is to further develop the team culture that works coherently, have a common understanding on sustainability, share best practices, learn from each other, and work together against cross-cutting challenges. In line with this objective, the Sustainability and CSR Unit develops platforms to bring together sustainability professionals, establish the right environment for sharing and learning, bring external know-how to reach international standards and scale best practices.

Providing thought leadership to facilitate collective progress

In order to reach the highest standards across Group companies in sustainability management, Koç Holding Sustainability and CSR Unit develops guidelines, reviews existing policies and tracks performance against pre-set guidelines and KPIs.

Koç Group Sustainability Guide

Koç Group Sustainability Guide is a tool that enables consistency while managing sustainability across businesses and industries. Through the Guide, we aim to:

- Build group-wide sustainability leadership capacity
- Develop an integrated approach for sustainability and business strategies
- Align sustainability practices such as issue management, stakeholder engagement, setting up and monitoring key performance indicators (KPIs) and implementation and dissemination of best practices, across industries and companies
- Create a shared understanding for sustainability within Koç Group companies.

Sustainability governance across Koç Group: Inclusive, effective and dynamic

- ➤ ➤ In 2017, we organized a workshop for the implementation of the Guide and additionally, at least 3 representatives from each company were trained as facilitators. The facilitators organized workshops in their respective companies with participation of different departments. As a result of these workshops, each company discussed in-depth their priority

issues in line with the megatrends and the SDGs. As a second step, the participants completed a stakeholder map in relation to their priority issues. The companies were also asked to share their sustainability performance and best practices according to the Guide.



Ethics & Integrity

- ► ► As Koç Group we stand for trust, continuity and respect in the eyes of our stakeholders. We gained this reputation through our long-standing and demonstrable commitment to our corporate values and integrity.

In every aspect of our work, we respect our corporate values of honesty, integrity and superior business ethics – which lay the foundations of our business conduct. At Koç Group we treat every business relationship with good intentions, fairness and a focus on mutual benefit. To adhere to the highest ethical standards, we ensure that all employees adopt and support our values in every interaction in the workplace. We inform each new employee on our principles and keep the Code of Conduct within every employee's reach on our intranet portal. Our Code of Ethics and Business Conduct and its Implementation Principles was published in 2010. These documents bring together our business principles and guide how we should work with our employees, shareholders, suppliers, distributors, subcontractors and other key stakeholders. In 2016, we updated and expanded the scope of our Code of Ethics. In each company, a Board of Ethics monitors compliance with our Code of Ethics and proposes amendments or updates for the Code's content; amendments are approved by the Group Board.

For more information about our **Code of Ethics**, please see our **Annual Report**.

Risk & Opportunity Management

- ► ► Our risk management perspective is one that relies strongly on timeliness. We know that our competitive edge is the result of our dynamism in addressing various challenges that we encounter in the wide array of industries we operate. Being attentive to changes, listening to our stakeholders and following global development allows us to manage these risks and transform them into business opportunities.

At Koç Group, we developed a bespoke and robust risk management approach to address financial, strategic, operational and legal risks as well as non-financial risks that the company has a potential of exposure. Our systematic risk management includes periodic reviews of risks and allows us to assess various investment and business decisions from a risk perspective at all levels.

Risk assessments are carried out under the coordination of the Risk Management Committee, which is the highest body within the group and is led by the Finance department. The committee operates on behalf of the Board of Directors and thus reports directly to it. The Board of Directors is periodically being informed regarding the outputs of the work carried out in the Risk Management Committee, which meets at least 6 times each year. The Board of Directors is also responsible for setting the limits of risk and tolerance.

Non-financial risks related to climate change, talent management, biodiversity and occupational health and safety are also included in our risk management approach. The Sustainability and CSR Unit monitors the global trends and developments, regularly follows up with stakeholders and promotes improved sustainability performance to manage these risks and address them in a pro-active manner. With this approach, we can consider emerging stakeholder concerns and identify potential risk and impact areas in advance. The information that we gather through this process is then shared with companies and their relevant functions which will take necessary actions to mitigate and manage these risks and opportunities.

More information on how we manage sustainability risks and opportunities can be found under "Empower people. Together" and "Act for the planet. Together" sections of this report, and our **Annual Report**.

Performance Indicators

Environmental Performance Indicators

Energy Savings and Reduction in Greenhouse Gas Emissions by Year

Year	Energy Savings (million GJ)	Reduction in Greenhouse Gas Emissions (thousand ton CO ₂ e)
2015	1.26	92.95
2016	1.50	112.40
2017	1.09	71.12

Water Consumption (m³)

	2015	2016	2017
Surface water	19,007,510	16,2 5,619	14,449,822
Ground water	7,636,239	7,842,177	8,179,582
Municipal water	2,837,886	2,820,391	2,718,450
Treated urban wastewater, rainwater and other sources	5,677,097	13,807,375	15,768,052
Total consumption (m³)	35,158,732	40,756,562	41,115,907

Environmental Trainings in 2017	Employees	Contractors
Number of participants	31,836	20,783
Training (person*hours)	150,422	21,777

Waste by type (tons)

	2015	2016	2017
Recovered hazardous waste (R code)	22,850,798	35.927,276	28,185,177
Recovered non-hazardous waste (R code)	272,360,710	293.112,345	312,875,661
Hazardous waste disposed (D code)	8,906,440	12,102,223	7,392,086
Non-hazardous waste disposed (D code)	7,064,340	6.232,450	6,864,346
Hazardous waste sent to temporary storage	149,360	73,244	212,637
Non-hazardous waste sent to temporary storage	128,120	14,647	3,200
Total	311,459,768	347,462,184	355,533,107

Performance Indicators

Social Performance Indicators

	2015		2016		2017	
Employees by Gender	Female	Male	Female	Male	Female	Male
Number of Employees	17,371	53,885	18,297	55,101	18,615	54,175
Total Number of Employees	71,256		73,398		72,790	

Employees by Employment Type	2015	2016	2017
Full Time	70,669	73,005	72,269
Part Time	587	393	521

Employees by Age	2015	2016	2017
Under 30	25,659	27,701	25,174
30-50	43,924	44,027	45,924
Over 50	1,730	1,706	1,692

	2015		2016		2017	
Employees Who Left by Gender	Female	Male	Female	Male	Female	Male
Number of Employees Left	2,038	9,568	2,252	9,334	2,759	9,746
Total	11,606		11,586		12,505	

Employee Turnover Rate	2015	2016	2017
Employee Turnover	15.8	17.2	16.3

	2015		2016		2017	
New Hires by Gender	Female	Male	Female	Male	Female	Male
Number of New Hires	3,352	13,312	3,179	10,535	3,037	8,704
Total	16,664		13,714		11,741	

	2015		2016		2017	
Mid-Level and Senior Management by Gender	Female	Male	Female	Male	Female	Male
Number of Mid-Level and Senior Management	17	165	25	170	22	177

	2015		2016		2017	
Training Hours per Employee	Female	Male	Female	Male	Female	Male
Average Annual Training Hours per Employee	50.2	36.8	62.4	32.8	43	34.1

GRI Standard	Disclosure	Page Number(s) and/or URL(s)
GRI 101: Foundation 2016		
GRI 102: General Disclosures		
GRI 102: General Disclosures 2016	Organizational Profile	
	102-1	3
	102-2	https://www.koc.com.tr/en-us/activity-fields/sectors https://www.koc.com.tr/en-us/activity-fields/list-of-brands
	102-3	https://www.koc.com.tr/en-us/about/headquarters
	102-4	https://www.koc.com.tr/en-us/activity-fields/international-network-of-koc-group
	102-5	https://www.koc.com.tr/en-us/investor-relations/corporate-overview-and-governance/shareholder-structure
	102-6	https://www.koc.com.tr/en-us/investor-relations/financial-statements-and-statistics/annual-reports-2017
	102-7	27, https://www.koc.com.tr/en-us/investor-relations/financial-statements-and-statistics/annual-reports-2017
	102-8	27
	102-9	24
	102-10	https://www.koc.com.tr/en-us/investor-relations/material-disclosures
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	Governance	
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	102-56	Information and data presented in this report has not been independently verified.

GRI Index

GRI Standard	Disclosure	Page Number(s) and/or URL(s)	Omission
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	103-2	39-41	-
	103-3	39-41	-
GRI 302: Energy 2016	302-3	42, 67	-
	302-4	42, 67	-
GRI 305: Emissions 2016	305-4	42, 67	-
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Diversity and Inclusion			
GRI 103: Management Approach 2016	103-1	8, 9, 26, 31-33, 60	-
	103-2	26, 31-33	-
	103-3	26, 31-33	-
GRI 401: Employment 2016	401-1	27, 68	-
	401-3	31	-
GRI 405: Diversity and Inclusion 2016	405-1	68	-
GRI 406: Non-discrimination	406-1	31, 33, 35, 53	-
Future Talent			
GRI 103: Management Approach 2016	103-1	8, 9, 26, 28, 29, 60	-
	103-2	28, 29, 60	-
	103-3	28, 29, 60	-
GRI 404: Training and Education	404-1	29, 68	-
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