

Corporate Governance Rating Report

**Türk Telekom**

14 December 2020

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## Rating and Executive Summary

### TÜRK TELEKOMÜNİKASYON A.Ş. (TTKOM)

 **SAHA**  
Corporate Governance Rating:

**9.40**



**MAIN SECTIONS: Avg. 94.03**

**Shareholders: 87.59**



**Public Disclosure & Transparency: 98.85**



**Stakeholders: 99.51**



**Board of Directors: 92.83**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

The Corporate Governance Rating of 9.40 that has been assigned to Türk Telekomünikasyon A.Ş. (Türk Telekom) on December 12, 2019 is hereby reconfirmed as **9.40**. SAHA's rating methodology is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" ("the Communiqué") released on January of 2014.

SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Türk Telekom falls within Group 1 of the World Corporate Governance Index (WCGI) that SAHA has published on October 8, 2019. Details of the (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Türk Telekom is rated with **8.76** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Türk Telekom carries out the investor relations obligations through Investor Relations Department. There is no upper limit on voting rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. Company has constituted a policy on donations and grants, and submitted to the general shareholders' meeting for approval. There is a publicly disclosed, consistent dividend policy. On the other hand, there are areas for improvement like existence of voting privileges on board nominations, absence of a provision in the articles of association permitting general shareholders' meetings to be held open to public, and adoption as it is the rate of minority rights in the Company's articles of association as prescribed for public joint stock companies (%5).

Türk Telekom attained **9.89** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and BIST rules and regulations. In addition, the shareholding structure; the names and rate of the shares held by the Company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public. The corporate web site is prepared also in English for the benefit of international investors. On the other hand, all benefits provided to board members and senior management is mentioned collectively in the annual report.

On the topic of **Stakeholders**, Türk Telekom scored **9.95**. Türk Telekom guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. The Company has a written human resources policy. Sustainability implementations and social responsibility studies are at a sufficient level. There is a labor union at Türk Telekom. The Company complies with quality standards concerning its goods and services and takes measures to ensure these standards. Specific guarantees are provided for this purpose. Code of ethics and the employee compensation policy is publicly available through the corporate web site. Models developed to support the participation of stakeholders in the management of the Company are stated in internal regulations, but not included in the articles of association.

From the perspective of the principles regarding the **Board of Directors**, Türk Telekom's score is **9.28**. There is a well communicated Company mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board and the CEO is not the same person. The board consists of nine members, with three independent and no executive members. CMB criteria are complied with for the appointment of independent members who have each signed a declaration of independence. Any defects and damages caused by board members during the execution of their duties are insured for an amount exceeding 25% of the Company's capital and the relevant PDP statement is made. Corporate Governance, Audit, Early Identification and Management of Risks, Nomination, and Remuneration Committees are established within the board of directors. Committee chairs are elected among independent members. The working principles of the Committees are disclosed to the public. Principles of remuneration of board members and senior executives are available on the corporate web site. The Company does not provide any loans or extend any credit to the board members or senior executives. However, there are no female members on the board of directors.

## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.25).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**  
Public Disclosure and Transparency: **25%**  
Stakeholders: **15%**  
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

<b>TÜRK TELEKOMÜNİKASYON A.Ş.</b>	
	<b>Chairman of the Board</b> Dr. Ömer Fatih Sayan <b>CEO-General Manager</b> Ümit Önal
Örnek Mah. Turgut Özal Bulvarı, No:4 Aydınlikevler, Ankara <a href="http://www.turktelekom.com.tr">www.turktelekom.com.tr</a>	<b>Investor Relations Director</b> Gülşen Ayaz Tel: (0212) 309 96 30 <a href="mailto:gulsen.ayaz@turktelekom.com.tr">gulsen.ayaz@turktelekom.com.tr</a>

Türk Telekomünikasyon A.Ş. was established in October 23, 1840 under the name of Postane-i Amirane. The permission of establishing and operating nationwide telephone services was granted to the General Directorate of Post, Telegraph and Telephony (PTT) on February 4, 1924. The Company was established as a separate legal entity on April 24, 1995 as a result of the separation of telecommunications and postal services previously carried out by PTT. Entire staff of PTT pertaining to telecommunication services, its assets, liabilities and all of the shares has been transferred to Türk Telekom owned by Under-secretariat for Treasury of the Prime Ministry of the Republic of Turkey (the "Treasury").

In the context of the privatization of the Company, Ojer Telekomünikasyon A.Ş. (OTAŞ) has signed a share transfer agreement with the Privatization Administration on August 24, 2005 to take a 55% stake of Türk Telekom. Partnership Agreement and the Share Pledge Agreement concerning private placement of 55% of Company shares was signed by the Treasury and OTAŞ on November 14, 2005 and OTAŞ became Türk Telekom's majority shareholder.

As stated in the material event disclosure of the Company on August 15, 2018; within the scope of the process, which is carried out in relation to takeover of OTAŞ's 55% shares in Türk Telekom, by a special purpose vehicle, which the creditor banks of OTAŞ will be shareholders, a notification has been given to the Company by some of the creditor banks.

On December 21, 2018, it was notified to the Company that all of Group A shares, which constitute 55% of the Company's capital, were transferred to the mentioned special purpose vehicle LYY Telekomünikasyon A.Ş., pursuant to the Article 198 of the Turkish Commercial Code. LYY Telekomünikasyon A.Ş. has been registered as a new shareholder in the Company's share register in accordance with Article 499 of the Turkish Commercial Code.

15% of the Company shares with a nominal value of TL 3,500,000,000 were offered to the public in May 15, 2008 and traded under "TTKOM" code at Borsa Istanbul. Türk Telekom is a constituent of BIST 30 / BIST TELECOMMUNICATION / BIST SERVICES / BIST STARS / BIST ANKARA / BIST 100 / BIST ALL SHARES / BIST SUSTAINABILITY / BIST 50 and BIST CORPORATE GOVERNANCE indices.

Recent capital structure of the Company is as follows;

<b>Türk Telekom Capital Structure</b>			
<b>Shareholder</b>	<b>Share Group</b>	<b>Share Value (TL)</b>	<b>Share %</b>
LYY Telekomünikasyon A.Ş.	A	1,925,000,000.00	55.00
Republic of Turkey Ministry of Treasury and Finance	B	875,011,884.98	25.00
Republic of Turkey Ministry of Treasury and Finance	C	0.01	
Turkey Wealth Fund	B	174,988,115.01	5.00
Free Float	D	525,000,000.00	15.00
<b>TOTAL</b>		<b>3,500,000,000.00</b>	<b>100.00</b>

Turkey Wealth Fund holds 1.68% of Group D shares.

The Board of Directors consists of nine (9) members to be nominated by the Shareholders as follows:

(a) the Group A Shareholder is entitled to nominate five (5) persons for election as Directors.

(b) provided that the Ministry of Treasury and Finance and Turkey Wealth Fund, as Group B Shareholders shall hold;

· 30% or more of the shares, the Ministry of Treasury and Finance and Turkey Wealth Fund shall be entitled to nominate three (3) persons for election as independent board members who carry the independence criteria as defined in the Capital Market legislation or

· 15% or more of the shares (but less than 30% of the shares), the Ministry of Treasury and Finance and Turkey Wealth Fund shall be entitled to nominate two (2) persons for election as independent board members who the carry the independence criteria as defined in the Capital Markets legislation

· During the calculation of 15% and 30% of the shares mentioned above paragraphs, the amount of B Group shares and D Group shares held by the Ministry of Treasury and Finance and Turkey Wealth Fund shall be taken into account together.

(c) As long as the Ministry of Treasury and Finance and Turkey Wealth Fund holds 15% or more of the Shares (but less than 30% of the Shares), the Group A shareholder shall be entitled to nominate one (1) person, who carry the independence criteria as defined in the Capital Markets legislation, for election as independent Board Members and five (5) persons for election as Director.

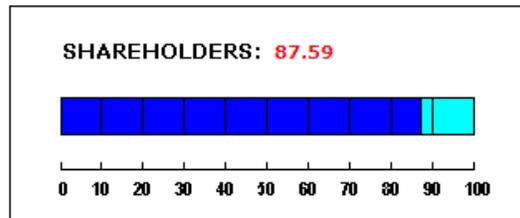
(d) while the Ministry of Treasury and Finance holds the C Group Privileged Share, the Treasury shall be entitled to nominate, a further one (1) person, for election as Director for the C Group Privileged Share.

(e) Each of the A, B and C Group Shareholders will vote for the election of the Board members nominated pursuant to this article. The provision of this article does not limit the voting rights of the shareholders who acquire the Company shares from the stock exchange.

Up to date names and duties of the Members of the Board of Directors are stated below.

<b>Name</b>	<b>Title</b>	<b>Committees Served</b>
Dr. Ömer Fatih Sayan	Chairman	Nomination Committee Member
Eyüp Engin	Vice-chairman	Member of Early Identification and Management of Risks & Remuneration Committees
Yiğit Bulut	Independent Member	Chairman of Audit & Early Identification and Management of Risks & Remuneration Committees
Can Yücel	Member	
Selim Dursun	Independent Member	Member of Corporate Governance & Audit Committees
Dr. Nurettin Nebati	Independent Member	Chairman of Corporate Governance & Nomination Committees
Dr. Muammer Cüneyt Sezgin	Member	Member of Corporate Governance & Remuneration Committees
Aclan Acar	Member	Nomination Committee Member
Ertuğrul Altın	Member	

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders.
+	Unrestricted shareholder rights to review and receive information.
+	Voting rights are facilitated.
+	General shareholders' meetings are conducted in compliance with the legislation.
+	Specific and consistent dividend distribution policy.
+	Policy on donations and grants established and submitted to the general shareholders' meeting for approval.
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital.
-	Voting privileges on board nominations.

#### 1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

At Türk Telekom the activities with respect to management of relationships with existing and potential shareholders, responding effectively to queries from investors and analysts, and activities targeted at increasing the value of the Company is carried out by Investor Relations Department ("the Department"). Execution of the responsibility arising from capital markets legislation and coordination of corporate governance practices is supervised by the Director of Investor Relations, Gülsen Ayaz,

who holds Capital Market Activities Level 3 and Corporate Governance Rating licenses, and is also responsible for the management of investor relations activities.

Along with other units of the Company, the "Investor Relations Department" plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- a. To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- b. To respond to the queries of the shareholders requesting written information on the Company.
- c. To ensure the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- d. To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- e. To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights are available and up to date on the corporate web site.

## **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine or warning received in this regard.

The Company's disclosure policy was submitted to the attention of shareholders and disclosed to the public on the corporate web site.

## **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

## **1.4. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on July 25, 2020 is performed through all means of communication available to the Company on July 3<sup>rd</sup> 2020 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda

items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

In addition, a descriptive disclosure document on agenda items has been prepared.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Company, and the electronic media.

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

- a. Total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure, number of shares and voting rights reflecting the privileged share group within the Company capital, and the nature of the privileges.
- b. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the Company and related parties, whether they are independent or not, and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used.

Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Due to the pandemic, our observers did not attend the general shareholders' meeting held in 2020, and the statement of the Company officials was referred for some of the control points highlighted by us in the past years. In this context, it has been declared that items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The Company statement is in line with the opinion we have reached over the past years.

Authorization to be granted to board members for the execution of the transactions stated in Articles 395 and 396 of the Turkish Commercial Code has been included as a separate item in the agenda of the general shareholders' meeting.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

In addition, shareholders were informed with a separate agenda item, on all donations and grants effectuated during the reporting period and the amount of benefits and beneficiaries.

General shareholders' meeting is attended by the representative of the external auditor.

On the other hand, the fact that there is no provision in the articles of association nor in the board of

directors internal guidelines that allows the public, including stakeholders and media, to participate in general assembly meetings without the right to vote, stands out as an area that can be developed under this heading.

### **1.5. Voting Rights:**

Without prejudice to Article 6/A of the Company's articles of association, all shares can be transferred except for one privileged (golden) share of Group C. For the purpose of protecting the national interest in issues of national security and the economy, the following actions and resolutions cannot be taken without the affirmative vote of the holder of the C Group Privileged Share at either a meeting of the board of directors or the general shareholders' meeting. Otherwise, such transactions shall be deemed invalid.

- a) Any proposed amendments to the articles of association;
- b) The transfer of any registered shares in the Company which would result in a change in the management control of the Company;
- c) The registration of any transfer of registered shares in the Company's shareholders' ledger.

Pursuant to the articles of association, the holder of the C Group privileged share appoints one member representing the privileged share to the board of directors of Türk Telekom. The C Group privileged share owner cannot participate in capital increases.

A Group of shares of LYY Telekomünikasyon A.Ş. and Group B shares held by the Ministry of Treasury and Finance have privileges on board nominations.

The 15% Group D shares which are publicly traded do not have the right to

nominate a candidate for the board of directors.

There are no other voting privileges at Türk Telekom and all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

#### **1.6. Dividend Rights:**

The dividend policy of Türk Telekom is clearly defined and disclosed to public on the corporate web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

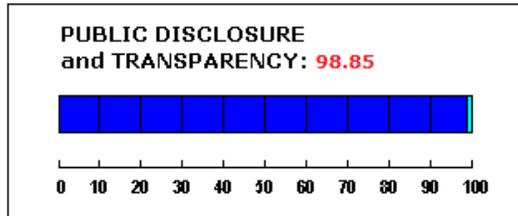
The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and those of the Company.

Furthermore, the articles of association of the Company contain a provision on advance dividend payments.

#### **1.7. Transfer of Shares:**

Neither the articles of association of the Company nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares which are publicly traded.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive web site, actively used for public disclosure.
+	Annual report complies with the legislation, comprehensive and informative.
+	Important events and developments disclosed in accordance with the legislation.
+	English version of the web site for international investors.
+	List of ultimate controlling individual shareholders are established and disclosed to the public.
+	Dividend distribution policy disclosed to public via corporate web site.
-	All benefits provided to board members and senior executives are mentioned collectively.

### 2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the Company's web site includes; trade register information, information about latest shareholder and management structure, detailed information on privileged shares, the date and the number of the trade registry gazette on which the changes are published along with the final

version of the Company's articles of association, publicly disclosed material information, annual reports, periodical financial statements, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last 5 years can be reached on the web site.

It has been disclosed through the corporate web site and the annual report that there is no real person with a stake more than 5% in the shareholding structure of the Company.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the Company also discloses financial statements on PDP (Public Disclosure Platform) and simultaneously in English.

Türk Telekom disclosed its Corporate Governance Compliance Report ("CRF") and the Corporate Governance Information Form ("CGIF") notifications via PDP on February 29, 2020, within the specified notification period.

The information contained on the web site exists also in English for the benefit of international investors.

The Company's web site also includes; investor presentations, working principles of the Committees, the donation policy, material disclosures, the vision/mission of the Company established by the board, information on dividend distribution and capital increases, news, social responsibility activities, information on senior management, financial data, main ratio analysis and the human resources policy.

## **2.2. Annual Report:**

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and it covers information such as;

- a. Period covered by the report, the title of the Company, trade register number, contact information.
- b. The names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates).
- c. The sector in which the Company operates and information on its position in the sector.
- d. Qualifications of the production units, capacity utilization rates and general explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years.
- e. Progress on investments, the eligibility status on incentives, and to what extent.
- f. Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.

- i. Company's organization, capital and ownership structure and any changes in the related accounting period.
- j. All benefits provided to staff and workers, information on number of personnel.
- k. Explanation on privileged shares and their amounts.
- l. Research and development activities.
- m. Dividend distribution policy.
- n. Basic ratios on the financial position, profitability and solvency.
- o. Company's financing resources and risk management policies.
- p. Information on major events which took place between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- a. External duties of board members and executives.
- b. Members of the Committees within the board, assessment of their working principles.
- c. Number of board meetings held during the year and participation status of the members.
- d. Changes in legislation which could significantly affect the Company's operations.
- e. Major court cases against the Company and possible consequences.
- f. Information on direct contributions to capital ratio with cross shareholding investments in excess of 5%.
- g. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results.

On the other hand, all benefits provided to board members and senior

executives are mentioned collectively in the annual report.

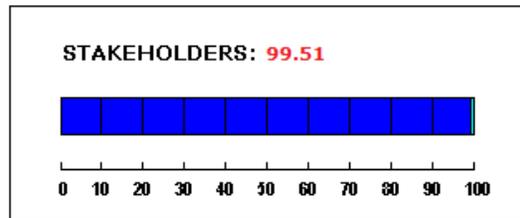
### **2.3. External Audit:**

The external audit of the Company is conducted by KPMG Bağımsız Denetim ve Serbest Mali Müşavirlik A.Ş.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared that there has been no legal conflict between the Company and the external audit firm.

External audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights are facilitated.
+	Measures are taken to ensure customer satisfaction on sale of goods/services.
+	Stakeholders' views are taken on important decisions.
+	Code of ethics disclosed to the public.
+	A compensation policy for employees is established and disclosed to the public via the web site.
+	Social Responsibility and Sustainability activities are sufficient.
=	No provision in the articles of association regarding the participation of stakeholders in the management of the Company despite the existence of certain incentive models.

### 3.1. Company Policy Regarding Stakeholders:

Türk Telekom recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and

expeditious compensation is provided in case of violation of the rights.

The web site of the Company is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

An ethical violation notification link, through which stakeholders can report their concerns to the management concerning any illegal or unethical transactions is available on the corporate web site of the Company.

### 3.2. Stakeholders' Participation in the Company Management:

Türk Telekom has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company and they are disclosed in the Corporate Governance Compliance Report. However these models and mechanisms are not included in the articles of association.

### 3.3. Company Policy on Human Resources:

Recruitment and career planning is conducted in line with the principle of providing equal opportunities to employees in equal conditions, within the context of the human resources policy determined by the Company. A uniform set of rules on recruitment has been created, with recruitment criteria set on the basis of objective principles.

In cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is in place.

Recruitment processes are devised in accordance with applicable laws and regulations. The Company's relations with its employees are managed by Human Resources Business Partners working under Human Resources.

The Company informs employees of decisions taken or developments concerning employees by appropriate internal communication tools (such as notifications, e-mail announcements, instant notifications and the internal communication portal).

#### **3.4. Relations with Customers and Suppliers:**

The satisfaction of customers and suppliers is the Company's priority and an indispensable goal. Customer satisfaction is monitored and reported regularly. Confidentiality of information relevant to customers and suppliers is also respected within the scope of trade secret.

#### **3.5. Ethical Rules & Social Responsibility:**

Türk Telekom Business Ethics Code was drawn up in line with Türk Telekom's vision, mission and values; in order to describe how all employees should behave both within and outside working environment and what type of sanctions would be applicable in instances where the Code was contravened. The Business Ethics Code, approved by the board of directors and disclosed to the public both in Turkish and in English through the Company's investor relations web site, covers all employees, including members of the board of directors. In addition, the Anti-Bribery and Anti-Corruption Policy, approved by the board of directors, entered into force on November 11, 2020.

Newly recruited employees of the Company are sent the "Business Ethics Code" and the "Business Ethics

Notification Form" by the Recruitment team via e-mail, and are required to sign the latter. Moreover, at the beginning of each year, "Business Ethics Code Compliance" declarations are renewed for all employees.

In addition, e-training programs are prepared in order to inform existing employees on the Business Ethics Code; enhance the intelligibility of policies and rules; and ensure the observance of ethical standards. Additionally, these topics are addressed in some classroom trainings, such as Job Compliance Training, Occupational Health and Safety Training and Manager's HR Framework Training. In these training programs, information about the Business Ethics Code and definitions of mobbing, its scope, the roles and responsibilities of employees and managers in these issues, sample cases, and how and to whom ethics violations should be reported, are shared with the participants. All employees at Türk Telekom are responsible for maintaining, establishing and sustaining ethical standards, where each employee serves as a voluntary auditor. Acting in compliance with the code of ethics, managers serve as role models; encourage a culture of behaving in accordance with these rules; and respond to any questions or concerns that their employees may have regarding the Business Ethics Code.

Türk Telekom respects and supports the right of "freedom of association". The Company adopts the principle of achieving and developing social dialogue with the labor union and workplace harmony, within the scope of union organization and collective bargaining. A Collective Bargaining Agreement is signed with Türkiye Haber-İş Labor Union every two years. Demands and expectations of union members are assessed and managed under this agreement

Türk Telekom considers contributing to access to information for all segments who cannot participate in society due to economic, social, regional or physical reasons and eliminating the digital gap in the society as its corporate responsibility.

Working with the principle of "accessible communication for all", Türk Telekom has adopted the Sustainable Development Goals of the United Nations as its guiding principles. The Company carries out particularly corporate social responsibility projects that add value to Turkey within the framework of the "Quality Education" and "Reduced Inequality" goals.

The social responsibility projects Türk Telekom conducted in accordance with its motto of "Türkiye'ye Değer (Even the smallest difference matters, Turkey is worth all our efforts)" include İnternetle Hayat Kolay (Life is Simple with Internet), Telefon Kütüphanesi (Books on The Phone), Güneşli (Sunshine), Sesli Adımlar (Loud Steps), Okulumda Güneşli (Sunshine at Schools), Yeni Nesil Gelecek (The Next- Generation Project), Gelecek Köprüsü (Bridge to Future), Türk Telekom Okulları (Türk Telekom Schools) and Türk Telekom Amatör Spor Kulüpleri (Türk Telekom Amateur Sports Clubs). Local social responsibility activities organized by the Türk Telekom Provincial Directorates are conducted within the scope of "Türkiye'ye Değer" Project.

### **3.6. Sustainability:**

Türk Telekom transforms its business processes and office practices in line with sustainable innovation principles with the goal of leaving a habitable world for future generations. Believing in the importance of human and environment-oriented working conditions, the Company sees participation all of its employees, their

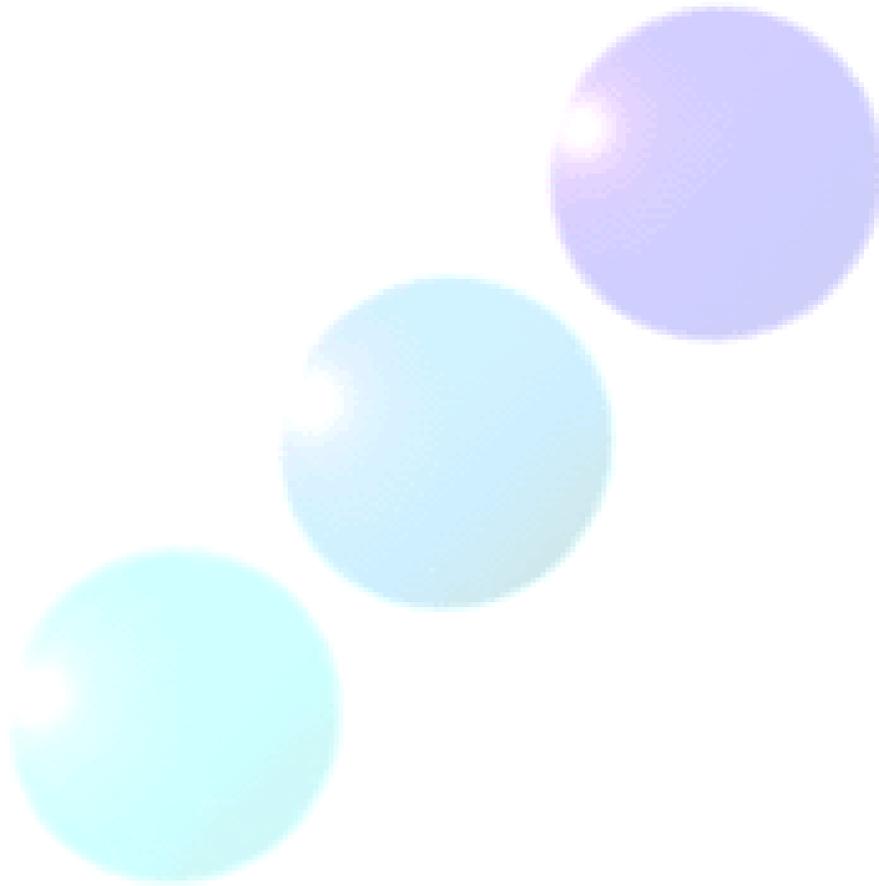
families, suppliers and customers in this process as an integral part of its strategy. Türk Telekom attaches importance to undertake investments in energy efficiency and renewable energy in order to use natural resources efficiently, to extend the use of renewables, and to minimize adverse impacts on nature. In addition, Türk Telekom strives to reduce greenhouse gas emissions by offering products and services that support a low carbon economy, and supports different sectors with products and service solutions with low carbon emissions. Türk Telekom does not only take control of its own activities, but also takes various steps to raise awareness about the environment.

Being aware of the impact of high energy consumption on the society and the environment in terms of sustainability in business processes, Türk Telekom attaches importance to investments and studies in energy efficiency and renewable energy fields in order to use energy resources efficiently, to popularize renewable energy resources and to reduce the negative impact on the environment.

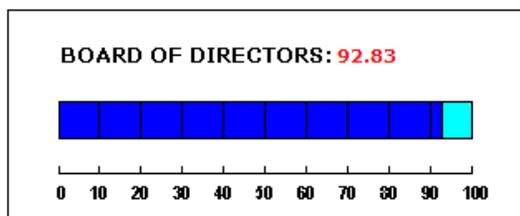
By using solar and wind energy, the Company is able to make carbon emission savings. In order to increase energy efficiency and reliability, the Company replaces less efficient DC energy equipment with high efficiency models. Similarly, with exchange transformation/FiberkenTT project, telephone exchanges with low energy efficiency are replaced with next-generation exchanges and outdoor equipment with high-energy efficiency.

Türk Telekom reduces carbon emissions by replacing air conditioners in system rooms with next generation Free-Cooling air conditioning units with low energy consumption. The Smart Metering Project enables the Company to monitor energy consumption in

detail, and when necessary. In addition, services formerly running on older generation systems unavailable for technical support and maintenance were transferred onto next-generation transmission systems. The results of this modification were improvements at the maintenance facility, energy savings, hall upgrades and increased service quality.



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The board works efficiently and staffed with qualified members.
+	Three independent members on the board.
+	Audit, Corporate Governance, Early Identification and Management of Risks, Nomination, and Remuneration Committees established.
+	Principles of remuneration of board members and senior executives established and disclosed to public.
+	Conduct of the board meetings is defined in the articles of association.
+	Manager liability insurance for an amount exceeding 25% of the capital, and the related PDP disclosure is realized.
-	No female members on the board.
-	Privileges on board nominations.

#### 4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the Company. The board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

The board also oversees that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

#### 4.2. Principles of Activity of the Board of Directors:

Board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report. The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

The board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise. The board works in close coordination with the Corporate Governance Committee and the Investor Relations Department in this context.

Losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly are insured for an amount exceeding 25% of the capital and the related PDP disclosure is made.

#### **4.3. Structure of the Board of Directors:**

The Board of Directors consists of nine (9) members to be nominated by the Shareholders as follows:

(a) The Group A Shareholder is entitled to nominate five (5) persons for election as Directors.

(b) Provided that the Ministry of Treasury and Finance and Turkey Wealth Fund, as Group B Shareholders shall hold;

- 30% or more of the shares, the Ministry of Treasury and Finance and Turkey Wealth Fund shall be entitled to nominate three (3) persons for election as independent board members who carry the independence criteria as defined in the Capital Market legislation or

- 15% or more of the shares (but less than 30% of the shares), the Ministry of Treasury and Finance and Turkey Wealth Fund shall be entitled to nominate two (2) persons for election as independent board members who carry the independence criteria as defined in the Capital Markets legislation

- During the calculation of 15% and 30% of the shares mentioned above paragraphs, the amount of B Group shares and D Group shares held by the Ministry of Treasury and Finance and Turkey Wealth Fund shall be taken into account together.

(c) As long as the Ministry of Treasury and Finance and Turkey Wealth Fund holds 15% or more of the Shares (but less than 30% of the Shares), the Group A shareholder shall be entitled to nominate one (1) person, who carry

the independence criteria as defined in the Capital Markets legislation, for election as independent Board Members and five (5) persons for election as Director.

(d) While the Ministry of Treasury and Finance holds the C Group Privileged Share, the Treasury shall be entitled to nominate, a further one (1) person, for election as Director for the C Group Privileged Share.

(e) Each of the A, B and C Group Shareholders will vote for the election of the Board members nominated pursuant to this article. The provision of this article does not limit the voting rights of the shareholders who acquire the Company shares from the stock exchange.

CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board of directors.

#### **4.4. Conduct of the Meetings of the Board of Directors:**

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive officer/general manager.

The board of directors of the Company held 12 meetings in 2019 where strategic issues related to the Company were evaluated. The average rate of participation of the members to the meetings held was 91%.

Information on the agenda items of the board of directors is made available to the members in sufficient

time prior to the meeting date by a coordinated flow of information.

Each member of the board is entitled to a single vote. However, all shares of Türk Telekom can be transferred except for one privileged (golden) share of Group C. For the purpose of protecting the national interest in issues of national security and the economy, the following actions and resolutions cannot be taken without the affirmative vote of the Ministry of Treasury and Finance, who is the holder of 1 C Group privileged share as per the Telegram and Telephony Law numbered 406, at either a meeting of the board of directors or the general shareholders' meeting. Otherwise, such transactions shall be deemed invalid.

- Any proposed amendments to the articles of association;
- The transfer of any registered shares in the Company which would result in a change in the management control of the Company;
- The registration of any transfer of registered shares in the Company's shareholders' ledger.

The conduct of the board of directors meetings is documented in internal regulations and meeting and decision quorums have been included in the articles of association of the Company.

#### **4.5. Committees Established Within the Board of Directors:**

A Corporate Governance Committee, an Audit Committee, an Early Identification and Management of Risks Committee, a Nomination Committee and a Remuneration Committee are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the Committees, their working principles, and members are designated by the board of directors and disclosed to public on the corporate web site.

The Audit Committee is composed of two members, Corporate Governance Committee of four, Early Identification and Management Committee of two, and Nomination and Remuneration Committees are composed of three members each. All Committees are chaired by the independent board members.

The Investor Relations Director is a member of the Corporate Governance Committee and there are no other executive members in the Committees. However, the chairman of the board of directors is a member of the Nomination Committee.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

As per the Committee meeting minutes submitted to us, within the rating period the Audit Committee held six meetings, the Corporate Governance Committee and the Early Identification and Management of Risks Committees two each and the Nomination Committee held one meeting. However, it has been declared by the Company that during the pandemic process, the senior management and business units are in constant contact with the members of the board of directors, sharing up-to-date information about the actions taken and line of business, although not recorded in a minute, the situation assessments are made at the board level and the risk factors are closely monitored.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the Company regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate.

The annual report contains information on number of written notices given to the board of directors by the Audit Committee, and the meeting results in the reporting period.

The external audit of the Company is conducted by KPMG Bağımsız Denetim ve Serbest Mali Müşavirlik A.Ş. The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the audit committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the

board of directors. In addition, it oversees the work of the shareholder relations unit.

Early Identification and Management of Risks Committee reviews risk management systems at least once a year. It achieves early identification of risks that may jeopardize the Company's existence and continued development, implements the necessary measures identified with the associated risks and conducts studies to manage such risks.

The Nomination and Remuneration Committee was established as a single committee on February 22, 2019, and has continued its activities as two separate committees since December 16, 2019. Although the work of these Committees regarding the determination of independent candidates is taken into consideration, we need further observation to assess the degree of efficiency and functionality of the Committee, particularly with regard to its reviews on the structure and efficiency of the board of directors. Also, whether the Committee submits its recommendations to the board members on changes that can be realized on these matters; whether it ensures that a system with regards to the principles and practices regarding career planning and rewarding of the board members is implemented; and by taking into account the degree of achievement of the criteria, whether it makes proposals to the board on remuneration of the board members and senior executives will need to be monitored further.

#### **4.6. Remuneration of the Board of Directors and Managers with Administrative Responsibility:**

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders'

attention as a separate item at the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the corporate web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

Türk Telekom does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

Losses that may be incurred by the Company, and third parties, as a result of not performing the executives' duties duly are insured.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the Company.

There has been no case where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Company's affairs, and provided unfair advantage.

On the other hand, all benefits provided to board members and senior executives are mentioned collectively in the annual report.

## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs <b>weakly</b> as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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