



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

**Türk Telekom**



**12 December 2017**

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## Rating and Executive Summary

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

 **SAHA**  
Corporate Governance Rating:

**9.18**



**MAIN SECTIONS: Avg. 91.75**

**Shareholders: 86.92**



**Public Disclosure & Transparency: 97.66**



**Stakeholders: 95.64**



**Board of Directors: 89.32**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

The Corporate Governance Rating (9.02) that has been assigned to Türk Telekomünikasyon A.Ş. (Türk Telekom) on December 12, 2016 is hereby revised up to **9.18**. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

The Company's corporate governance rating is revised as above in consideration with the importance given by Türk Telekom to corporate governance principles and its willingness to carry out the compliance process continuously and dynamically.

Furthermore, 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 is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 can be accessed at <http://www.saharating.com>.

Türk Telekom is rated with **8.69** 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. There is a consistent dividend policy of the Company and it is disclosed to the public. On the other hand, there are areas for improvement like existence of voting privileges on board nominations 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 **9.77** under the **Public Disclosure and Transparency** heading. 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 Borsa Istanbul A.Ş. (BIST) rules and regulations. In addition, the Company's shareholding structure; the names and the percent of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after elimination from indirect or cross shareholding relationships between co-owners are disclosed to the public. The corporate web site is also prepared in English for the benefit of international investors. On the other hand, benefits provided to board members and senior management is listed collectively in the annual report.

On the topic of **Stakeholders**, Türk Telekom scored **9.56**. Türk Telekom guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and fast compensation. Models developed to support the participation of stakeholders in the management of the Company are stated in internal directives, but not included in the articles of association. 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.

From the perspective of the principles regarding the **Board of Directors**, Türk Telekom's tally is **8.93**. There is a well communicated company mission and vision, and the board fulfills all duties regarding company needs. Chairman of the board and the chief executive officer is not the same person. The board of directors consists of twelve members, four of whom are independent. There are no executive members on the board. CMB criteria are complied with and the opinion of the Corporate Governance Committee is received for the appointment of independent members who have each signed a declaration of independence. Corporate Governance, Audit, and Early Identification and Management of Risks Committees are established within the board of directors and the committee chairs are elected among independent members. The working principles of the committees, with the exception of the Audit Committee, are disclosed to the public. Our observations will continue in order to have a more precise view of the activities and the degree of functionality of the committees. 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> Mohammed Hariri <b>CEO-General Manager</b> Dr. Paul Doany
Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara <a href="http://www.turktelekom.com.tr">www.turktelekom.com.tr</a>	<b>Investor Relations Director</b> Sabriye Gözde Çullas Tel: (0212) 309 96 30 <a href="mailto:investorrelations@turktelekom.com.tr">investorrelations@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.

The Company's %15 percent of shares out of 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 and Türk Telekom is a constituent of BIST Telecommunication, BIST Sustainability, BIST Stars, BIST Corporate Governance, BIST Ankara, BIST Dividend, BIST Dividend 25, BIST All Shares, BIST 100, BIST 50, BIST Services, and BIST 30 indices.

The Company and the Turkish Telecommunication Authority (now renamed the Information and Communications Technologies Authority [ICTA]) has signed a concession agreement on November 14, 2005. Within the context of this agreement, the Company is liable for all telecommunications services, establishment of necessary telecommunications facilities, making use of these facilities by other licensed operators, marketing rights and provision of telecommunications services for 25 years starting from February 28, 2001. The concession agreement is to be terminated on February 28, 2026 and entire infrastructure of telecommunications services will be transferred to ICTA in working condition. The company officials stated that Türk Telekom has the right to apply to the ICTA for renewal of the Concession Agreement one year prior to the expiry of its term.

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>
Oger Telekomünikasyon A.Ş.	A	1,925,000,000.00	55.00
Republic of Turkey Prime Ministry Undersecretariat of Treasury	B	875,011,884.98	25.00
Republic of Turkey Prime Ministry Undersecretariat of Treasury	C	0.01	
Turkish Sovereign 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>

Oger Telecom Limited ("Oger Telecom") has a 99% shareholding in Oger Telekomünikasyon A.Ş., which holds a 55% stake at Türk Telekom. Oger Telecom is a company established in August 2005 as a limited liability company in accordance with the laws of the Dubai Financial Center.

At the ordinary general shareholders' meeting of Türk Telekom held on June 21, 2017; a non-distribution of dividend was decided, due to the loss shown on the audited financial statements covering the fiscal period of 2016.

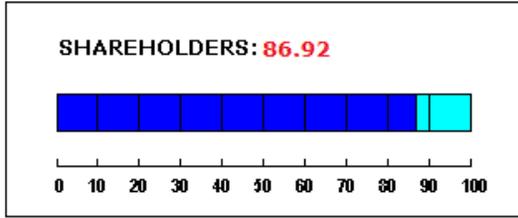
The Company's Board of Directors consists of 12 members, 4 of which are independent members. Members' names and duties are given below;

<b>Name</b>	<b>Title</b>	<b>Committees Served</b>
Mohammed Hariri	Chairman	Corporate Governance Committee Member
Fuat Oktay	Vice-chairman / Independent Member	
Abdullah Tivnikli	Member	
Suat Hayri Aka	Member	
Cenk Serdar	Member	Corporate Governance Committee Member Early Identification and Management of Risks Committee Member
Hakam Kanafani	Member	
Mazen Abou Chakra	Member	Audit Committee Member Early Identification and Management of Risks Committee Member
Nasser Sulaiman A Al Nasser	Member	Audit Committee Member
Rami Arslan	Member	
Fahri Kasirga	Independent Member	
İbrahim Eren	Independent Member	Audit Committee Chairman Corporate Governance Committee Chairman
Yiğit Bulut	Independent Member	Early Identification and Management of Risks Committee Chairman Audit Committee Member

There are privileges regarding the election of members of the Board of Directors and these privileges are determined as follows;

- a. the Group A Shareholder shall be entitled to nominate seven (7 ) persons for election as Directors;
- b. provided that the Treasury as Group B Shareholder shall hold:
  - 30% or more of the Shares, the Treasury shall be entitled to nominate four (4) persons for election as Independent Board Members who carry the independence criteria as defined in the Capital Markets legislation; or
  - 15% or more of the Shares (but less than 30% of the Shares) the Treasury 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 in above paragraphs, the amount of Group B Shares and Group D Shares held by the Treasury shall be taken into account together.
- c. As long as the Treasury holds 15% or more of the Shares (but less than 30% of the Shares), the Group A shareholder shall be entitled to nominate two (2) persons, who carry the independence criteria as defined in the Capital Markets legislation, for election as Independent Board Members and (7) persons for election as Director.
- d. As long as the Treasury 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.

## 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
+	Detailed 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
-	Restrictions on transfer of non-public shares in line with the Telegram and Telephony Law #406

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

At Türk Telekom, an Investor Relations Department ("the Department") has been formed which reports directly to the CEO with respect to the structured maintenance of relationships with existing and potential shareholders, effectively responding to the queries by investors and analysts, and carrying out the activities targeted at increasing the Company's share value.

The Department is supervised by the Investor Relations Director Sabriye Gözde Çullas who holds Capital Market Activities Advanced Level, and Corporate Governance Rating Licenses. Along with the management of the Company's investor relations activities, she is also responsible for the fulfillment of obligations arising from the capital market legislation and the coordination of corporate governance practices.

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;

- 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.
- To respond to the queries of the shareholders requesting written information on the Company.
- To ensure the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- 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 June 21, 2017 is performed

through all means of communication available to the Company on May 22, 2017 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 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.

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 share their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

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, and other related people, authorized people responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

The Company has submitted a policy on donations and grants to the general shareholders' meeting for approval. In addition, shareholders were informed via a separate agenda item, on all donations and grants effectuated during the reporting period and the amount of benefits and beneficiaries.

The articles of association of the Company do not contain a clause on attendance of those including stakeholders and media with no voting rights to the general shareholders' meetings.

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

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

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 Treasury, 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.

- 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. The C Group Privileged Share owner cannot participate in capital increases.

A Group of shares of Ojer Telekomünikasyon A.Ş. and Group B shares of the Treasury have privileges on board nominations. Group D public

shares with a free float ratio of 15% do not enjoy such privilege.

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 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 consistent .It is submitted to the shareholders at the general shareholders' meeting, is incorporated in the annual report, and is disclosed to public on the corporate web site..

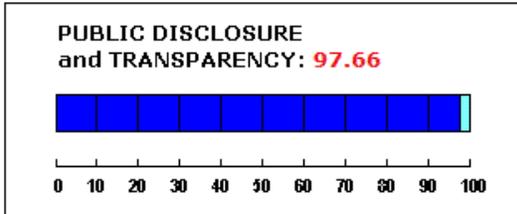
The Company's dividend distribution policy contains minimum required information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and those of the Company.

Furthermore, the articles of association of the Company contains 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 contains 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

#### 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, periodical financial statements, annual reports, 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.

The Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after elimination of indirect or cross shareholding relationships between co-owners is disclosed to the public along with the privileges they hold and also updated bi-annually as per the minimum requirement.

In accordance with the Capital Markets legislation, the Company also discloses financial statements on PDP (Public Disclosure Platform) and simultaneously in English.

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 (with the exception of the Audit Committee), 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 the extent of realization.
- 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 in excess of 5%.
- g. Benefits and vocational training of employees, and other corporate social responsibility activities .

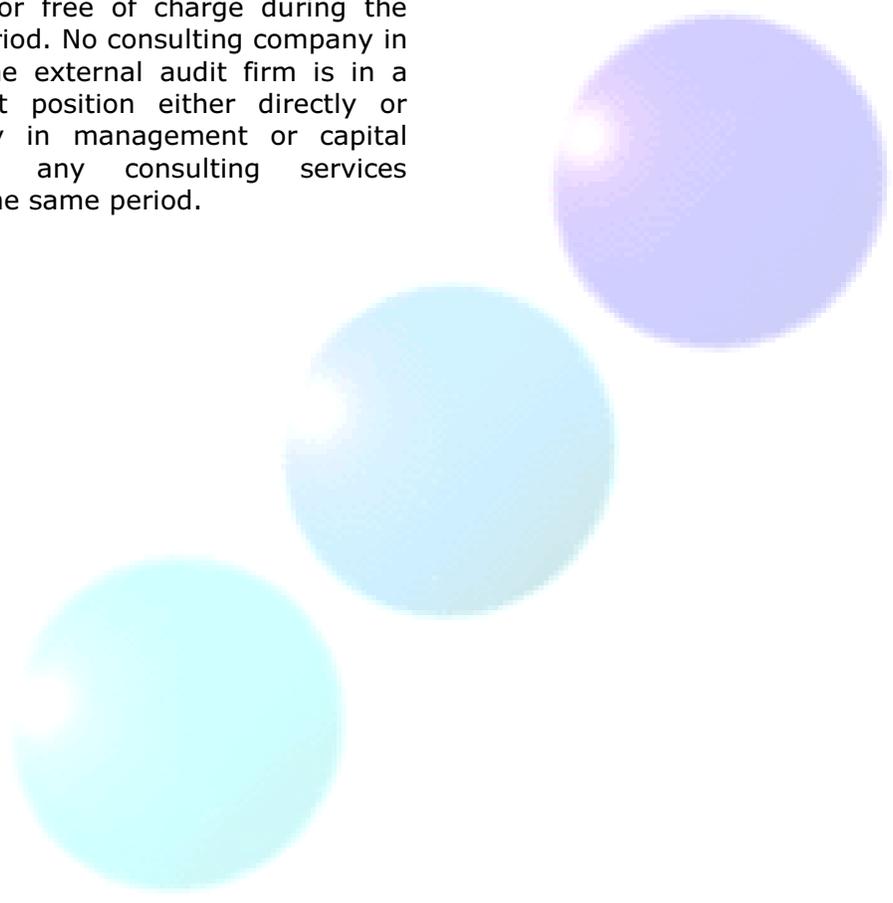
On the other hand, benefits provided to board members and senior executives are disclosed in aggregated form in the annual report

## **2.3. External Audit:**

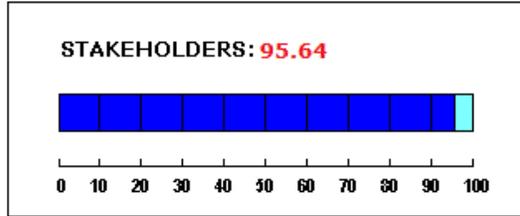
The external audit of the Company is conducted by Akis Bağımsız Denetim ve Serbest Mali Müşavirlik A.Ş (KPMG-Turkey).

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
+	Strict quality standards for goods and services
+	Stakeholders' views are taken on important decisions that would affect them
+	Code of ethics disclosed to the public
+	Measures are taken to ensure customer satisfaction on sale of goods/services
+	Company is socially and environmentally sensitive and respectful
=	Mechanisms to encourage participation of the stakeholders in the management of the company are not regulated by the Articles of Association

### 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.

The corporate governance structure of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions. A "Corporate Governance Committee Contact Form" is included on the corporate web site for this purpose.

### 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 are realized in line with the principle of providing equal opportunities to employees within the context of human resources policy. A set of rules for staff recruitment has been created and recruitment criteria have been established within the framework of neutral principles. It is aimed to generate long term employment within the possibilities of technological developments, fiscal and economic conditions, variations in the sector, convergence of goods and services,

organizational and changes in order to provide fast, high quality and economical services. Continuous improvement of the Company depends on the capability and flexibility of employees to adapt to changing conditions of the sector quickly and efficiently. In this regard, candidates that meet job requirements are sourced locally and internationally. Recruitment processes are determined in accordance with applicable laws and regulations. Employee relations are currently managed by Human Resources Partners; a human resources representative hasn't been assigned yet.

### **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 Code of Business Ethics is the set of basic behaviors and rules; particularly the Members of the Board of Directors and the Audit Board, and all employees must abide by.

The Code of Business Ethics, the key document that will serve as a guidance for and will primarily be adopted by Türk Telekom employees as a principle, was approved by the Board of Directors and was publicly announced via Company's investor relations web site. The document was issued in line with the vision, mission and values of Türk Telekom, in order to determine how all employees and the Members of the Board of Directors and the Audit Board, and the Company executives, in particular, should

behave both within and outside the working environment.

Managers are responsible for adopting and developing ethics culture in the Company. Türk Telekom provides code of ethics training to its employees.

All around Turkey, Türk Telekom offers its customers the opportunity to use information technologies which serve as the driving force for sustainable economic growth and social development.

In addition to the products and services it develops, Türk Telekom sees it as a corporate responsibility to help all those who cannot participate in social life due to economic, social, regional or physical reasons, access information. Thus, the Company carries out activities in line with the principle of "accessible communication for all".

Through its business conduct and corporate social responsibility projects, Türk Telekom supports the United Nations Sustainable Development targets.

In addition to Life's Easy With Internet, Phone Library, Daylight, Unobstructed Tivibu, Loud Steps, Türk Telekom Schools, Türk Telekom Amateur Sports Clubs and many other social responsibility projects carried out nationally, local social responsibility activities organized by provincial directorates of Türk Telekom are also carried out within the scope of "Worth to Turkey" project.

### **3.6. Sustainability:**

Shaping its business processes, offices, products and services around the principles of sustainability in order to leave a better world for future generations, Türk Telekom views the active participation of employees, their families, suppliers and customers in

this process as an integral part of its strategy.

Being the first Turkish company to join the Global e-Sustainability Initiative (GeSI), which conducts a range of activities on efficient use of energy, energy conservation, and e-sustainability, Türk Telekom applies its sustainability approach to its business processes, office practices, and products and services.

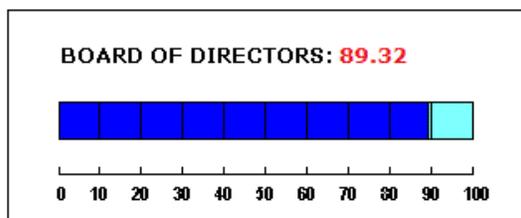
Well aware of the social and environmental impact of high level of energy consumption, Türk Telekom attach importance to undertake investments in energy efficiency and renewable energy in order to use natural resources efficiently, to extend the use of renewables, and to minimize adverse impacts on nature.

By using solar and wind energy, the Company is able to make carbon emission savings. 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.

Sustainability efforts undertaken at offices, as well as building/hall optimization projects provide space savings, leading to drastic cuts in energy consumption for cooling purposes. Environmental practices such as the use of energy-efficient light bulbs, heat insulation and jacketing, public transportation, building automation, an environmentally friendly car fleet, paper recycling, electronic document management system (EDITT), centralized printing systems, e-learning, tele-presence, and video conferencing help increase recycling rates and overall savings, while reducing carbon emissions.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The Company's vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	Four independent members on the board
+	Audit, Corporate Governance and Early Identification and Management of Risks Committees established
+	Principles of remuneration of board members and senior executives established and disclosed to public
+	Conduct of the board meetings is defined in Company's internal regulations and included in the articles of association
+	Remuneration policy is established and disclosed on the corporate web site
=	The level of functionality and effectiveness of the committees will be monitored further
-	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.

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

The board of directors shall be composed of twelve (12) members nominated by the Shareholders as follows:

a. The Group A shareholder shall be entitled to nominate seven persons for election as directors.

b. Provided that the Treasury as Group B shareholder shall hold:

- 30% or more of the shares, the Treasury shall be entitled to nominate four persons for election as Independent Board Members who carry the independence criteria as defined in the Capital Markets legislation; or

- 15% or more of the shares (but less than 30% of the shares) the Treasury shall be entitled to nominate two 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 in above paragraphs, the amount of Group B shares and Group D shares held by the Treasury shall be taken into account together.

c. As long as the Treasury holds 15% or more of the shares (but less than 30% of the shares), the Group A shareholder shall be entitled to nominate two (2) persons, who carry the

independence criteria as defined in the Capital Markets legislation, for election as independent board members and seven (7) persons for election as director.

d. While the Treasury 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.

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. 4 meetings were held in 2016 with a participation rate of 98%.

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 information flow.

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 Treasury, 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 directives 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 and an Early Identification and Management of Risks Committees are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the committees, their working principles (with the exception of Audit Committee), and members are designated by the board of directors and disclosed to public on the corporate web site.

The Audit Committee is composed of four members, two of whom are independent. Chairman of the Committee is elected among the independent board members.

There are three members on the Corporate Governance Committee and its chairman is also elected among the independent board members.

Early Identification and Management of Risks Committee houses two

members and its chairman is elected among the independent board members.

There are no executive members on the committees.

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.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal audit systems, determines the methods and criteria in review of the 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. However, working principles of the Committee have not been determined by the board of directors.

The external audit of the Company is conducted by Akis 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.

The Investor Relations Director is a member of the Corporate Governance Committee.

Early Identification and Management of Risks Committee reviews risk management systems at least once a year. However, in order to assess the degree of efficiency and functionality of this committee, there are more observations needed to be able to have a more robust view whether the committee can achieve early identification of risks that may jeopardize the Company's existence and continued development, whether it can implement the necessary measures identified with the associated risks, and whether it performs any studies to manage such risks.

The Corporate Governance Committee carries out the duties of the Nomination Committee and the Remuneration Committee, since they are not established. The Committee has made its proposal on suitable candidates for the board of directors, on creation of a transparent system of

evaluation and training, on determination of the relevant policies and strategies, and their remuneration principles.

However; 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 Senior Management:**

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, benefits provided to board members and senior executives are disclosed in aggregated form, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

## 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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