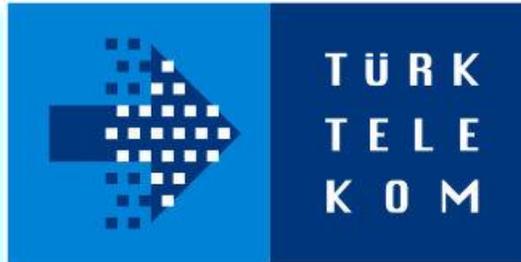




Corporate Governance and Credit Rating Services, Inc.

## Corporate Governance Rating Report



12 December 2014

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## Rating and Executive Summary

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

 **SAHA**  
Corporate Governance Rating:

**8.72**



**MAIN SECTIONS: Avg. 87.24**

**Shareholders: 84.54**



**Public Disclosure & Transparency: 94.50**



**Stakeholders: 84.00**



**Board of Directors: 85.38**



0 10 20 30 40 50 60 70 80 90 100

### EXECUTIVE SUMMARY

This report on rating of Türk Telekomünikasyon A.Ş.'s (Türk Telekom) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 6) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Türk Telekom is rated with **8.72** as a result of the Corporate Governance study done by SAHA. The company's corporate governance rating is revised as above in consideration with the importance given by Türk Telekom to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Additionally, Türk Telekom takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 4, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

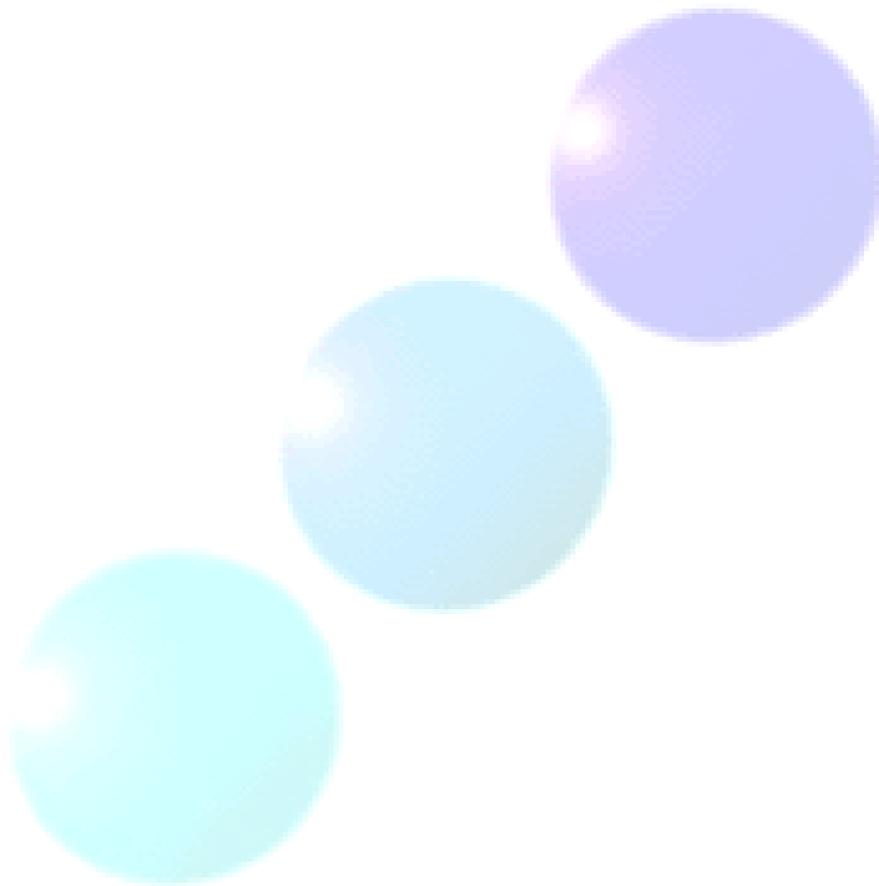
Türk Telekom is rated with **8.45** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Shareholder relations are carried out by the Capital Markets and 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 certain voting privileges, restrictions on the transfer of non-public shares, 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 **9.45** 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 Borsa Istanbul A.Ş. (BIST) rules and regulations. In addition, shareholding structure of the company and the names of the company's ultimate controlling individual shareholders, as well as the rate of the shares held, as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public. Corporate web site is also prepared in English for international investors. Benefits provided to board members and senior management is mentioned collectively in the annual report, but a list on individual basis is essential as per the Principles.

On the topic of **Stakeholders**, Türk Telekom scored **8.40**. 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. Models have been partially developed to support the participation of stakeholders in the management of the company, but not included in the articles of association. There is a trade union at the company. 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 **8.54**. 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 consists of twelve members, with one executive and four independent members. 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. There are no female members on the board. Necessary changes on the articles of association were made to comply with the CMB regulations on related party transactions of a significant nature. Corporate Governance, Audit, and Early Identification and Management of Risks Committees are established within the board of directors. 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. The chairman of the

Early Identification and Management of Risks Committee is not elected among the independent board members.



## 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.27).

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</b> Mohammed Hariri <b>General Manager</b> Rami Aslan
Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara <a href="http://www.turktelekom.com.tr">www.turktelekom.com.tr</a>	<b>Corporate Governance and Compliance Manager</b> Süleyman Kısaç Tel: (0212) 309 96 30 <a href="mailto:ir@turktelekom.com.tr">ir@turktelekom.com.tr</a>

Türk Telekomünikasyon A.Ş. was established in 23 October 1840 under the name of Postane-i Amirane. The duty of establishing and operating telephone services nationwide was granted to the General Directorate of Post, Telegraph and Telephony (PTT) on 4 February 1924. The company was established as a separate legal entity on 24 April 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 company owned by Prime Ministry Under-secretariat of 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 24 August 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 14 November 2005 and OTAŞ became Türk Telekom's main shareholder.

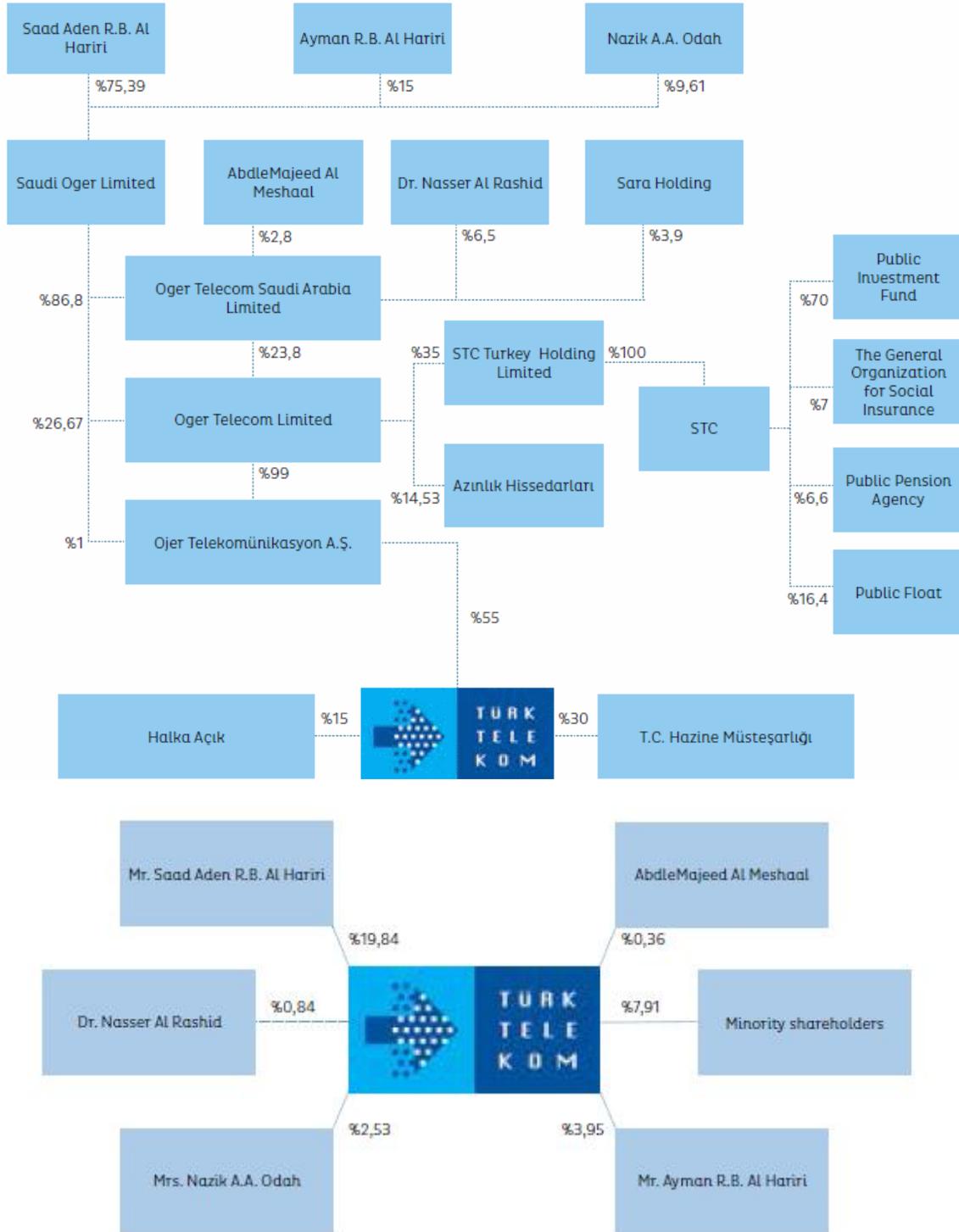
The company's shares with nominal value of TL 3,500,000,000 were offered to the public in May 15, 2008 and traded under "TTKOM" code at Borsa İstanbul and Türk Telekom is a constituent of BIST Ankara, BIST Services, BIST Telecommunication, BIST Corporate Governance, BIST Sustainability, BIST Dividend, BIST Dividend 25, BIST All Shares, BIST National, BIST 100, BIST 30 and BIST 50 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 28 February 2026 and entire infrastructure of telecommunications services will be transferred to ICTA in working condition.

As per the decision adopted at the general shareholders' meeting of 27 May 2014, Türk Telekom distributed cash dividend of TL 912,131,173.07 after the deduction of first and second legal reserves from 2013 profit. The distributed amount corresponds to 0.2606089 Kuruş gross cash dividend per each share worth for 1 Kuruş nominally.

<b>Türk Telekom Capital Structure</b>			
<b>Shareholder</b>	<b>Share Group</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
Ojer Telekomünikasyon A.Ş.	A	1,925,000,000.00	55.00
The Undersecretariat of Treasury of Turkey	B	1,049,999,999.99	30.00
The Undersecretariat of Treasury of Turkey	C	0.01	
Free Float	D	525,000,000.00	15.00
<b>TOTAL</b>		<b>3,500,000,000.00</b>	<b>100.00</b>

Türk Telekom's ultimate controlling individual shareholders are as follows:

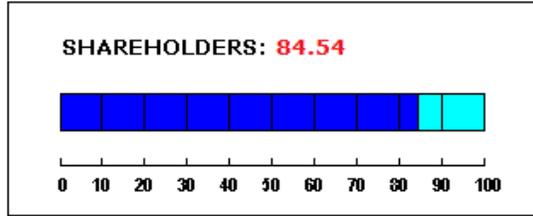


The company's board of directors consist of 12 members, 4 of whom are independent. Names and duties of members are listed below.

<b>Türk Telekom Board of Directors</b>			
<b>Name</b>	<b>Title</b>	<b>Executive/Independent</b>	<b>Served Committees</b>
Mohammed Hariri	Chairman	Non-executive	CGC
Abdullah Tivnikli	Member	Non-executive	
Khaled Hussain S. Biyari	Member	Non-executive	AC
Hakam Kanafani	Member	Non-executive	
Rami Aslan	Member/CEO	Executive	
Mazan Abou Chakra	Member	Non-executive	AC/EIMRC
Cenk Serdar	Member	Non-executive	CGC/EIMRC
İbrahim Şahin	Vice-chairman	Independent	AC
Fahri Kasırga	Member	Independent	
İbrahim Eren	Member	Independent	CGC/AC
Yiğit Bulut	Member	Independent	
Feridun Bilgin	Member	Non-executive	

Mr. İbrahim Şahin, an independent board member resigned on October 13, 2014 and no replacement has been named yet.

## 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
-	Restrictions on transfer of shares

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

At Türk Telekom, a Capital Markets and 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 Capital Markets and Investor Relations Director Onur Öz. Corporate

Governance & Compliance Manager Süleyman Kısaç who holds required licenses took the responsibility arising from capital markets legislation and coordination of corporate governance practices.

Along with other units of the company the "Capital Markets and Investor Relations Unit" 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 assembly 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.

Capital Markets and 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.

All kinds of information about the company required by the legislation are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The company has constituted a disclosure policy, submitted it to the general shareholders' meeting for approval and disclosed it to 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:**

Due to the absence of the ministry commissar, the ordinary general shareholders' meeting of 31 March 2014 was deferred and it was held on 27 May 2014. 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 ordinary general shareholders' meeting held on this

date is performed through all means of communication available to the company on 4 May 2014 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, the exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the location where annual report, financial statements and other meeting documents can be examined.

Furthermore, the company has prepared an informative disclosure document on agenda items.

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. the total number of shares and voting rights reflecting the company's shareholding structure as of the date of disclosure, privileged share groups within the company capital, voting rights and nature of such 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 its 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 voice their opinions and ask questions. The chairman made sure that each question was answered directly at the meeting provided that they do not constitute a trade secret.

The authorization for engagement of the board of directors in any activity within the scope of Article 395 and 396 of the Turkish Commercial Code is included as a separate item on 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.

The company has established a policy on donations and grants and submitted it to the general shareholders' meeting for approval. 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.

There is no provision in the articles of association of the company allowing the attendance of those including stakeholders and media with no voting rights.

General shareholders' meeting is attended by the representatives of the external audit company.

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

All shares of Turk 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 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. The C Group privileged share owner cannot participate in capital increases.

Group A shares of Ojer Telekomünikasyon A.Ş. and Group B shares of the Undersecretariat of 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.

association (Art. 6/A) restricts transfer of Group A and B shares.

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.

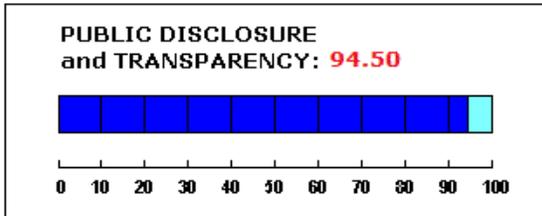
Furthermore, the articles of association of the company contain a provision on advance dividend payments.

Income for the reporting period, source and amount of the distributable income, dividend to be paid per share (with specification of group distinctions) and time and form of payment of dividends was presented at the general shareholders' meeting of 2013.

### **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. However, the provisions in the company's articles of

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	There is a Capital Markets and Investor Relations Department
+	Sufficient Disclosure Policy
+	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
-	Human Resources Policy not included on the corporate web site

#### 2.1. Corporate Web Site:

Corporate 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 corporate 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 five 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 being released from indirect or cross shareholding relationships between co-owners is disclosed to the public along with the privileges they hold and updated every 6 months as per minimum requirement.

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

The information contained on the web site exists also in English for the

benefit of international investors and is identical to the Turkish content.

The company's web site also includes; investor presentations, working principles of the committees (with the exception of Audit Committee), the donation policy, material disclosures, the vision/ mission of the company established by the board, information on dividend distribution and capital increases, disclosure area, social responsibility activities, information on senior management, financial data and main ratio analysis.

However, the Human Resources Policy is not included on the corporate web site.

## **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 entity operates and information on its position in the sector,
- d. qualifications of the production units, capacity utilization rates, 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. the 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. information on privileged shares and their amount,
- l. research and development activities,
- m. dividend distribution policy,
- n. basic ratios on the financial position, profitability and solvency,
- o. the company's financing resources and risk management policies,
- p. information on major events occurred 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. the number of board meetings held during the year and attendance 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, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

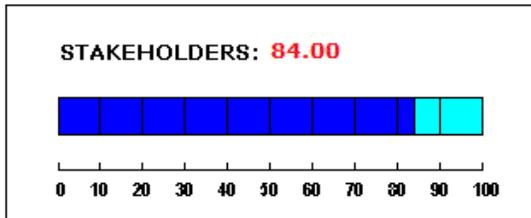
### **2.3. External Audit:**

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 during the reporting period 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 by the company officials that there has been no legal conflict between the company and the external audit firm.

Independent 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
+	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
=	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 corporate web site 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 certain models for stakeholders, particularly employees to participate in management without impeding the operations of the company and these models are included in the Corporate Governance Compliance Report. However these models are not included in the articles of association.

### 3.3. Company Policy on Human Resources:

Türk Telekom has established a Human Resources and Joint Services Management Systems Department in order to evaluate working conditions and its impact on the environment.

Accordingly;

- Investigation of occupational accidents and work related to the prevention,
- Studies related to solving any disputes resulting from occupational accidents by way of peace,
- Statistics on the analysis of occupational accidents,

- Personal Protective Equipment Procurement and Catalog Preparation,
- TT ISGIP Project activities,
- Health Surveillance activities,
- ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System certification studies,
- Environmental impact and risk assessment studies,
- Activities on waste management,
- Sustainability efforts, such as CDP, GRI,
- Training activities,
- Studies on generalizing Occupational health and safety culture and launch activities with relevant institutions and organizations are carried out.

### **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:**

As given on the corporate web site, all Türk Telekom employees, primarily members of the Audit Committee and board of directors:

- First and foremost recognize the importance of code of ethics and abide by them.
- Set role models for other employees with their actions and thoughts.
- Adopt the principle of the establishment and maintenance

- of the code of ethics firstly in the units they are in charge of.
- Work towards the establishment of the corporate culture and ensuring that employees espouse the norms, values and principles by which they are obliged to abide. They strive to make sure that their activities are aligned not only with the wording but also with the spirit of the code of ethics, and try to develop a culture deeply espoused by the organization in accordance with the law and corporate policies.
- Provide an environment where employees feel comfortable coming to them for ethical issues as well as problems regarding the operation of the company, and having an open communication with them.
- Display honesty and consistency in their actions and decisions including ethical handling of existing or future conflicts of interest at all times, which may arise between their own personal relations or financial and commercial interests and their responsibilities towards the company.
- Ensure full, fair, accurate, timely and intelligible disclosure of all reports and documents that will be submitted to BIST and other authorized entities and boards or otherwise publicly disclosed by the company.
- Fully abide all laws, rules and regulations applicable to the company and the relationship between the company and its shareholders.
- Notify any known or suspected violation of the code of ethics, if any, to the chairman of the Audit Committee promptly.

Türk Telekom employees may not derive personal benefits from customers/suppliers, may not facilitate transfer of benefits by establishing an intermediary relation between customers/suppliers. They must act equally and fairly to all parties involved in the case of a conflict of interest between customers/suppliers. They also must fulfill their duties impartially, and spend every effort to this end.

In order to avoid conflicts of interest, employees can not:

- Submit for compulsions resulting against interest of investors, enter into a debtor-creditor relationship with customers/suppliers, not act as their surety and not accept their suretyship.
- Attend invitations, domestic/international trips, vacations with customers/suppliers, the expenses of which are fully or partially covered, without the knowledge and approval of the immediate manager.
- Accept customers'/suppliers' uncustomary gifts of a nature and value that might give rise to an obligation on their part, and not use his or her authority to derive advantages from the customer's/supplier's field of activity which go beyond the purpose or regular practices.
- Enter into business relationship with spouses, relatives and friends (a business relationship may be established if an interest in favor of the company is in question, subject to approval by the immediate manager).
- Influence promotion or rewarding decisions concerning spouses or close relatives working for the company or its

subsidiaries.

Türk Telekom adds value to social life with "Value to Turkey" social responsibility projects implemented throughout the country, in addition to the investments on technology, infrastructure and human resources. In addition to giant social responsibility projects carried out nationally such as Books on the Phone, Türk Telekom Schools, Türk Telekom Internet Houses, Türk Telekom Sports Clubs and e-Billing Forests, there are also more than 100 local social responsibility activities organized by Türk Telekom provincial directorates within the scope of "Value to Turkey" project.

Volunteers are involved in various activities such as blood donations, medicine collection campaigns, forming search and rescue teams, amateur sports clubs, picking up toys for children and organizing voluntary reading sessions within the scope of Books on the Phone project. Through the campaigns carried out in Turkey so far in this context Türk Telekom supported 3,200 blood donations and also assisted the collection of about four thousand boxes of medicine.

Football is the most loved and followed sport in Turkey and Türk Telekom have signed a sponsorship agreement with the country's leading football club, Galatasaray, to use the title 'Türk Telekom Arena' for their new stadium until 2020.

### **3.6. Sustainability:**

Türk Telekom is developing a greenhouse gas management strategy, clearly defining its sustainability targets and allowing the management of climate change risks and opportunities, and is playing a leading role in the sector with its works in this area.

Carrying out environmentally-friendly communication activities within the scope of corporate social responsibility in order to leave a better world for future generations, Türk Telekom launched its sustainability efforts in the early 1990's by installing solar energy panels as an energy backup system. In 2010 the company established its Sustainability Committee to create innovative and sustainable policies that will enable low-carbon technologies to become widespread as part of its effort to address climate change. Also in 2010, Türk Telekom established the Energy Efficiency and Next Generation Energy Department to pursue activities geared at promoting energy efficiency and sustainable energy resources.

Türk Telekom has been reporting to the Carbon Disclosure Project (CDP) since 2010. The CDP is a prestigious environmental awareness project wherein publicly-listed companies announce their environmental strategies and amount of carbon footprint. Türk Telekom has been the first and only telecommunications company to regularly report to the CDP since 2010. In recognition of its dedicated efforts, Türk Telekom received the CDP 2013 Climate Change Carbon Disclosure Leader Award in 2013 for its reporting, having achieved savings of over TL 85 million through ongoing projects according to the results of the Carbon Disclosure Project 2013 Report.

In 2012, Türk Telekom signed the Durban Declaration, which aims to limit the global temperature rise to 2°C. By joining the Durban Declaration together with leading global companies, Türk Telekom has invited the private sector to take the necessary measures to combat climate change. Türk Telekom is not only a signatory to the declaration, but also a company that undertakes the

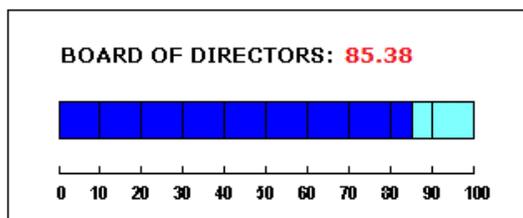
responsibility to develop this initiative further.

Türk Telekom is the first Turkish company to join the Global e-Sustainability Initiative (GeSI), which organizes activities on efficient use of energy, energy saving, and e-sustainability. Türk Telekom continues to share information and know-how with other members to promote the efficient use of energy and IT equipment within the scope of activities of the Energy Efficiency Working Group operating under GeSI.

Türk Telekom is the first telecom operator to be elected to the Board of Directors of the Eurogia+ Cluster operating under the European Union's EUREKA R&D Program. Through its membership, Türk Telekom seeks to have a voice in the formulation and development of European energy efficiency and low carbon technologies.

In 2011, Türk Telekom joined the Climate Platform, established to support private sector initiatives to address climate change and launch the transition to a low carbon economy. Established with the cooperation of TÜSİAD (Turkish Industry & Business Association) and REC (Regional Environmental Center), the platform's activities continued in 2013. With this membership, Türk Telekom plays an active role in transition to a low-carbon economy by attending meetings that address the future of the planet in an international arena, chaired by HRH the Prince of Wales of the United Kingdom of Great Britain.

## 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 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 with sufficient frequency.

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 and works in close coordination with the Corporate

Governance Committee and Capital markets and Investor Relations Department.

Losses that may be incurred by the company, and third parties, as a result of misconduct by managers' with administrative responsibility are insured.

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

The board of directors is composed of twelve 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 persons, who carry the independence criteria as defined in the Capital Markets legislation, for election

as independent board members and seven 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 person, for election as director for the C Group privileged share.

The Corporate Governance Committee did prepare a report on the candidates nominated by the board and shareholders, by taking into consideration whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. 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. 7 meetings were held since the election of board members until the end of the reporting period, and the participation rate was 95%.

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. 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 at 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.

Board members allocate necessary time for the company's business and there are no limitations taking on additional duties outside the company. Such a limitation is not deemed necessary due to the important contribution of the independent members to the board with their professional and sector experience.

#### **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 none of them are 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, 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 does not contain any information on working principles of the audit committee, number of written notices given to the board of directors in the reporting period and

the meeting resolutions. Furthermore, board of directors did not determine the working principles of the Audit Committee.

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.

However, Investor Relations Director is not a member of the Corporate Governance Committee. Besides, the chairman of the board is on this 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 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 done 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 misconduct by managers' with administrative responsibility are insured.

Remuneration of the executives complies with the code of ethics, internal balances and strategic goals of the company and is not based on short term performance.

There has been no cases 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 mentioned collectively, 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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