

Corporate Governance Rating Report

iŞ GYO 

5 December 2017

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## Rating and Executive Summary

### İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. (ISGYO)

 SAHA  
Corporate Governance Rating:

**9.48**



MAIN SECTIONS: **Avg. 94.76**

Shareholders: **91.49**



Public Disclosure&Transparency: **98.46**



Stakeholders: **96.70**



Board of Directors: **93.63**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

This report on rating of İş Gayrimenkul Yatırım Ortaklığı A.Ş.'s ("İş GYO") compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the Company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

İş GYO is rated with **9.48** as a result of the Corporate Governance study done by SAHA. The Company's corporate governance rating has shaped up as above in consideration with the importance given by İş GYO to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

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.. İş GYO 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>.

İş GYO is rated with **9.15** 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. İş GYO carries out the investor relations obligations through "Investor Relations and Corporate Compliance Department". Privilege to nominate candidates for board membership is pertinent to the Real Estate Investment Companies (REICs) legislation. 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 publicly disclosed, consistent dividend policy of the Company. There are no restrictions on transfer of shares. On the other hand, in the Company's articles of association, the rate of minority rights is adopted as prescribed for listed companies (%5). The Company has established a policy on donations and grants and announced it to the public on the corporate web site.

İş GYO attained **9.85** 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 the CMB and Borsa Istanbul (BIST) rules and regulations. Also the annual report is comprehensive and informative. There are no ultimate controlling shareholders with a share higher than 5% in the Company's capital structure. Benefits provided to board members and senior executives are mentioned collectively in the annual report, but a list on individual basis is essential as per the Principles.

On the topic of **Stakeholders**, İş GYO scored **9.67**. İş GYO guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy for the employees is established and disclosed to the public on the corporate web site. The Company has an effective and comprehensive human resources policy. Models have been developed to support the participation of stakeholders in the management of the Company, but such models are not included in the articles of association. Code of ethics is publicly available through the Company's web site. A social responsibility policy has been established and disclosed to the public via the web site. No lawsuits have been filed against the Company due to any environmental damages.

From the perspective of the principles regarding the **Board of Directors**, İş GYO's tally is **9.36**. There is a well communicated Company mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board of directors and the general manager is not the same person. There are no executive members on the nine-member board, three of whom are independent members. Each board member is entitled to a single vote. CMB criteria are complied with in designation of the independent members of which each have signed a declaration of independence. There are three female members on the board of directors. Corporate Governance, Audit, and Early Detection of Risk Committees are established within the board of directors and their working principles 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 Company's web site. Defects and damages caused by board members during the execution of their duties are insured. Remuneration of board members and executives with administrative responsibility as well as benefits provided are mentioned collectively in the annual report. Principles dictate reporting on an individual basis.

## 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>İş Gayrimenkul Yatırım Ortaklığı A.Ş.</b>	
	<b>Chairman of the Board</b> Ömer Karakuş <b>General Manager</b> Turgay Tanes
İş Kuleleri, Kule 2, Kat: 10-11 34330 Levent, İstanbul <a href="http://www.isgyo.com.tr">www.isgyo.com.tr</a>	<b>Head of Investor Relations and Corporate Compliance, Risk Management Group</b> Ayşegül Şahin Kocameşe Tel: (0 212) 325 23 50 <a href="mailto:aysegul.sahin@isgyo.com.tr">aysegul.sahin@isgyo.com.tr</a>

İş GYO is one of the leading firms in the real estate sector with its solid portfolio and financial structure. The Company is focused on assuring the optimum risk versus return balance for its investors on the back of a diversified and well-balanced portfolio. İş GYO invests in real estate properties and real estate projects and its activities are carried out in compliance with the requirements of Turkish Capital Markets Board laws and regulations.

İş GYO was originally founded on August 6, 1999 as a result of the merger of two real estate companies İş Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. and Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. The Company has completed its initial public offering in the same year and began trading on BIST.

The Company's net profit shown on financial statements dated December 31, 2016 prepared in accordance with the "Communiqué on Principles of Financial Reporting in Capital Markets" numbered II-14.1 is TL 420,511,402 and in the legal records kept pursuant to the Tax Procedure Law, it is TL 155,171,857.18. According to the profit distribution proposal prepared by the board of directors in this framework, distribution of bonus share for a total of TL 63,750,000 and cash dividend amounting to TL 63,750,000 was proposed. The proposal was approved at the general shareholders' meeting with a majority vote.

The Company shares are traded under "ISGYO" code at BIST Collective and Structured Products Market and İş GYO is a constituent of BIST 100 (XU100), BIST All Shares (XUTUM), BIST 100-30 (XYUZO), BIST Real Estate Investment Trusts (XGMYO), BIST Dividend 25 (XTM25), BIST Dividend (XTMTU), BIST Financials (XUMAL) and BIST Corporate Governance (XKURY) indices.

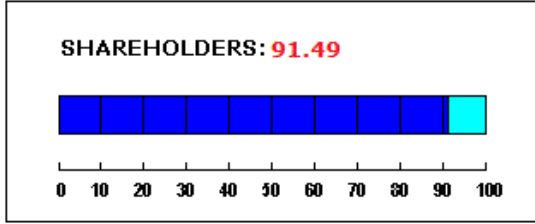
The capital structure of İş GYO as of the date of the report is as follows:

<b>Capital Structure</b>		
<b>Shareholder</b>	<b>Share Value (TL)</b>	<b>Share %</b>
Türkiye İş Bankası A.Ş.	403,081,733.65	44.11
Anadolu Hayat Emeklilik A.Ş.	64,952,937.61	7.11
Other	445,715,328.74	48.78
	<b>913,750,000.00</b>	<b>100.00</b>

İş GYO's board of directors is composed as follows:

<b>İş GYO Board of Directors</b>	
<b>Name</b>	<b>Title</b>
Ömer KARAKUŞ	Chairman
Süleyman H. ÖZCAN	Vice-chairman
Aysel TACER	Board Member
D. Sevdil YILDIRIM	Independent Board Member
Haluk BÜYÜKBAŞ	Independent Board Member
Nihat UZUNOĞLU	Independent Board Member
Mete ULUYURT	Board Member
Murat DOĞAN	Board Member
Sakine İlgen DOKUYUCU	Board Member

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	Voting rights are facilitated
+	General shareholders' meetings are conducted in compliance with the legislation
+	No restrictions on transfer of shares
+	Policy on donations and grants approved at the general shareholders' meeting and disclosed to the public
+	Specific and consistent dividend distribution policy
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
=	No voting privileges, privilege for the nomination of board member candidates is pertinent to REICs legislation

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

İş GYO's Investor Relations Department operates under the name "Investor Relations and Corporate Compliance" within the "Investor Relations and Corporate Compliance, Risk Management Group". The Department manager is Ayşegül Şahin Kocameşe, Head of the Investor Relations and Corporate Compliance, Risk Management Group. The

Department manager is the holder of Capital Market Activities Level 3, and Corporate Governance Rating Licenses.

The Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information. The Department fulfills the following duties:

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

Prior to each board meeting, the Department prepares a report to be submitted to the board of directors about the Department's activities during the period, investors' and brokerages' assessments and analyses. The Department manager participates in person to the board of directors meetings. Serving as a bridge between the Department and



the board of directors, the Corporate Governance Committee, which actively oversees the Department's activities, meets prior to each board meeting, and evaluates the activities carried out by the Department during the reporting period. Following the meeting, presentations about the topics that have been discussed in the Corporate Governance Committee meetings are shared with the board of directors. In addition to the monthly reports, an "Annual Investor Relations Activity Report" is prepared following the end of the accounting period.

One-on-one meetings and teleconferences with domestic and international investment companies are held at the Company's headquarters and information requests reaching the Department are responded. Shareholders may convey their information requests by contacting the Investor Relations Department employees directly, by e-mail or by using the contact form available on the web site. In addition to investors' queries, support is extended for information requests, surveys and academic studies within the scope of research conducted by universities and various public institutions. The Department also regularly monitors the reports and bulletins published by brokerage houses in which any mention of the Company is made, while providing the necessary support to them for their reporting processes. The Investor Relations Department regularly maintains proper records both of the written and oral queries that it receives and of the responses given.

Information and explanations that may affect use of shareholders' rights is available 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 regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the Company required by the legal legislation 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 is submitted to the attention of shareholders at the general shareholders' meeting 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 in 2017 is performed through all means of communication available to the Company 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, the Company has prepared a descriptive 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 along with the dividend distribution proposition are made available to all shareholders for examination purposes in convenient locations including the headquarters 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 privileges.
- b. Information on that there are no changes in management and activities of the Company and its subsidiaries in the previous fiscal year, or planned for the upcoming fiscal period which can significantly affect the Company operations.
- c. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of the relationship of the Company and related parties, whether it has the

quality of independence 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 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. Questions of the shareholders were answered at the general shareholders' meeting and recorded to meeting minutes.

Shareholders were informed that the board members did not engage in any activity within the scope of Article 395 and 396 of the Turkish Commercial Code.

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 a representative of the external audit company were present to give necessary information and to answer questions at the general shareholders' meeting.

No proposal was presented to the general shareholders' meeting for approval due to a lack of consent of the majority of independent members.

İş GYO has established a policy on donations and grants and submitted to the general shareholders' meeting for approval. Shareholders were informed of donations performed within the reporting period, and the donation cap for the upcoming period was approved.

The internal guidelines of the general shareholders' meetings allow the attendance of those including stakeholders and media with no voting rights.

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

At İş GYO, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the Company avoids applications that make it difficult to exercise voting rights.

There are no voting privileges. The privilege is only for board nominations and is based on the Communiqué on Principles Regarding Real Estate Investment Companies, stating; "REICs may not issue any privileged securities other than the shares providing the privilege of nomination of members of the board of directors."

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

İş GYO has a specific and consistent dividend distribution policy. It is submitted to the approval of shareholders at the general shareholders' meeting, incorporated in the annual report, and disclosed to public on the corporate web site.

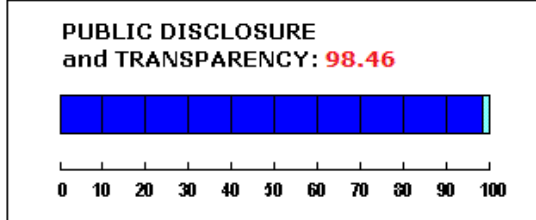
The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and that of the Company. All necessary informative items are included in the dividend distribution proposal.

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

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

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

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive disclosure policy, disclosed to public on the corporate web site
+	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
+	No ultimate controlling shareholders with a share higher than 5% within the capital structure
+	English version of the web site for international investors
+	Remuneration policy established and disclosed to public on the corporate web site
+	Dividend distribution policy disclosed to public via corporate web site
=	Benefits provided to board members and senior executives are mentioned collectively in the annual report

### 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, dividend distribution policy, disclosure policy, ethical rules of the Company, frequently asked questions and notices.

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

Türkiye İş Bankası A.Ş. is the controlling shareholder of the Company and as of the date of this report, there are no ultimate controlling shareholders with a share higher than 5% within the capital structure of Türkiye İş Bankası A.Ş.

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

The Company's web site also includes; investor presentations, the donation policy, working principles of the committees, important board decisions

under the heading of material disclosures, the vision/mission of the Company established by the board, information on dividend payments and capital increases covering the last 5 years, news, general shareholders' meeting internal guidelines, social responsibility activities, information on senior management, financial data, main ratio analyses, corporate web site disclaimer and terms of use, timetable on events and developments which may interest investors, 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 of the chairman and members served on the board and the committees during the covered period, their tenure of office with start and end dates.
- c. The sector in which the Company operates and information on its position in this sector.
- d. Qualifications of the units within the Company, general explanations related to their activities and performances, and yearly developments.
- e. Progress on investments, the eligibility status on incentives.
- f. Changes made on the articles of association within the reporting period and justifications.
- g. Corporate Governance Principles Compliance Report.
- h. Information on related party transactions.
- i. Other issues not included in the financial statements, but are beneficial for users.
- j. Company's organization, capital and ownership structure.

- k. Benefits provided to staff and workers, information on number of personnel.
- l. Information that no board member is involved in any transactions with the Company on their behalf or someone else within the framework of permission granted by general shareholders' meeting along with their activities within the scope of restraint of trade.
- m. Explanations on privileged shares.
- n. The dividend distribution policy.
- o. Basic ratios on the financial position, profitability and solvency.
- p. Company's financing resources and risk management policies.
- q. 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 content specified in the legislation, the following also took place in the annual report:

- a. Information on external duties of board members and executives.
- b. Declaration of independence of the related board members.
- c. Members of the committees within the board, their meeting frequency and working principles.
- d. Number of board meetings held during the year and status of participation of the members.
- e. Assessment of the board on the efficiency of the committees.
- f. Changes in legislation which could significantly affect the Company's operations.
- g. Information that there are no major court cases filed against the Company.
- h. Information on the fact that there is no cross shareholding in excess of 5% of the capital.
- i. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results.

- j. rating results,
- k. Implementation of the corporate governance principles as required by the CMB Communiqué, explanations on reasons behind any non-compliance.

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.

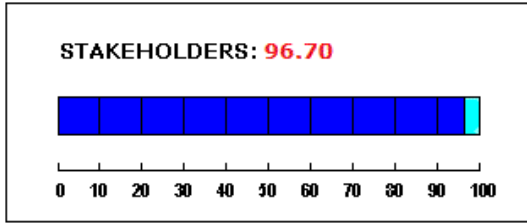
### **2.3. External Audit:**

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

There has not been a situation within 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 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
+	Efficient Human Resources Policy
+	Stakeholders' views are taken on important decisions that give rise to the results which considers them
+	Code of ethics disclosed to the public
+	Company is socially and environmentally sensitive and respectful
+	A written employee compensation policy is disclosed to the public on the web site
+	Social responsibility policy established
=	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:

İş GYO 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 of the Company is also used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

The corporate governance implementation of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions.

Company employees can convey any transaction that contradicts with the legislation and is ethically inappropriate to the Audit Committee Audit and to the Audit Group. An *Ethics Hotline* is set up for stakeholders to convey any transactions deemed to contradict with the laws or the Company's ethical values to the Audit Committee composed of independent board members. An e-mail account has been assigned for this line and disclosed on the corporate web site.

In addition, a written compensation policy is established and disclosed to the public on the corporate web site.

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

Although there is no formal model established for direct participation of other stakeholders in management, keeping all lines of communication open and eliminating all possible encumbrances are fundamental principles regarding participation of Company employees in management.

The Company maintains constant communication with employees, pays due regard to their needs, and creates various platforms and mechanisms by which employees can convey their opinions and comments.

Internal meetings are held, which are attended by Company employees when necessary, and they play a significant role in the decision-making process of senior management. Expectations and demands from all stakeholders involved with the Company are addressed on the basis of code of ethics and resolved through mutual communication.

However, the said models and mechanisms are not incorporated in the articles of association.

### **3.3. Company Policy on Human Resources:**

The Company has a written human resources policy.

Recruitment and career planning are conducted on the basis of equality and transparency is ensured. These activities are carried out in line with the relevant provisions of Recruitment and Human Resources Regulations.

İş GYO has an organizational structure based on a grading system running parallel to seniority.

Recruitment activities are carried out within the scope of Recruitment Regulation. The competencies required for each position are determined and used effectively in recruitment activities. Job Descriptions are defined for all positions and their revisions are made at regular intervals. The document on the "Orientation" process is prepared by the Training and Development Unit to be presented to all employees. This process will be applied to employees in all new titles.

Performance and reward criteria are available to all employees through the "Performance Evaluation Form" and principles are specified in the Human Resources Regulations.

Training programs are conducted in line with the Training Regulations to improve employee knowledge, skills and experience. Employees are treated fairly on all rights provided by the Company, including training.

Coordination meetings are organized on a regular basis with the participation of top management to share information on issues such as financial position of the Company, remuneration, career, training and health. Following the meetings, senior managers inform their respective Groups on related issues on a regular basis.

All kinds of changes regarding employees are communicated to them through in-house communication channels.

The Company's remuneration policy is based on grading and seniority rather than efficiency. Efficiency is taken into account in the calculation of fringe benefits and employees are entitled to "Productivity Allowance" following their performance evaluations. There are no share participation plans for the employees.

Protective measures against race, religion, language and gender segregation, in-house physical, mental and emotional abuse are specified in the relevant regulations within the frame work of Code of Ethics in all internal and external activities of the Company (Human Resources Regulations, Recruitment Regulations and Training Regulations).

Safe working conditions and environment are provided for the employees. Necessary inspections as



required by the Occupational Health and Safety Act No.6331 are performed by Joint Health and Safety Unit specialists. Related training is provided at regular intervals by experts under the organization of Training and Development Unit. No occupational accident has occurred in the past year.

All relevant trainings are given to the employees in accordance with the Law on Occupational Health and Safety within the time limits specified in. In this context, on site staff training for all newly recruited and each employee's training renewal times are followed up and are regularly renewed within the legal time frame. Many trainees are given necessary trainings in 2017 also on occupational health and safety within this framework.

There has been no attempt at İş GYO to form an association or to get involved in a collective bargaining agreement, and no such demand was received by the Company. There is no active trade union and when the Company scale is taken into consideration, the structure does not necessitate union activities.

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

İş GYO has taken all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services.

Correct and complete information is provided to customers in marketing and sale of Company services. Care is taken for all related documents, printed and visual materials to reflect all features of the product to achieve customer satisfaction. Appointment of competent and relevant staff is secured to provide contact with customers for all matters pre-sales, during sales and after sales. In addition, customers are informed

quarterly by e-mail regarding the current status of the construction.

Contractual or non-contractual demands, requests and grievances of individuals and legal entities which the Company is related to with either lease agreements or real estate sales contracts are transmitted to the relevant committee through Corporate Communications, Sales, Leasing and Marketing Group and solution-oriented suggestions are discussed and finalized in the committee.

İş GYO is working with leading construction companies of Turkey in projects carried out to provide top real estate quality to buyers or tenants. Its staff or the project management firms (at projects where the Company is working with them) conduct routine controls to ensure that the materials used at construction sites are up to par with the promised quality.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

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

The ethical rules of İş GYO is publicly disclosed through the corporate web site.

While headed towards generating high returns for its shareholders, which is a key objective, İş GYO also carries out various activities to contribute to the social life and the environment within the scope of its corporate social responsibility concept. Along the line, the Company extends support to numerous artistic and sports events, in addition to the activities carried out in the sector. The activities carried out with a view to allowing the young generation gain experience in the sector and to socially equip them coincide with the corporate mission of

the Company which puts human at its core.

İş GYO provides gratuitous support to projects in areas that it regards within the scope of its social responsibility such as education, health, culture, law, art, scientific research, environmental protection, and sport. The Company is committed to consistently shaping its approaches, values, and policies within the framework of its corporate social responsibility.

A complete list of these activities and details can be accessed from the Company's corporate web site.

İş GYO complies with legal and environmental values in all of its activities. No lawsuits were filed against the Company on account of any harm done to the environment during the reporting period.

The Company's Corporate Social Responsibility Policy was adopted by the board of directors in 2017. In accordance with the principles contained in the accepted policy and in line with the determined focus as a result of the studies carried out within the framework of corporate social responsibility; it has been decided that social responsibility projects throughout Turkey should be accomplished in order to provide alternative life scholarship support with the aim of supporting creativity potentials of children lacking alternative education, teaching and development possibilities.

Under the initiative launched based on the core values and targets of the İş GYO brand along with the positive social influence sought to be created in the public, a corporate social responsibility strategy is planned and developed. Within the scope of the project, it is aimed to reach 1,000 children throughout Turkey with a 3-

year program. It is envisaged to implement the project through cooperation of a volunteer team consisting of Company employees, the academic advisory board and competent pacesetter NGOs.

### **3.6. Sustainability:**

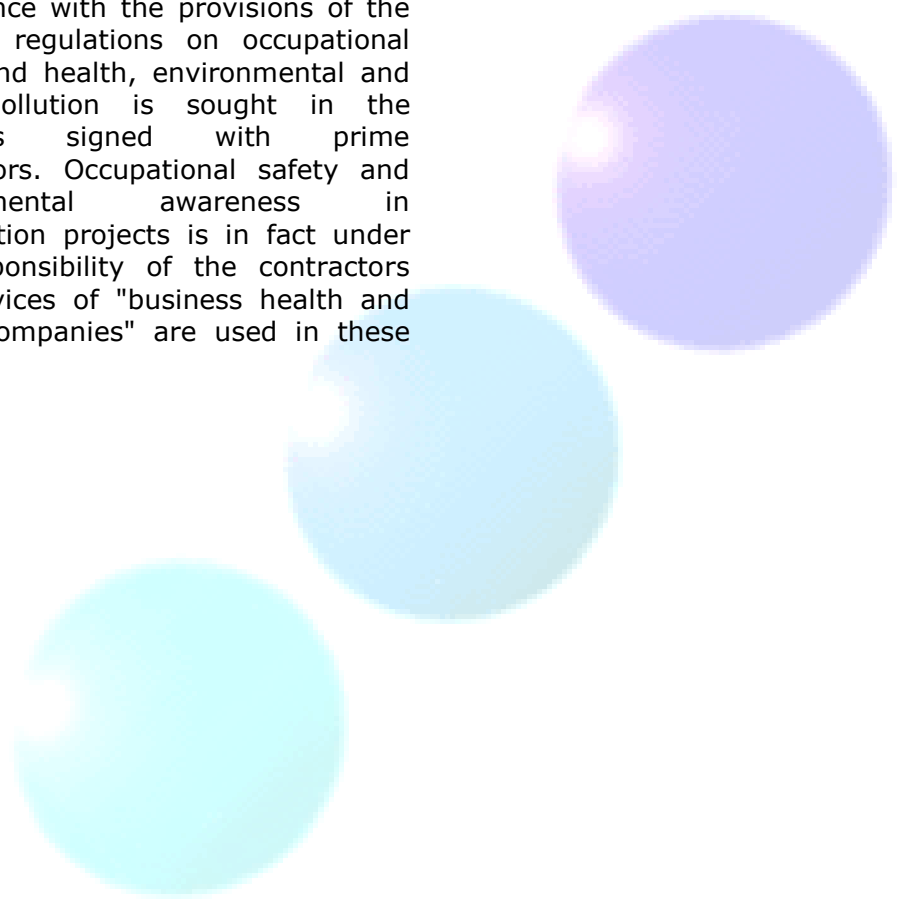
In the real estate projects (depending on their concept and size); Environmental Impact Assessment (EIA) report is obtained to evaluate the environmental impact in terms of use of natural resources, amount of waste, etc. and projects are carried out within the scope of requirements outlined in this report. The Company endeavors to ensure that the projects being developed are LEED certified and studies are being carried out to obtain this certificate during the project. The studies started to receive LEED certificates for existing properties like "İş Towers 2 and 3" and "Tuzla Technology and Operations Center (TUTOM)" and for the ongoing project of "Kartal Manzara Adalar" are in progress with the certificate evaluation process. Sustainability studies carried out within TUTOM have been presented to us and these studies are included on the Company's web site. Furthermore, qualified companies with certificate of authority are preferred on recycling waste material and removal of hazardous waste compulsorily required by the regulations.

Carbon emissions are minimized in the projects by use of natural gas-fired boilers and flue gas analyzers. Low-energy devices with low carbon emissions are selected in the ongoing projects, and in existing developments care is taken to select any replacement products/devices with low energy consumption. It is aimed to reduce carbon emissions to minimal levels possible in energy, water, material, waste, pollution, building management and health issues, depending on the process of obtaining

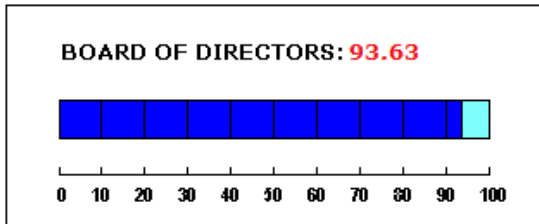
green building certificates for existing properties.

The Company keeps energy efficiency on the forefront, choosing devices with low carbon emissions and low energy consumption and care is taken to select any replacement products/devices with low energy consumption in the existing real estate.

Compliance with the provisions of the relevant regulations on occupational safety and health, environmental and noise pollution is sought in the contracts signed with prime contractors. Occupational safety and environmental awareness in construction projects is in fact under the responsibility of the contractors and services of "business health and safety companies" are used in these matters.



## 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
+	Three independent and no executive members on the board
+	Audit, Corporate Governance and Early Detection of Risk Committees are operational
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
+	Chairman of the board and general manager is not the same person
+	Each member has a right to a single vote
+	The conduct of the board of directors meetings is defined in internal regulations and meeting and decision quorums have been included in the articles of association
+	3 female members on the board

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

Strategic decisions of the board of directors aim to manage İş GYO's risk, growth, and return balance at an appropriate level, conduct a rational and cautious risk management approach with a view to the long-term interests of the Company and

represent 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 quarterly.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report. Chairman of the board and general manager's executive powers are separated and this separation is documented in writing in the articles of association. There is no person in the Company who has unlimited authority to make decisions alone.

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 Investor Relations and Corporate Compliance Department.

Defects and damages that may be caused by the board members during the execution of their duties have been insured.

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

The Company's board of directors is composed of nine members and none of them is executive. There are three independent members who have the ability to execute their duties without being influenced under any circumstances.

No upper limit for the number of independent board members is set in the articles of association.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of 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 each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria. There are three female members on the board of directors.

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

Board meetings take place with sufficient frequency. As of the date of the report, the board convened 7 times in 2017 and passed 53 resolutions. Members allocate sufficient time for all of the Company's business and participate in every meeting.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the general manager. Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date.

Each member of the board is entitled to a single vote.

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.

There are no certain rules or limitations for board members taking on additional duties as executives and/or board members outside the company. İş GYO has declared that this does not lead to any conflict of interest.

Shareholders are informed of external duties of the board members through the annual report and the Corporate Governance Compliance Report.

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

Corporate Governance, Audit, and Early Detection of Risk committees are established from within the board of directors in order to fulfill its duties and responsibilities duly.

Functions of the committees, their working principles, and its members are designated by the board of directors and disclosed to public on the corporate web site and on the Public Disclosure Platform.

All members of the Audit Committee are elected among the independent board members. Also the chairman of the Corporate Governance Committee and the Early Detection of Risk Committee are elected among the independent board members. The Corporate Governance Committee has four members, while the other committees are composed of two members each. The chairman of the board and the general manager are not on the committees. With the exception of Investor Relations and Corporate Compliance Department head who serve on the Corporate Governance Committee as per corporate governance principles, there are no other executive members on the committees. A non-independent member of the board is a member of two committees simultaneously.

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.

The frequency of committee meetings is sufficient, all activities are documented and records are kept. Reports containing information about the activities and the results of the meetings are submitted to the board of directors.

Audit Committee, supervises the operation and efficiency of the Company's accounting system, public disclosure of financial statements, external and internal audit systems; reviews complaints received by the Company regarding accounting,

internal and external audit systems and finalizes them; within the framework of the principle of confidentiality, identifies methods and criteria to be applied when employees convey their concerns about accounting and external audit systems; notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations; pursuant to 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 public comply with the Company's accounting principles, and are true and accurate. The committee has convened 6 times during the course of reporting period.

Audit Committee members possess the qualifications mentioned in the Corporate Governance Principles Communiqué.

The annual report contains information on activities and meeting resolutions of the Audit Committee and number of written reports given to the board of directors in the reporting period.

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. Moreover, İŞ GYO already has a policy on the election of an external auditor.

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 "Investor Relations and Corporate Compliance Department". The "Annual Investor Relations Activity Report" is also prepared by the Department following the end of the accounting period.

The Corporate Governance Committee assumes the duties of the Nomination Committee and Remuneration Committee, as they are not established. The proposals for independent board membership nominations are evaluated by taking into consideration whether the candidates possess the criteria for independence under the applicable legislation, and these assessments are documented.

Creation of a transparent system for identification, evaluation and training of suitable candidates for the board of directors and determination of policies and strategies in this respect as well as regular evaluation of the structure and productivity of the board of directors, and submission of its recommendations to the board members on changes that can be implemented on these matters have all been designated as the responsibilities of the Committee in its charter. We will continue observing the level of functionality and efficiency of the Committee regarding such responsibilities.

The Corporate Governance Committee has discussed the remuneration package of the board members within the reporting period and documented its recommendation. A remuneration policy determining the basis and fundamentals for remuneration of board members and executives with administrative responsibility is established and disclosed to public on the corporate web site.

Updating, changing and re-evaluating the necessary principles, criteria and applications used for remuneration in the upcoming periods and submission of views to the board of directors will be monitored closely by us.

The Early Detection of Risk Committee carries out its tasks towards early detection of risks which may jeopardize the Company's assets, its development and progress, and measures taken to mitigate and manage those risks. The Committee reviews and reports risk management systems every two months.

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The board of directors explained in the annual report whether the operational and financial targets disclosed to the public are met or not, along with reasons behind possible failures. The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting held in 2012. A remuneration policy prepared for this purpose can be found on the Company's web site.

Stock options or performance based payments are not included in the remuneration package of the independent board members. Their remuneration is designated at a level that maintains their independence

İş GYO 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.

The executives have the required professional qualifications in order to perform the assigned duties. They comply with the legislation, articles of

association, and in-house regulations and policies in fulfilling their duties.

There have 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.

Losses incurred by the Company as a result of not performing the board members' duties duly are insured.

Remuneration of executives is consistent with the Company's ethical values, inner balance, and strategic objectives, and it is not associated only with the Company's short-term performance.

Remuneration of board members and executives with administrative responsibility as well as all other benefits provided are mentioned collectively in the annual report. Full implementation of Corporate Governance Principles dictates reporting 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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