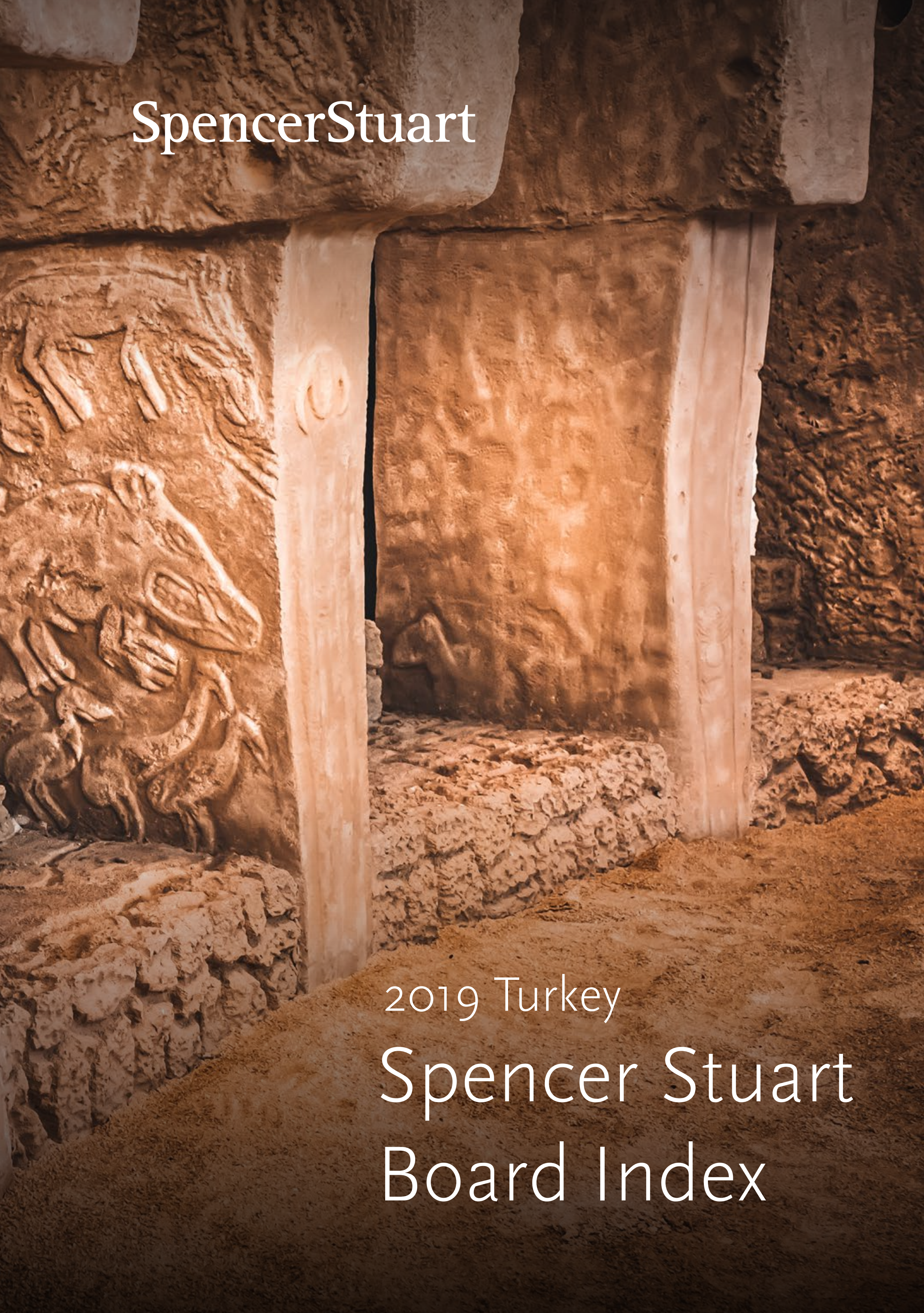

2019 Turkey

Spencer Stuart Board Index

ON THE COVER

"Göbekli Tepe is the oldest known example of monumental architecture — the first structure human beings put together that was bigger and more complicated than a hut. When these pillars were erected, so far as we know, nothing of comparable scale existed in the world."

— NATIONAL GEOGRAPHIC, JUNE 2011

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Foreword

The *2019 Turkey Spencer Stuart Board Index* is an annual study that analyses aspects of board governance among major listed companies, including composition, committees, and remuneration. First published over 30 years ago in the US, Board Indexes are produced in 22 countries around the world on an annual or biennial basis.

This is the sixth edition of the *Turkey Spencer Stuart Board Index*. It offers a review of board composition, structure, and governance practice in the companies that make up the BIST 30 Index. Our analysis is based on publicly available data for the most recent fiscal year. Our purpose is to provide business leaders with a snapshot of current practice on Turkish boards.

This year we include an essay on "Learning from the next generation", in response to the growing number of younger directors being appointed to boards around the world.

We hope that you will find this 2019 edition of the *Turkey Spencer Stuart Board Index* an interesting read. We welcome your feedback and the opportunity to discuss any of the issues that arise from our research.

Kaan Okurer Felix Hafele Gülven Aytekin
Spencer Stuart Turkey

IN THE SPOTLIGHT

Learning from the next generation

Boards are coming under increasing pressure to demonstrate their relevance at a time when the business environment is undergoing rapid change. Increasingly, investors expect boards to have meaningful processes in place to refresh their membership and maximize their effectiveness.

As a result, a growing number of "next-gen directors" are being appointed to boards around the world. Turkey is no exception: 35% of new directors appointed to BIST 30 company boards in the past 12 months were first-time directors (i.e. they had not previously sat on the board of a listed company). Over one-third of new directors appointed in several European countries were first-timers, including Switzerland (49%), the Netherlands (42%), France (38%) and the UK (36%).

Many next-generation directors bring knowledge in fields such as cybersecurity, AI (artificial intelligence), machine learning and industry 4.0 technologies; others have first-hand experience of digital transformation, organizational design, customer insight or social communication. Inevitably, experts in these disciplines tend to come from a different generation than the majority of existing board members.

Younger directors are having an impact on both the content and dynamic of boardroom debate. They are prompting fellow directors to engage with unfamiliar subject matter and bringing a different approach and perspective to the role. Just as companies are broadening their thinking about the value of diversity and recognizing the benefits of cross-generational workforces, so boards are benefiting from recruiting directors who bring not only deeply needed expertise but also a contemporary view on how decisions will affect the whole spectrum of stakeholders.

Boards that choose their younger directors wisely can stand to benefit greatly from their presence. However, it is not enough to bring new, knowledgeable directors into the boardroom; it is vital that boards prepare them for success through a combination of comprehensive onboarding, thoughtful integration and an open-minded, receptive and respectful attitude toward their contributions.

Board chairs around the world are increasingly open to recruiting next-gen talent, citing several reasons ranging from the need for specific skills and competencies to having more diverse voices at the table.

One chairman of a large European business was specifically looking for someone to shift the focus of debate: "A new, younger director can see a dilemma from a different perspective, making us think twice. I'm looking for a person of integrity who is prepared to speak his or her mind and challenge management. What I cannot necessarily expect from such people, of course, is the ability to apply the experience of having seen many similar situations over 30–40 years in business. It's a trade-off, and one of the reasons why age diversity on the board is so important. Specialist expertise needs to be balanced with experience, and with experience comes good judgment."

THOROUGH ONBOARDING IS VITAL

One of the most common things we hear from next-gen directors is that they would have liked a more thorough onboarding process ahead of their first meeting — this is something that boards clearly need to address. Often it is up to new directors to take the initiative and shape a programme that will help them get inside the business.

A good induction programme will include presentations from management on the business model, profitability and performance; site visits; and meetings with external advisers such as accountants, bankers and brokers.

One chairman of a consumer products company added an interesting twist to the onboarding of a new director appointed for his e-commerce leadership experience. He invited the new recruit to make a presentation to the entire leadership team about his own journey. "The kind of disruption and speed at which his online company works was mind boggling, and this exercise proved a source of great learning for the board and the management team," the chairman said. "It also enhanced his credibility with the rest of the board."

Board chairs have a significant influence on how successful next-gen directors are in the role. It can be daunting to arrive on a board full of older, more experienced directors, particularly if there is a long-established "collegiate" dynamic in place. The chair has the twin tasks of guiding the new director, while ensuring that other board members remain open to whatever new ideas and perspectives the new director brings to the role. This may entail working hard to encourage relationships to develop on a personal level, which will then allow divergent views and even dissent at a professional level.

TOWARDS A NEW KIND OF BOARD

As companies address new challenges, and a younger generation of executives with very different backgrounds become independent directors, boards will need to find the right balance between experience and relevance; they will also need to become more dynamic in terms of composition, diversity, discussion and tenure.

Long-tenured directors with an interest in governance and risk management will serve alongside representatives of the next generation appointed for their excellent domain knowledge or real-time experience of transformational environments, but the tenure of such directors is likely to be shorter than the current average. Indeed, many next-gen directors anticipate that their relevance (and interest) will fade after around five years and are quite happy at the prospect of rotating off the board when the time is right.

Boards committed to staying on top of the critical issues affecting their companies should consider the potential benefits of appointing at least one next-gen director, not just for their subject expertise but for their ability to bring alternative thinking and multi-stakeholder perspectives into the boardroom. Backed by a supportive board chair and open-minded directors, next-gen directors can have a lasting, positive impact on the board's effectiveness during a time of unprecedented change.

DEVELOPING A SKILLS MATRIX

One of the board's most important tasks is to identify potential new directors and assess their suitability for the role. Many nominating committees are nervous about appointing executives who lack boardroom experience, and with good reason — board appointments involve a long-term commitment and mistakes can be painful and costly, disrupting the equilibrium of the board and damaging the reputations of those concerned.

To reduce the risks, and to help them make the very best appointment decisions, nominating committees need a robust framework for assessing not just the suitability of a candidate's expertise, or whether they will mesh with other directors, but most importantly how well they will adapt to the role of non-executive director itself.

By isolating the intrinsic qualities needed to be effective as a non-executive director and measuring the extent to which candidates possess these qualities, we are able to assure nominating committees that the people they put forward (some of whom may come from outside the corporate sector) will have what it takes to contribute effectively in the boardroom.

For any board role it is essential to delve into a candidate's character and temperament, as well as his or her background. We recommend that boards assess prospective first-time directors against five key attributes: interpersonal skills; intellectual approach; integrity; independent mindedness; and inclination to engage.

Candidates strong in these five areas are most likely to be capable of contributing as all-around directors, in addition to the specific knowledge, skill or set of experiences that makes them interesting to boards.

When assessing the suitability of a first-time director, boards should also probe their level of financial literacy. Our experience is that nominating committees tend not to assess the financial acuity of director candidates in any great detail, either because they make positive assumptions or because they are embarrassed to probe. However, first-time directors who lack financial competence are going to have to learn fast or they will only be able to offer a limited contribution.

While there is no definitive way to predict whether a first-time board member will be a success, we believe that a systematic approach to assessing the intrinsic qualities of a candidate significantly reduces the level of uncertainty surrounding such an appointment. Moreover, it helps identify ways in which the board chair can help the new director integrate effectively and get up to speed with the critical issues facing the board.

Highlights

TRY 274,526

The average remuneration for non-executive directors

REMUNERATION

The average annual fee paid to non-executive directors is TRY 274,526, a 9.9% increase on last year. Annual remuneration ranges from TRY 53,646 (Aselsan) to TRY 576,000 (Koç Holding). See page 25.

22.4

The average number of board meetings

BOARD MEETINGS

The average BIST 30 company held 22.4 meetings during 2018. This figure is once again the highest in Europe, indeed it is greater than last year's 19.7 average. When companies with substantial state ownership are excluded, the average number of meetings falls to 14.9. Five companies did not report the number of physical meetings; however, most of these companies reported either a minimum number of board meetings required or the number of resolutions. See page 21.

19.8%

The proportion of foreign non-executive directors on BIST 30 company boards

INTERNATIONAL DIVERSITY

BIST 30 boards have seen an increase in the share of foreign non-executive directors during the past years, from 15% in 2014 to 19.8% this year. Of new board members appointed in the past year, 14% were foreign. Although this may indicate that Turkish boards are slowly becoming more internationally diverse, they remain among the least diverse in Europe in terms of foreign representation. Italy is the only country with fewer directors of a foreign nationality (8%). As in previous years, the majority of foreign directors are representatives of a foreign shareholder, rather than independent directors. See page 16.

WOMEN ON BOARDS

18.5%

The proportion of board members who are women

The proportion of female representation on BIST 30 boards has increased to 18.5%, from 8.7% in 2014, bringing those boards slightly closer to achieving the soft minimum target of 25% female representation outlined by the country's Corporate Governance Principles (CGP)[1]. However, the proportion remains low from a European perspective. Family members of a controlling shareholder continue to account for a large section of the female directors, but the share of independent female directors has also increased, from 20 last year to 24 this year. Although all-male boards are in place at 14.3% of BIST companies, progress has been significant — in 2016 there were no female board members at more than one-third (37.9%) of the companies under review. The rate of female appointments to boards has slowed; in the past year three (6%) women were appointed to BIST 30 boards, compared with 15 (27.3%) in the previous year. For the first time, a chairwoman who is not affiliated with the family was appointed among BIST 30 companies. See page 14.

NEW DIRECTORS

50

The number of new directors appointed to a BIST 30 board the past year

Turkish boards have seen a slower rate of renewal over the past year, with a total of 50 directors appointed during the 12 months prior to 31 May 2019, compared with 61 last year. The new entrants to the cohort are younger than the average for BIST 30 directors, nearly 6% of them are women (compared with 24.6% last year) and 41.3% are independent (compared with 59% last year). See page 18.

1 Communiqué on CGP Annex. Par 4.3.9

Our survey approach

The *2019 Turkey Spencer Stuart Board Index* is a survey of the 30 largest companies by market capitalisation listed on the BIST exchange, as of 30 April 2019. The cut-off date for board membership is 31 May 2019.

Since the 2018 edition, Otokar has been replaced by Ford Otosan in the BIST 30 Index. Two companies — Koza Altın and Koza Anadolu Metal — are excluded from our sample[2], leaving 28 companies in this year's survey.

We analysed board size and composition, committee structure, and director compensation for the 2018 financial year, compiling our research from a combination of publicly available sources.

Measured as of 31 May 2019:

- Supervisory board composition
- Management board composition
- Gender representation
- Directors' independence
- Education
- Tenure
- Board commitments
- Age
- Foreign representation

Measured as of 31 December 2018:

- Board meetings
- Board committee meetings
- Measured as of 2018 annual general meeting:
- Board remuneration

The *2019 Turkey Spencer Stuart Board Index* focuses on quantifiable data relating to boards of directors. It offers comparisons with leading companies in a number of other European countries, namely Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Russia, Spain, Sweden, Switzerland, and the UK, as well as with S&P 500 companies in the US.

2 Koza Altın and Koza Anadolu Metal are excluded as the board and management are not elected but appointed by the government organisation TMFS.

Board size and composition

BOARD SIZE

The average board size of BIST 30 companies is unchanged from last year at 9.8 directors, which is close to the 10.1 average board size across our European sample. Under Turkish law, boards must have at least five members[3] and, in the BIST companies analysed, board size ranges from six directors (at BİM and Soda Sanayii) to 15 directors (at Koç Holding). 68% of boards have between eight and 11 directors, with nine members the most common board size in nine companies, followed by 11 directors in six companies in the BIST 30.

Among the international sample, board size ranges from 8.3 in Finland and 16 in Germany. France also has a higher average with 13.6. Norway is closer to the lower end with an average board size of 8.6. Turkey, with Denmark, stands close to the average board size across the sample.

EXECUTIVE DIRECTORS

Turkish publicly held companies are governed by unitary boards, which may include both executive and non-executive members. On average, BIST 30 boards have 1.1 executive directors per board. The share of executive directors is 10.9%, slightly less than last year, when 11.6% of all directors were executives. Despite unitary governance, six companies (21.4%), have no executives on their boards; a further six boards have two or more executive members.

The CEO sits on the board of 71% of the companies analysed, the same share as last year. The share did not change as Ford joined the sample while Otokar left; both have CEOs on the board.

The highest proportion of executive directors is once again found on the board of Akbank, with 40%.

3 Communiqué on CGP Annex. Par 4.3.1

THE ROLES OF CHAIR AND CHIEF EXECUTIVE

The separation of the CEO and chair role is commonly viewed as best practice in terms of good governance[4], as it increases the board's independence from management and so reduces the risk of a captured board. In Turkey, the communiqué on Corporate Governance Principles strongly recommends a separation of the roles and expects a rationale to be provided in the event the roles are combined[5]. Only three companies in this year's survey combine the roles (Aselsan, BIM and Tekfen), demonstrating the same pattern as last year.

Although the CGP does not make any recommendations beyond separating the CEO and chair role, it is worth noting that none of the companies where the chair and CEO roles are combined has a lead independent director, independent vice chair or similar sitting on the board.

INDEPENDENT DIRECTORS

The share of independent non-executive directors on BIST 30 boards had been increasing, although modestly, for the past two years; from 31% in 2016 to 33.1% in 2017. This year, the share was unchanged at 33.1%. Of all non-executive directors appointed to the board in the past year, 42.2% were independent directors. This represents a decline from the 65% share recorded last year, and may indicate a halt in the trend of Turkish boards becoming more independent. When looking at the share of non-executive directors alone, 37.1% of board members are deemed to be independent.

Only Türk Telekom's board has a majority of independent directors, with a share of 56%. Pegasus continues to have 50% of independent directors on its board. The new constituent Ford Otosan has the lowest share with 14.3%, followed by İş Bankası with 18.2%. The CGP does state that at least one-third of directors should be independent[6], a requirement met by 78.6% of the companies in our sample.

4 Among OECD countries a separation of CEO and chair is recommended, required or incentivised in 70% of countries with one-tier systems (OECD Corporate Governance Factbook 2019, p118)

5 Communiqué on CGP Annex. Par 4.2.5

6 Communiqué on CGP Annex. Par 4.3.4. Exceptions to the regulation apply but, in any case, the number of independent directors shall not be fewer than two. Boards of banks must have at least three independent members.

It should be noted that Turkish companies in general, including BIST 30 companies, tend to have concentrated ownership structures[7], in the form of family-controlled financial/industrial groups. In such cases it can be expected that the boards include non-executive directors representing the controlling interest in proportion to the ownership structure.

This may in part explain the lower rate of independent directors observed on Turkish public company boards. However, all BIST 30 boards have at least two independent members, which — in the case of a controlling shareholder — should reduce the risk of minority shareholder expropriation.

Regardless of the cause, the proportion of independent directors on Turkish boards remains the lowest across all European countries surveyed, behind Russia (38%) and Poland (45%). By contrast, independent directors account for 87.2% of all board members in Switzerland, 80.3% in Finland and 77.1% in Denmark.

When we look at the sample in general, Switzerland has the highest percentage of independent directors with 87.2%. Norway follows with 85.1% of independent directors. The US and the Netherlands share the third-highest percentage for independent directors with 85%.

WOMEN DIRECTORS

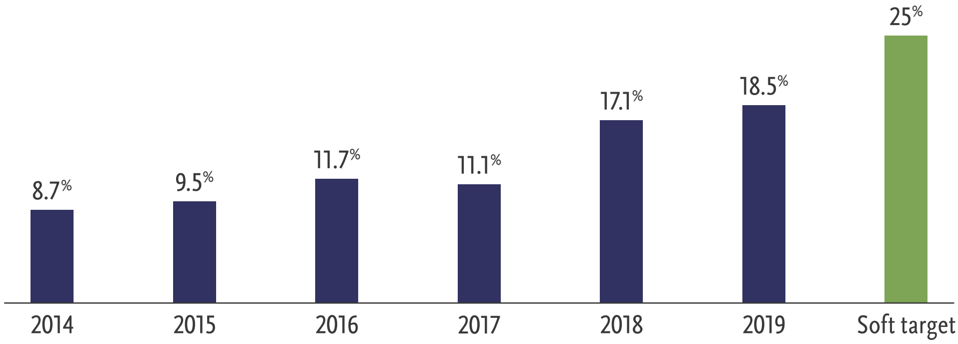
The proportion of women on BIST 30 boards remains at the lower end of the gender diversity scale compared with other European countries. However, the share has increased to 18.5%, from 17.1% in 2017 and 11.1% in 2016.

The CGP recommends that Turkish boards have at least one female member and encourages companies to aim for a target of 25% female representation[8]. At 85.7% of the companies analysed in our sample, at least one woman is on the board among all directors. Four companies (14.3%) — BIM, Aselsan, Kardemir, and Türk Telekom — continue to be governed by male-only boards. Nine companies (32.1%) have only one female director on the board.

There is no change since last year to the eight companies (28.6%) that meet, or exceed, the soft target of 25% female representation: Doğan, Enerjisa Enerji, Koç Holding, Sabancı Holding, Şişecam, Soda Sanayii, TAV, and Tekfen.

7 The average free float of shares for the companies in this year's sample is 39%
8 Communiqué on CGP Annex. Par 4.3.9

Women directors



The increase from 17.1% to 18.5% is not primarily due to new appointments of female directors. Of the 50 new directors appointed to the board in the past year, only three (6.5%) were female directors whereas this share was 24.5% in 2017. The three new female directors joined the boards of Garanti Bankası, Erdemir and Yapı Kredi Bankası. Changes in the sample also affected the results because Otokar, a male-only board, left the sample, and was replaced by Ford Otosan, which joined with two female directors.

The largest proportion of female representation is seen on the boards of Sabancı Holding (44%) and Doğan (42%). However, as in previous years' analyses, the share of women on boards is substantially reduced if family members/shareholders are excluded. In the case of Doğan, four out of the five women on its board are members affiliated by family, and at Sabancı all four are family-affiliated.

Consistent with a trend observed for some years, the number of female independent directors increased from 20 to 24 directors, representing 26.4% of all independent directors.

Four out of the 28 BIST companies analysed (14.3%) have a female chair: Akbank, Doğan Holding, İş Bankası, and Sabancı Holding. This share increased from 10.7% as İş Bankası, for the first time, elected a female chair, Füsun Tümsavaş. The remaining three chairs are affiliated with the family.

Women continue to be underrepresented among female executive directors. Three women (10%) are executive board members, and two are executive chairs with a family affiliation to the business.

There are still no female CEOs in the BIST 30. On executive committees or management boards, the share of women overall increased from 9.2% to 11.7%.

Although this is the lowest share across Europe, the gender gap between Turkey and other European countries is much smaller among executive committees than at supervisory board level, mainly because at senior executive level the larger companies in most other European countries remain male-dominated.

This year 12 companies in our sample have no female executive board members, compared with 11 in 2017 and 14 in 2016. At this point there is no clear indication that Turkey is moving towards greater female representation at the executive level.

Despite signs of progress during the past five years in terms of gender diversity, Turkey remains among Europe's poorer performers with just 18.5% female directors. Only the boardrooms of Russia have fewer women, at 8%. The boardrooms of France (47.4%), Norway (40.9%), and Sweden (39%) continue to lead gender diversity.

FOREIGN DIRECTORS

The share of foreign representation on BIST 30 companies has increased modestly in the past five years. This year, across the whole board, 17.8% of directors are foreign, compared with 17.1% in 2017 and 15% in 2014.

The effect of sampling changes on this increase should be noted. Otokar, with no foreign directors, left the sample; Ford Otosan joined, adding seven foreign directors. However, additions were partly offset by the renewal of Türk Telekom's board, which replaced five foreign directors with Turkish directors.

The share of foreign non-executive directors sitting on Turkish boards has increased to 19.8% from 19% in 2017 and 16.3% in 2016. After Turk Telekom appointed a Turkish chair, two companies, Petkim and TAV, have a foreign chair compared with three companies last year.

Although still rare, the number of foreign executive directors on Turkish boards is steadily increasing. This year non-nationals account for 10% of executive board directors, compared with 7.7% last year.

In previous years Italians have represented the largest group. However, this year British directors constituted the majority of all foreign directors, with 21.5%. The inclusion of Ford Otosan in the BIST 30 introduced five British directors to the sample; the boards of BIM and Enerjisa Enerji each appointed one British director. Four of 11 British directors are independent.

This year Italians represented 15.4% of foreign directors, down from 17% in 2017 and 18.8% in 2016. Two of the eight Italian directors are independent, however all eight are board members of companies whose major shareholder is Italian[9].

The third-largest groups of foreign directors are again Spanish and French, each group accounting for 11.5% of foreign directors. 83% of the Spanish directors sit on the board of Garanti Bankası, of which the Spanish company BBVA is a major shareholder[10]. Of the French directors, 83% sit on the board of TAV, of which French company Paris Aéroport holds a significant stake[11].

Among the seven new appointments of foreign directors, three were British, two were German, and two were Italian.

Turkish boards remain among the least international in Europe — foreign directors account for 17.1% of the total. If we exclude foreign directors who are representatives of a foreign shareholder, then the average proportion of foreigners per board in the BIST 30 falls to 8.4%.

As with last year, just over 60% of all BIST 30 companies have no foreign members.

Within the larger sample, Turkey falls within the lower end of the spectrum. Italy and the US have the lowest foreign representation on their boards, each with only 8%.

Switzerland has the highest share of foreign directors with more than half of the board (53.7%). Denmark (42%) and the Netherlands (41.1%) also record higher levels of foreign representation.

9 FCA Italy, formerly known as Fiat Group, controls 37.86% of Tofas's shares. Koç Financial Services, a joint venture between Italy's UniCredit and Turkey's Koç Group, is the majority shareholder of Yapı Kredi, holding 81.9% of the shares.
10 BBVA controls 49.85% of the shares.
11 ADP is TAV Airports' largest shareholder, holding 46.12% of the shares

NEW DIRECTORS

Last year's results indicated a steady increase in the number of new board member appointments. This year, BIST 30 boards experienced a slow-down of their renewal rates. A total of 50 directors were appointed within the past year (46 non-executives, four executive directors), compared with 61 directors in the preceding year.

Only 6% of new directors were female, compared with 24.6% last year. This share is closer to the result in 2017, where only 5.7% of new directors were female. Only Erdemir, Garanti Bankası and Yapı Kredi Bankası elected new female directors during the year.

Of the new appointees 41.3% were deemed independent, compared with 59% in 2017 and only 28.6% in 2016.

Among the new directors, 14% held a foreign nationality, a proportion smaller than seen in each of the previous years (18% and 20% respectively). Only BIM, Enerjisa Enerji, Ford, and Tofaş elected non-national directors.

The average age of directors appointed during the year is 53.9, younger than last year's average of 57.6 and almost four and a half years younger than the average age of all directors (58.5).

The results overall suggest that Turkish boards continue to undergo renewal, albeit at a slower rate. As in previous years, the trend for Turkish boards to appoint younger directors continues at a steady pace. Although the rate at which female, foreign and independent directors were appointed slowed this year, Turkish boards are showing more diversity among these groups.

EDUCATION OF BOARD MEMBERS

The percentage of directors who have a Bachelor's degree is 42.5%. Those who completed their Master's degree constitute 34.9% and 13.1% have an MBA degree. 14.9% of directors have a PhD. While 5.8% of directors' education was not reported, 1.8% received other qualifications such as high school or distance learning educations.

The proportions of Bachelor's and Master's degrees among female and male directors were close. MBA degrees are more common among female directors, with 17.6% compared with 12.1%; looking at PhD qualifications, these were more common among male directors: 16.5% compared with 7.8% among their female counterparts.

Among independent directors, the proportions of Bachelor's and Master's degrees are close. However, PhD degrees are more common among independent directors at 19.8% compared to 12.5% among other directors.

Master's degrees are most common within the telecommunications industry with 46.4%, followed by the consumer sector with 38.9%. However, in the consumer industry, 27.8% of directors completed an MBA, compared with 14.3% in the telecommunications industry. This indicates that MA and MS degrees are more common than MBAs in telecommunications industry. Financial services and industrial companies record the same kind of split, with approximately 33% of directors having a Master's degree and 11.8% having an MBA. The incidence of PhD degrees does not vary across industries.

AGE OF BOARD MEMBERS

The average age of BIST 30 non-executive directors is 59 years, down from 59.4 in 2017 and 60.3 in 2016. The average age of all directors is 58.5 years — very close to last year's average of 58.7 years.

Among most European boards, executive directors are on average younger than their non-executive colleagues. The same is true for Turkey, where the average age of executives on BIST 30 boards is 54.7 years. At Arçelik, Aselsan, Doğan, Emlak Konut, Halk Bankası, Soda Sanayii, and Yapı Kredi, the average age of executive directors is below 50.

Unchanged from last year, we again find the youngest board at Emlak Konut, where the average age is 44.9. This is even lower than last year's 48.5 average. The second-youngest board is seen at Erdemir, with an average age of 46.5.

Tekfen once more records the highest average age of board members, at 69.4 years, followed by Koç Holding with 66.9 and BIM with 65 years.

The average age of chairs of BIST 30 boards is 58.1 years, slightly below the average age of all board members. The youngest of all BIST 30 chairs, at 42 years, sits at Türk Telekom. The oldest chair leads the Arçelik board, at 88 years.

The average age of CEOs serving on BIST 30 boards is 55.5 years, very close to last year's average of 55.2. When all CEOs are included, the average age is 54.7 years. This is almost the same as last year's 54.6 average, but lower than 2016's average of 56.2.

Within the larger sample, the age of board members is relatively close; ranging from 55.9 in Norway to 61.9 in the Netherlands. In more than half of the countries surveyed, the average age of directors falls between 58.5 and 60.5. Turkey is closer to the lower end of the spectrum, followed by Italy (57.2) and Norway (55.9).

LENGTH OF SERVICE

The average tenure for non-executive directors on BIST 30 boards, excluding chairs, is 5.6 years. Average tenure decreased last year to 4.9 years, so this rise suggests that the rate of turnover has slowed down.

Among chairs, six new chair appointments were announced during the past 12 months. This slightly pushed up average tenure to five years, from 4.8 years.

The average tenure for CEOs is four years, below the average seen across Europe. However, the longest-serving CEOs have tenures of 22.4 years (TAV) and 9.4 (BIM). When TAV is excluded, the average CEO tenure is only four years. Six new CEOs were appointed during the year: at Doğan, Emlak Konut, Enerjisa, Kardemir, Tekfen, and Türk Telekom.

Among the wider sample, average tenure of directors ranges between 4.4 in the UK and 6.4 in Spain. Turkish boards demonstrate relatively high average tenures among the sample, just lower Switzerland's 6.1 years. Shorter terms of average tenure — slightly lower than five years — are seen in Italy, the Netherlands and Finland.

SERVICE ON OTHER LISTED COMPANY BOARDS

BIST 30 board directors sit on an average of 1.8 listed boards, on a par with last year. Chairs hold on average 1.4 board positions in addition to their chair position. This arises mainly from six companies, Koç Holding, Arçelik, Ford Otomotiv, Tofaş, Tüpraş, and Yapı Kredi Bankası, whose chairs sit on five to six additional boards.

One chair sits on three outside boards, and four sit on one other outside board. More than half (57.1%) of the BIST 30 chairs have no outside board role.

Of the 20 (71.4%) CEOs who sit on the boards of their own companies (some as combined chair/CEO), only three (10.7%) also sit on the board of another listed company.

Board governance

BOARD MEETINGS

Board meetings held in 2018

Number of meetings	<10	10–20	21–30	>30	Not disclosed
Percentage of companies	42.9%	17.9%	0%	21.4%	17.8%

Turkish companies held an average of 22.4 meetings in 2018, compared with 19.7 meetings in 2017, representing Europe's highest average by far. Five companies did not disclose the number of meetings held per year, but most companies do report the number of decisions made and the minimum number of meetings required to be held. In general, companies reported participation on aggregate level rather than individual level.

The number of meetings held on average showed a wide range, from two to 94. As in the previous year, Türk Telekom held the fewest number of meetings with only two held during the year. Şişecam recorded the highest number of meetings, holding 94 in 2018. Aselsan, Halk Bank, THY, and Vakıflar Bankası reported conducting more than 50 meetings in 2018.

If we exclude six companies with substantial state ownership, the average number of meetings falls to 14.9, which is still higher than the average across Europe.

Among the larger sample, Turkey represents the highest average by far. Excluding Turkey, average board meetings per year range between 7.2 in Germany and 11.9 in Finland. Compared with the larger sample, most countries prefer seven to eight or 11 to 12 meetings per year.

BOARD COMMITTEES

BIST 30 companies have an average of four board committees. The number of committees per company ranges from three to eight. Turkish public companies are required to establish an audit committee, a corporate governance committee, and early detection of risk committee. The formation of a compensation and nomination committee is not mandatory, as the corporate governance committee may perform these duties[12].

12 Annex. Par 4.5.1 of the Communiqué on CGP

In practice, few companies choose to establish separate nomination and/or remuneration committee(s): in the BIST 30, only three companies have a separate nomination and nine have a separate remuneration committee. Two companies, Koç Holding and Türk Telekom, have joint nomination and remuneration committees.

Additional committees include credit (typically at banks), and, on rare occasions, a committee for corporate social responsibility, sustainability and ethics. A complete list of committees in BIST 30 companies can be found on page 28.

Committees of BIST 30 boards

Number of committees	3	4	5	7	8
Percentage of companies	35.7%	46.4%	10.7%	3.6%	3.6%

AUDIT COMMITTEE

For all companies where up-to-date information was available, audit committees had at least two members, as stipulated by the CGP[13].

The audit committees of BIST 30 boards met 7.2 times on average during the year; the median across the sample is four. Excluding financial services companies, the average number of meetings is 5.4. There is no company that does not specify the number of meetings. The CGP requires the audit committee to meet at least four times a year[14]; all of the companies that disclose information relating to meetings comply.

Overall, 97% of audit committee members, including chairs, are deemed independent. On a per-company basis, at least 50% of the members of the audit committees are independent. The vast majority of companies operate a fully independent audit committee; again, in line with the CGP principles and international best practice.[15]

In order to analyse the backgrounds of audit chairs, they were categorised according to their primary functional and sector experience. Experience as former or serving general manager is common among audit chairs in the BIST 30. Many chairs come from a financial services background, mainly general management

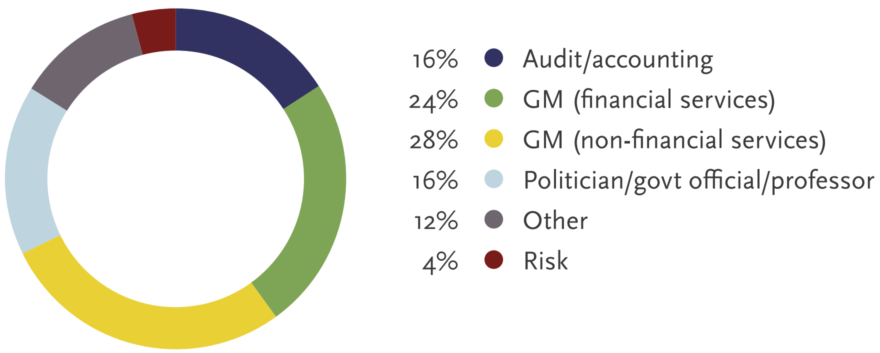
13 Annex. Par 4.5.2 of the Communiqué on CGP
14 Annex. Par 4.5.9 of the Communiqué on CGP
15 Annex. Par 4.5.3. of the Communiqué on CGP

roles, typically in the financial services sector. Among audit chairs, 35.7% are from the financial services sector, typically having held a CEO, president, or general management position.

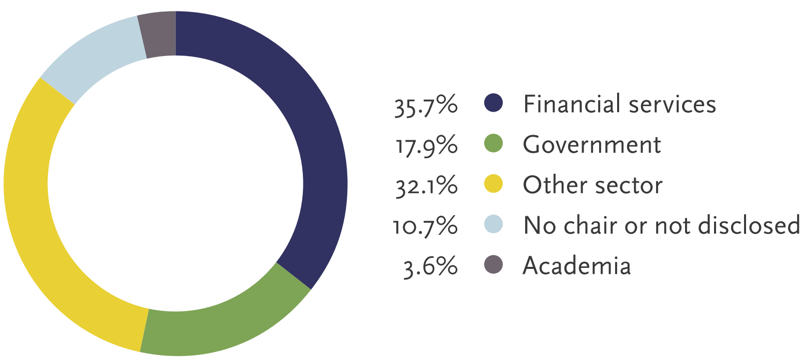
Looking across all industry backgrounds, 16% of the audit chairs[16] have a background in audit or accounting, whether gained in government positions, or in financial or professional services companies. In contrast to the audit committee chairs of European peer companies, CFOs do not represent a significant group — indeed, none of the audit committee chairs in the BIST 30 is a current or former CFO. Out of 28 companies, three companies recorded that the audit committee has no chair: Ford Otomotiv, Garanti Bankası and Vakıflar Bankası.

Backgrounds of audit committee chairs

Functional background of audit committee chairs, excluding chair/not disclosed



Sector background of audit committee chairs



16 Excluding companies for which this information is unavailable and/or that have a committee chair

CORPORATE GOVERNANCE COMPLIANCE

Turkish companies can choose to receive a corporate governance rating from an independent third party. The score, a value out of 10, reflects a company's level of compliance with the corporate governance principles of the Capital Markets Board of Turkey and is calculated as an aggregate score across four dimensions of governance: shareholders, public disclosure and transparency, stakeholders, and board of directors.

Of the 28 companies analysed, 14 companies were evaluated in 2018 and disclosed their corporate governance rating.

Tofaş and BIM received the lowest score across our sample, with a score of 9.2. For the third year in a row, TAV received the highest rating, retaining the 9.62 score it received last year. The average rating of this year's BIST constituents is 9.42 — a slight improvement in terms of compliance vis-à-vis last year's 9.37 average. This year, İş Bankası significantly improved its corporate governance score from 9.38 to 9.54, contributing to the increase in the overall average.

Remuneration

The level of disclosure around the remuneration of board directors in Turkey remains opaque: at AGMs only a total fee for directors is disclosed as an agenda item. Details relating to individual remuneration, committee fees and attendance fees are largely unavailable.

The average fee for non-executive directors in Turkey has increased slightly since last year, from TRY 249,821 (€60,663)[17] to TRY 274,526 (€48,186)[18]. It should also be noted that in 2018 the Turkish lira lost significant value, meaning that remuneration increased in Turkish lira but decreased in Euro. The lowest compensation is paid to directors of Aselsan — TRY 53,646 (€9,428) when converted to a yearly gross amount. Koç Holding continues to be the highest-paying company in the BIST 30, with remuneration per director of TRY 576,000 (€101,230)[19] — up from TRY 522,000 (€126,694) last year. One company, Pegasus Hava Yolları, announced that board directors' fees will be paid from meeting to meeting, in the sum of TRY 12,000, instead of the previous system of monthly payments.

Turkish boards pay lower-than-average total fees per director, compared with their European peers. A lower average figure paid to non-executive directors is found only in Norway (€43,274).

17 res in Euros are affected by exchange rate fluctuations from 2017-2018
18 Figures in Euros are affected by exchange rate fluctuations from 2018-2019
19 Turkish citizens receive TRY 576,000; foreign board directors receive net 98,000 US dollars

Boards Around the World

Spencer Stuart publishes Board Indexes covering more than 25 countries around the world. The majority of these Board Indexes are published annually, with a few appearing on alternate years.

We have compiled key data from all these countries into our **Boards Around the World** feature — an interactive data exploration tool.

Compare nationally aggregated data from leading companies from North and South America, Europe and Asia Pacific across a wide range of measures.

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Board composition

	Chairman & CEO					Non-executive directors (excluding chairman)				Non-executives appointed 1 June 2017–31 May 2018				Management board		
	Total number of directors	Chair also CEO?	Foreign chair	Foreign CEO	Nationalities on the board incl. chair	Total	Independent	Foreign	Women	Total	Foreign	Women	Executives on the board (excl. chair)	Total number of directors	Foreign	Women
Akbank	10	No	No	No	1[1]	6	3	0	0	1	0	0	3	13	0	5
Arçelik	12	No	No	No	1[1]	10	4	0	2	1	0	0	1	7	1	1
Aselsan	9	Yes	No	No	1[1]	7	3	0	0	3	0	0	1	10	0	0
BIM	6	Yes	No	No	4[2]	5	2	3	0	1	1	0	0	9	0	2
Doğan Şirketler Grubu	12	No	No	No	1[1]	10	4	0	4	2	0	0	1	14	0	4
Emlak Konut GYO	7	No	No	No	1[1]	5	3	0	1	3	0	0	1	5	0	1
Enerjisa Enerji	8	No	No	No	4[3]	6	2	2	2	2	1	0	1	4	0	2
Erdemir	9	No	No	No	1[1]	7	3	0	2	1	0	1	1	4	0	0
Ford Otomotiv	14	No	No	No	4[4]	11	2	6	1	2	2	0	2	11	1	2
Garanti Bank	11	No	No	No	2[5]	9	4	5	2	1	0	1	1	11	0	2
Halk Bankasi	9	No	No	No	1[1]	7	3	0	1	4	0	0	1	10	0	0
İş Bankasi	11	No	No	No	1[1]	9	1	0	1	2	0	0	1	13	0	3
Kardemir	11	No	No	No	1[1]	10	4	0	0	1	0	0	0	7	0	1
Koç Holding	15	No	No	No	7[6]	13	5	6	5	0	0	0	1	11	0	1
Pegasus Hava Tasimaciligi	8	No	No	No	2[7]	7	4	3	1	0	0	0	0	12	0	2
Petkim	9	No	Yes	Yes	2[8]	8	3	3	1	1	0	0	0	10	5	0
Sabanci Holding	9	No	No	No	1[1]	7	3	0	3	0	0	0	1	8	0	0
Şişecam	9	No	No	No	1[1]	7	3	0	3	0	0	0	1	12	0	3
Soda Sanayii	6	No	No	No	1[1]	3	2	0	2	0	0	0	2	13	0	1
TAV	11	No	Yes	No	3[9]	9	4	5	3	0	0	0	1	8	1	1
Tekfen	11	Yes	No	No	2[10]	10	4	0	4	2	0	0	0	6	0	0
THY	9	No	No	No	1[1]	7	3	0	1	0	0	0	1	9	0	0
Tofaş	10	No	No	No	3[11]	8	2	4	1	2	2	0	1	19	2	1
Tüpraş	11	No	No	No	1[1]	10	4	0	2	1	0	0	0	6	0	0
Türk Telekom	9	No	No	Yes	1[1]	8	5	0	0	8	0	0	0	10	1	0
Turkcell	7	No	No	No	3[12]	6	2	2	1	2	0	0	0	11	0	0
Vakiflar Bankasi	9	No	No	No	1[1]	7	3	0	1	4	0	0	1	11	0	0
Yapi Kredi Bankasi	13	No	No	No	4[13]	10	4	5	2	2	0	1	2	10	3	0

Nationalities on the board including chair

1 Turkish
2 Turkish, Dutch, Kenyan, British
3 Turkish, Turkish & American, British, German
4 Turkish, British, Dutch, German
5 Turkish, Spanish
6 Turkish, German, Canadian, Chinese, Australian & Lebanese, French, American
7 Turkish, British
8 Turkish, Azerbaijani
9 Turkish, French, Spanish
10 Turkish, Turkish & American
11 Turkish, Turkish & American, Italian
12 Turkish, British, Swedish
13 Turkish, Italian, Swiss, Austrian

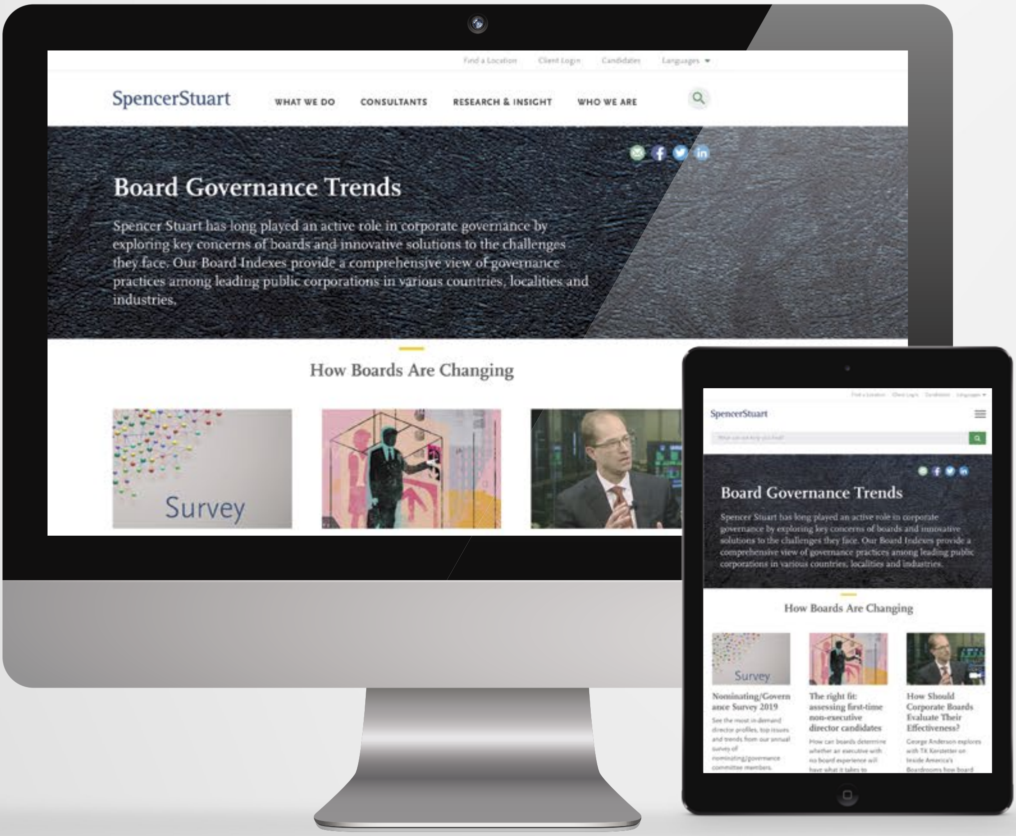
Board stats, meetings, and committees

	Tenure			Service on outside quoted boards				Board meetings			
	Non-executives (excl. chair)	Chair	CEO	Chair	CEO	Non-executives (average)	Average age of all directors	Scheduled	Number of committees	Names of committees	Retainer fee (TL) 2017
Akbank	9.5	11.2	7.4	1	0	2	62	ND	4	A4; CG2; Cr(ND); ExRi4	120,000
Arçelik	8.1	9.2	4.3	5	0	4	65	4	4	A4; CG6; Ex12; Ri6	396,000
Aselsan	1.1	1.1	1.1	0	0	1	52	65	3	A4; CG8; Ri6	53,646
BIM	7.9	9.4	9.4	0	0	1	65	6	3	A6; CG1; EaDeRi6	141,822
Doğan Şirketler Grubu	10.1	7.9	0.4	0	0	1	57	5	4	A4; CG5; EaDeRi6; Ex(ND)	194,444
Emlak Konut GYO	1.6	0.9	0.9	0	0	1	45	ND	5	A4; CG0; N2; EaDeRi12; R3	207,132
Enerjisa Enerji	2.5	0.9	0.7	0	0	2	59	6	3	A4; CG3; EaDeRi4	120,000
Erdemir	4	1.3	1.2	1	0	2	47	6	3	A4; CG4; EaDeRi6	138,846
Ford Otomotiv	9.3	6.5	7.3	6	0	3	61	ND	4	A3; CG2; EaDeRi6; R1	396,000
Garanti Bank	5.9	1.7	3.7	0	0	1	57	14	5	A4; R3; CG3; Ri11; Cr23	73,224
Halk Bankasi	1.5	3.8	2	0	0	1	54	50	7	A12; R1; CG5; Sus5; Cr49; A&L43; Ri12	313,334
İş Bankasi	2.2	0.2	8.2	0	1	1	60	15	8	A38, CrND, CrR1, CSR7, CG6, Ri12, R3, TRNC8	540,292
Kardemir	4.4	0.6	0.3	0	0	1	61	14	3	A4; CG1; EaDeRi6	558,972
Koç Holding	12.5	3.3	3.1	5	8	3	67	ND	4	A3; CG1; Ri6; R&N2	576,000
Pegasus Hava Tasimaciligi	6.5	14.4	3.2	0	0	2	58	4	4	A4; CG4; EaDeRi4; S4	273,469
Petkim	5.4	9.7	2.9	0	0	1	60	4	3	A4; CG3; EaDeRi4	384,000
Sabanci Holding	10.7	15	2.2	0	0	2	61	6	4	A4; CG5; EaDeRi6; PM5	120,000
Şişecam	3.2	2.1	8.1	1	3	2	61	94	3	A15; CG6; EaDeRi10	162,000
Soda Sanayii	1.5	8.1	5.4	3	0	2	53	48	3	A4; CG6; EaDeRi8	114,000
TAV	4.1	1.9	22.4	0	0	1	58	6	4	A4; CG6; Ri6; N2	290,753
Tekfen	5.3	4.1	0.2	0	0	1	69	9	4	A10; CG4; EaDeRi6; R2	186,000
THY	5.7	4.1	2.6	0	0	1	51	52	4	A6; CG1; EaDeRi6; Ex(ND)	262,806
Tofaş	4.7	3.1	4.4	5	0	3	60	ND	3	A7; CG6; EaDeRi6	396,000
Tüpraş	5.8	11.4	3.4	5	0	4	63	3	4	A7; CG5; Ri6; Ex12	396,000
Türk Telekom	1	0.4	2.7	0	0	1	54	2	4	A4; CG9; EaDeRi5; N&R(ND)	288,117
Turkcell	2.5	5.8	0.2	1	0	1	58	13	5	A8; CG2; N0; EaDeRi5; R3	N/A
Vakiflar Bankasi	2.5	0	2	0	1	1	58	78	5	A22; CG4; C57; R2; A&L46	313,334
Yapi Kredi Bankasi	4.4	3.2	1.4	6	0	3	53	11	5	A4; CG2; Cr4; R2, Ex42	396,000

NA Not available
ND Not disclosed

Committees
A: Audit / Internal Audit
AsL: Asset and Liability
C: Compensation
CG: Corporate Governance
Cr: Credit
CSR: Corporate Social Responsability
EaDeRi: Early Detection of Risk /Early Detection and managment of risk / Early Indentification of Risk (some variations in the name — all labelled EaDeRi)
Et: Ethics
Ex: Executive
ExRi: Executive Risk
HR: Human Resources (hereunder nomination and remuneration)
M: Management
N: Nomination
PM: Portfolio Managment
R: Remuneration
Ri: Risk / Risk Management
Sus: Sustainability
Sa: Saftey
TRNC: Turkish Republic of Nothern Cyprus Internal Systems

Board Governance Trends: A Global View



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