White paper on Turkcell

This paper summarizes the ownership situation in Turkcell, its historical background and Telia Company’s current position.

Table of contents

White paper on Turkcell .................................................................................................................. 1
1 Background .............................................................................................................................. 1
   1.1 Ownership history .................................................................................................................. 1
   1.2 Shareholder structure today ................................................................................................. 2
   1.3 Shareholders disputes and litigations .................................................................................... 2
   1.4 Turkcell corporate governance – background ...................................................................... 3
   1.5 Telia Company governance and Turkcell ............................................................................. 4
      1.5.1 Freedom of expression and surveillance privacy ............................................................ 4
2 Telia Company’s position .......................................................................................................... 4

1 Background

Telia Company holds a 24 percent indirect shareholding in Turkcell. Turkcell is the leading telecom operator in Turkey and listed on the Istanbul Stock Exchange and New York Stock Exchange. It holds the number 1 market position in mobile communications and number 2 in fixed. It had a total of 37 million Turkish customers and global sales of 21.3 BTRY in 2018 (~3.9 BUSD) in 2018. In addition, the company has operations in Ukraine, Belarus and Northern Cyprus, as well as in Eurasia through a minority position in Fintur Holdings (a Group in which Telia Company holds the majority) which is present in Kazakhstan, and Moldova. Turkcell also operates in Germany under the Turkcell Europe brand.

1.1 Ownership history

Turkcell was founded in 1993 as a joint venture by among others, the Finnish telecommunications company Sonera (now part of Telia Company), Swedish Ericsson and Turkish industrial conglomerate Çukurova.

In October 1999, Sonera and Çukurova entered into a shareholders’ agreement providing for the establishment of a new holding company in Turkey, Turkcell Holding. Under the terms of the agreement, Turkcell Holding was given an ownership of 51% in Turkcell, whereof Sonera contributed shares in Turkcell representing 24%, yielding an ownership of 47.09% in Turkcell Holding for Sonera. In addition to this Sonera kept its direct ownership of 13.3%.

In February 2000, Turkcell, Çukurova and Sonera created the Fintur Group of companies, through a contribution of cash and shares in mobile operators in Kazakhstan, Azerbaijan, Georgia and Moldova. Following the establishment of Fintur Holdings, Çukurova held 40% of the capital, Sonera held 35%, and Turkcell held 25%.

In July 2000, Turkcell completed its initial public offering (IPO) with the listing of its ordinary shares on the Istanbul Stock Exchange and its American depository Shares (ADSs) on the New York Stock Exchange.
In August 2002, Sonera and Turkcell acquired Çukurova’s entire holding in Fintur Holdings. As a result of this transaction, Sonera owned a 58.55% interest in Fintur and Turkcell owned a 41.45% interest. The stakes have remained unchanged since then.

In December 2002, the Swedish telecommunications company Telia merged with Sonera and created TeliaSonera (named Telia Company since April, 2016).

Telia Company sold 7% of its direct shareholding in Turkcell in May 2017 and remaining 7% in September 2017. Today Telia Company holds an indirect (24%) interest in Turkcell via Turkcell Holding.

1.2 Shareholder structure today

1.3 Shareholders disputes and litigations

The shareholder disputes started in 2005 when Telia Company signed an agreement with Çukurova to acquire Çukurova’s shares in Turkcell Holding in order to reach control in Turkcell. Çukurova however never delivered the shares and instead sold half of them to LetterOne.

Telia Company opened an arbitration case in Geneva and in 2011 the tribunal awarded Telia Company 932 MUSD in damages, plus interest and costs, for Çukurova’s failure to deliver the shares. Çukurova did not honor the award and Telia Company therefore initiated legal actions in multiple jurisdictions to pursue collection. Currently legal proceedings are ongoing in the British Virgin Islands. As part of an earlier agreement from 2009 between Telia Company and LetterOne, LetterOne is under certain circumstances entitled to receive part of the Geneva award, if such funds will be successfully collected by Telia Company.
In addition, Çukurova and LetterOne have had a number of disputes over the years. On 29 July 2016 an arbitration award was issued by a tribunal in London regarding the shareholding in Çukurova Telecom Holding (CTH). The award stipulates that Çukurova has a set time period to decide to either sell their shares in CTH to LetterOne or buy LetterOne’s shares in CTH at a fixed price level. Neither party exercised their right to buy other’s shares in the set time period, so the arbitration award has expired and the right to buy or sell the shares is no longer valid.

Telia Company is not a party to these arbitration proceedings.

1.4 Turkcell corporate governance – background

The conflicts between the shareholders have caused severe difficulties in the corporate governance of Turkcell for several years. Between 2010 and 2014 there were no shareholders meetings held in Turkcell due to disagreements between the major shareholders. Hence, Turkcell Holding was not represented at the shareholders meeting. Since the quorum rule in Turkcell’s articles of association requires that shareholders representing a minimum 51 percent of the shares are present, the meetings could not be held.

As shown in the chart above Turkcell has a complex ownership structure, with two layers of holding companies, Turkcell Holding and Çukurova Telecom Holding. Material decisions such as distribution of dividends and board representation require unanimity between the shareholders of both layers. This enables each of the said three major shareholders to block decisions at the shareholder level, i.e. giving each one of them an un-proportionate power compared to their respective shareholding interest in Turkcell.

In 2012, a regulation was introduced in Turkey requiring at least one third of the board members in a company like Turkcell to be independent. Since the Turkcell board of directors was unable to reach a decision and as Turkcell had been in violation of this regulation for some time, the Turkish Capital Markets Board (CMB) changed board members step wise and ultimately, in August 2013, replaced all seven Turkcell board members with independent directors. Consequently, Telia Company no longer had representation in the board of directors of Turkcell.

Since Turkcell is seen as a company of substantial national interest in Turkey, Telia Company has increased its efforts over time to strengthen the relations with all key stakeholders. This includes the Turkish government and its various institutions, as well as the other major shareholders, LetterOne and Çukurova.

In 2015 a successful shareholders’ meeting was convened and dividend of 3,925 million Turkish lira was distributed to the shareholders. On March 29, 2016, another shareholders’ meeting was held, but no decision on dividend was taken, at the shareholders’ meeting May 25, 2017 a dividend of 3,000 million Turkish lira was distributed to the shareholders and on March 29, 2018 shareholders’ meeting was convened and dividend of 1,900 million Turkish lira was distributed.

In addition, the 2018 shareholders’ meeting agreed to appoint one board member each from Telia Company, LetterOne and Çukurova, ending five years with no representation of the major shareholders on the board.

In March 2019 the change of the composition of the Turkcell board of directors raised some questions. A fundamental principle of internationally recognized corporate governance is that board directors are appointed by the shareholders. The fact that these elections to the Board did not meet this principle concerns Telia Company as they can negatively affect the confidence in Turkcell, not least among the wider group of shareholders, not only in Turkey but also abroad. Telia Company’s view is that with the General meeting of shareholders to be scheduled in the spring of 2019, such elections could have
waited till then. Furthermore, the nomination of the independent board members should have been open for the shareholders with appointments to be confirmed at the General meeting.

The process related to the change of the Turkcell CEO in March 2019 also raised some questions.

1.5 Telia Company governance and Turkcell

The associate companies of Telia Company represent a substantial value for its shareholders, consequently Telia Company has a Group instruction for outlining the objectives and requirements for the governance of associates. This instruction applies to Turkcell as well and in it is stated that Telia Company shall:

- express expectations concerning corporate values, structures and procedures that need to be in place in order to secure good corporate governance in accordance with internationally accepted principles;
- promote sound corporate values, supported by a well-functioning internal control structure; and
- promote work related to sustainability (including general business ethics, human rights, freedom of expression, working conditions, environment, anti-corruption, gender equality and diversity) in line with Telia Company’s own values.

Since the 2018 shareholder’s meeting Telia Company can do this through representation on the Turkcell Board of Directors. But it is also done in interactions between the two companies on topics of mutual importance to the two companies such as ethics and compliance (E&C) and enterprise risk management (ERM).

Telia Company is also since long inviting Turkcell to take part in meetings arranged by the Global Network Initiative (GNI), a multi-stakeholder initiative which addresses freedom of expression and surveillance privacy in the ICT sector in the context of the UN Guiding Principles on Business and Human Rights. ([https://globalnetworkinitiative.org](https://globalnetworkinitiative.org))

Through the representation on the Turkcell Board of Directors Telia Company managed to get a section on Freedom of Expression included in Turkcell’s revised Code of Business Ethics as of November 2018.

2 Telia Company’s position

As one of the founders of Turkcell, Telia Company’s starting point is what is best for Turkcell, its shareholders and customers long term. We believe that a simplified ownership structure with direct shareholding and proper corporate governance, giving each shareholder influence in line with its respective holding, would be beneficial for all Turkcell stakeholders. It would ensure an unobstructed
flow of dividends which should attract more investors to the share and thus it is likely to have a positive effect on the valuation.

For some time Telia Company has been the driver of a continuous dialogue with key stakeholders to find a commercial solution to the long-lasting deadlock between the major shareholders. The agreement to be represented in the board was a step in the right direction. We believe that a simplified ownership structure with proper corporate governance can be achieved through a commercial agreement. In any such agreement, Telia Company understands the importance in Turkey of a substantial Turkish influence, as Turkcell is a company of significant national interest.

If there is no commercial solution Telia Company will however, in parallel, continue to engage in the legal processes in order to safeguard its legal rights.