

BIST SUSTAINABILITY INDEX GROUND RULES

1. PURPOSE

The purpose of BIST Sustainability Index (the index hereafter) is to create an index whose constituents are selected by the companies whose corporate sustainability performance is high level among the listed companies in Borsa İstanbul and in extent to increase awareness, know-how and hand-on practice of the companies about sustainability in Turkey, especially the ones listed in Borsa İstanbul.

The index will provide companies to compare their corporate sustainability performance in local and global basis. With the Index, Borsa İstanbul provides companies an instrument for evaluating their performance and consequently adopting new targets or furthering their performance while allowing them to develop their risk management abilities for corporate transparency, accountability and sustainability.

The index also aims to create an instrument which will allow investors to select and invest in companies that adopt principles of sustainability and corporate governance.

2. DEFINITIONS AND GENERAL RULES

2.1. Market Value

Market value is calculated by multiplying total number of stocks (including the temporary shares which are created in the Central Registry Agency (CRA) during capital increases under the paid-in capital system until the capital is registered and announced) that represent the capital by the stock price.

2.2. Free Float Ratio

Free Float Ratio has been defined by the Capital Markets Board (CMB) as a concept showing free float rate of the stocks traded on Borsa İstanbul equity markets, and is calculated and announced by CRA.

2.3. Weighted Free Float Market Value

Weighted Free Float Market Value is calculated by multiplying the total market value by the Free Float Ratio and the Weighting Factor.

2.4. Weighting Factor

This is a number greater than 0 and smaller or equal to 1 used to adjust the weight of a stock in the index.

2.5. Capping Ratio

This is the ratio bounding the weight of the stock in the index. Capping ratio is 15% for BIST Sustainability Index.

2.6. Capping Method

Following method is applied in capping.

When there is a change in the scope of the index, the weights of constituent stocks are checked without any capping being applied. If there is a stock whose weight is greater than the capping ratio, the weight is decreased to the capping ratio using the weighting factor.

The weights are checked after changes in the scope of the index –if there are any- have been made at the beginning of the index period. If there is a stock whose weight is greater than the capping ratio, the weight is decreased to the capping ratio.

2.7. Lists A, B, C and D

These are lists created to classify stocks traded on Borsa İstanbul markets according to the criteria determined by CMB and are subject to different trading principles and different measures.

2.8. Foreign Exchange Rate

Refers to the Buying Rates announced by the Central Bank of Republic of Turkey.

2.9. Price and Return Indices

BIST Stock Indices are calculated both in terms of Price and Return. The only difference between the Price Index and Return Index is related to cash dividend payments. In cash dividend payments, the divisor of the Return Index is adjusted assuming that the dividend paid is invested in the constituents in proportion to their weights, whilst the divisor of the Price index is not adjusted assuming that the dividend paid is excluded from the portfolio.

2.10. Excluded Stocks

Stocks traded on the Pre-Market Trade Platform or the Watchlist Market and classified under lists C or D are not included in the scope of the index.

2.11. Index Calculation and Dissemination

Price Indices are calculated during the session once every 10 seconds and disseminated in real-time. Return Indices and foreign currency based indices are calculated and disseminated once at the end of day.

2.12. Data Precision

	DATA PRECISION
Index Values	Rounded to 2 decimal places
Index Divisors	Rounded to 8 decimal places
Free Float Ratio (%)	If Free Float Ratio < 1% Rounded to 2 decimal places If Free Float Ratio >=1% Rounded to integer numbers
Weighting Factor	Rounded to 12 decimal places

2.13. Index Period

This is the period in which the periodic changes in the scope of the index are in effect as a result of the periodic review conducted. There is one index period for BIST Sustainability Index, namely November-October.

2.14. Announcement of Periodic Changes

Periodic changes on BIST Sustainability Index are announced at least 5 days prior to the beginning of the relevant index period.

3. CALCULATION METHOD AND ADJUSTMENT

3.1. Latest price data are used in the index calculations.

3.2. BIST Indices are calculated as free float market capitalization weighted.

The following formula is used in the calculation of indices:

$$E_t = \frac{\sum_{i=1}^n (F_{it} / D_t) * N_{it} * H_{it} * K_{it}}{B_t}$$

E_t = Value of the index at time t

n = Number of constituent stocks

F_{it} = Price of the stock "i" at time t

N_{it} = Total number of shares of stock "i" at time t

H_{it} = Free float ratio used in index calculation of the stock "i" at time t

K_{it} = Weighting Factor of the stock "i" at time t

D_t = Foreign exchange rate on day "t"

B_t = Divisor of the index at time t

3.3. Adjustment

If there occurs any change in the numerator of the index formula due to the events listed in 3.4., the divisor of the index will also be adjusted to ensure continuity in the index value.

The adjusted divisor of the indices is calculated using the following formula:

$$B_{t+1} = \left(1 + \frac{\Delta PD}{PD_t} \right) * B_t$$

B_{t+1} = Adjusted divisor to be used on day t+1

ΔPD = Change in the total Weighted Free Float market value of the stocks due to the events described in 3.4.

PD_t = Total Weighted Free Float market value of the stocks on day "t"

B_t = Divisor on day t

If capital increases and/or dividend payments of the traded companies are realized in a currency other than Turkish Lira, Turkish Lira equivalents, calculated by using exchange rates of the last business day before ex-date, are used in index adjustments.

3.4. Events which require adjustment in the divisor of the index and the timing of the adjustments:

Regarding types of activities which require adjustment to the indices based on the public disclosures of the companies, the company should have delivered the statement to the Public Disclosure Platform (PDP) until 16:30 (until 12:00 on half days) on the day that precedes the realization date. Otherwise, the relevant adjustment will be made effective on the second business day that succeeds the delivery of the statement to PDP.

A list of relevant adjustments that will be implemented on the next business day is finalized by 16:30 every day, and announced on the PDP

All adjustments other than cash dividend payment are made both in the price and return indices.

a) Cash dividend payment

The adjustment is made only in return indices taking into account the amount of net dividend to be effective on the ex-dividend date.

b) Capital increase in cash through rights offering

i) If both the last trade price and the adjusted price (in case of dividend and bonus issues) of the stock are equal to or higher than the subscription price:

The adjustment is made to be effective on the rights issue date.

ii) If the last trade price and/or the adjusted price (in case of dividend and bonus issues) of the stock is lower than the subscription price:

The adjustment regarding the amount of rights issue is made to be effective on the business day that succeeds the day when the completion of the capital increase process is notified to PDP, after the exercise of the rights issue and the sale of the remaining shares on the Primary Market.

c) Capital increase in cash without rights offering

i) Adjustment is made to be effective on the business day that succeeds the ending date of the sales transaction if the shares representing the capital increase are sold via private placement.

ii) Adjustment is made to be effective on the fourth business day that succeeds the ending date of the sales transaction if the shares representing the capital increase are sold via public offering.

ç) Inclusion of new stocks in indices

Adjustment is made to be effective on the day the new stock is added to the index.

d) Exclusion of stocks from indices

Adjustment is made to be effective on the day the stock is excluded from the index.

e) Change in free float ratio

The free float ratios that are announced by CRA for the last business day of the week are analyzed and the changes in ratios except those occur during the capital increase process are taken into account.

If the free float ratio;

- is equal or lower than 50% and there is a change at the rate equal to 5 points or higher;
- is higher than 50% and there is a change at the rate equal to 10 points or higher;

adjustment is made to be effective on the third business day of the following week.

Free float ratios are not adjusted for the weeks consisting of two or less business days. If the number of shares changes due to cases defined in parts (ğ) and (h), free float ratios are also adjusted according to latest ratios announced by CRA.

If shares held by current shareholders are offered to the public, free float ratios are adjusted to be effective from the fourth business day succeeding the end date of the transaction.

If deemed necessary, changes on the ratios can be made with the decision of the Borsa İstanbul Management.

f) Company mergers

Adjustment is made to be effective on the date of the distribution of shares issued due to the merger.

g) Company spin-off

Adjustment is made to be effective on the date of the distribution of shares issued due to the spin-off.

ğ) The sale of shares held ready to sell in public offerings:

Adjustment is made to be effective on the fourth business day of the month succeeding the one when the sale has been made considering the delivery of the statement related to the sale to PDP.

h) Share transformation of companies with multiple groups of stock altering the number of shares in different groups:

Adjustment is made effective on the first business day that succeeds the delivery of the statement concerning the share transformation to PDP.

3.5. Retroactive correction in the calculated index values:

No retroactive correction is made in the index values calculated and announced in real time. Retroactive correction in the index values calculated and announced at the end of day can be permitted only by the decision of the Borsa İstanbul Management.

4. ASSESSMENT CRITERIA/PROCESS

4.1. EIRIS (Ethical Investment Research Services Limited) assess Borsa İstanbul listed companies in terms of international sustainability criteria and only public information is used in these assessments.

4.2. Assessment study done by EIRIS will be in three stages:

- a) At the first stage, EIRIS creates a profile for each company about their firm policy and activities in areas of environment, biodiversity, climate change, structure of management, countering bribery, human rights, supply chain, health and safety using information “disclosed publicly” as of June 30.

Publicly available reports produced by third-party sides such as annual fiscal reports, sustainability and corporate governance reports, websites, CDP (Carbon Disclosure Reports) can be the examples of public information taken into account.

- b) At the second stage, companies review the profiles sent by EIRIS and give feedback through comments and corrections about their own profiles subject to providing information about publicly available source and date of its public availability.
 - c) In the third and last stage, EIRIS finalize the assessment by integrating the feedbacks of companies into the profiles. Moreover, EIRIS prepares the list of stocks to be included to the index according to the “Index Selection Criteria” which is determined by Borsa İstanbul.
- 4.3. The list of valid indicators for each assessment area stated in 4.2.a, detailed explanation or definitions about what each indicator means, sample of documents which can be used as evidence for relevant indicators are given in the “BIST Sustainability Index Research Methodology” prepared by EIRIS. The document in both English and Turkish is available on “Indices” section of Borsa İstanbul website.

5. SELECTION OF STOCKS/INDEX INCLUSION CRITERIA

- 5.1. At the first assessment study done by EIRIS, BIST 30 constituent companies as of January-March 2014 are taken into account.
 - 5.2. At assessment studies to be performed in the following years, companies included in BIST 50 index in the January-March period of the relevant year will be considered. Those BIST 50 constituent companies will form “the list of companies subject to assessment”.
 - 5.3. “The list of companies subject to assessment” is revised annually in December and announced by Borsa İstanbul. According to this;
 - a) The companies that will be constituent of BIST 50 effective on the first quarter (January-March) although they are not included in “the list of companies subject to assessment” are added to “the list of companies subject to assessment”.
 - b) The stocks that are not constituent of BIST 50 as of the last quarter (October-December) of the relevant year and the first quarter (January-March) of the following year are excluded from “the list of companies subject to assessment”.
- In order to be included to the index, stocks must satisfy the minimum requirements given in the “Index Selection Criteria”. “Index Selection Criteria” is given below.

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ENVIRONMENTAL CRITERIA

ENVIRONMENT

	High Impact Companies	Medium Impact Companies	Low impact companies
	<p>The company meets the following:</p> <ul style="list-style-type: none"> – Four core indicators (at 2pts or above) – Three core indicators (at 2pts or above) and one desirable indicator – Three core indicators with one at a higher level of quality (3 pts) – Membership of one listed initiatives 	<p>The company meets one the following:</p> <ul style="list-style-type: none"> – Four core indicators (at 2pts or above) – Three core indicators (at 2pts or above) and one desirable indicator – Three core indicators with one at a higher level of quality (3pts) – Membership of one listed initiatives 	<p>No requirements</p>
Environmental Policy	<div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p>Core Indicators:</p> <ul style="list-style-type: none"> – Reference to all key issues* – Level of Senior Responsibility** – Commitment to use of objectives and targets ** – Commitment to monitoring/auditing – Commitment to public reporting <p>* This indicator is scored on a scale of 0 pt, 1pt and 2pts.</p> <p>**These indicators are scored on a scale of 0pt, 1pt, 2pts and 3pts.</p> </div> <div style="width: 48%;"> <p>Desirable Indicators:</p> <ul style="list-style-type: none"> – Globally applicable corporate operating standards – Commitment to stakeholder involvement – Commitment to adress product or service impact – Strategic moves toward sustainability <p>Initiatives:</p> <ul style="list-style-type: none"> – ICC (International Chamber of Commerce) membership – CERES membership </div> </div>		

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	High Impact Companies	Medium Impact Companies	Low Impact companies
Environmental Management Systems	<p>The company meets one the following:</p> <ul style="list-style-type: none"> - Coverage is less than 33% and the company meets four (or more) indicators - Coverage is 33% or greater and the company meets three (or more) core indicators - Any evidence of ISO14001 / EMAS-certified systems - Any 'other' indicator 	<p>The company meets one the following:</p> <ul style="list-style-type: none"> - Coverage is less than 33% and the company meets four (or more) core indicators - Coverage is 33% or greater and the company meets three (or more) core indicators - Any evidence of ISO14001 / EMAS-certified systems - Any 'other' indicator 	No requirements
	<div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p>Core Indicators:</p> <ul style="list-style-type: none"> - Evidence of environmental policy - Identification of significant impacts - Setting objectives and targets - Outline of processes and responsibilities, manuals, action plans, procedures - Internal system audits - Internal reporting and management review </div> <div style="width: 48%;"> <p>Other Indicators:</p> <ul style="list-style-type: none"> - Commitment to obtain ISO14001 or EMAS - EIA undertaken for all projects - Supplier audits <p>Certified Systems</p> <ul style="list-style-type: none"> - ISO14001 certification - EMAS (Eco-Management and Audit Scheme) registration </div> </div>		

Biodiversity

	High impact companies	Medium impact companies	Low impact companies
Biodiversity Policy	The company meets at least one indicator.	No requirements	Not assessed

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Climate Change

	Very high impact companies	High impact companies	Medium impact companies	Low impact companies
Climate Change Management Response	The Company meets at least one indicator.	No requirements	No requirements	Not assessed

GOVERNANCE CRITERIA

Board Practice

	All companies
Board Practice	The company meets at least two indicators.

Countering Bribery

	All companies
Countering Bribery Policy	The company meets at least one indicator.
Countering Bribery Systems	The company meets at least one indicator.

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SOCIAL CRITERIA

Human Rights

	Companies involved in oil & gas or mining activities with large presence in high risk countries	Companies involved in oil & gas or mining activities with smaller presence in high risk countries	Companies in other sectors with large presence in high risk countries	Companies in other sectors with smaller presence in high risk countries
Human Rights Policy	The company has policy which explicitly mention 2 ILO core labor or has a statement on fundamental human rights.	The company has policy which explicitly mention 2 ILO core labor or has a statement on fundamental human rights.	The company has policy which explicitly mention 2 ILO core labor or has a statement on fundamental human rights.	
	Alternatively, the company meets one of the following: <ul style="list-style-type: none">• The Company has published human rights policies which include explicit support for the OECD Guidelines for Multi-national Enterprises (This is a proxy for having a policy on all the ILO core labor areas)• The Company is a signatory to the UN Global Compact (This is a proxy for having a policy on all the ILO core labor areas)• SA8000 for its owned operations (This is a proxy for having a policy on all the ILO core labor areas)			No requirements

BIST SUSTAINABILITY INDEX INCLUSION RULES

	Companies involved in oil & gas or mining activities with large presence in high risk countries	Companies involved in oil & gas or mining activities with smaller presence in high risk countries	Companies in other sectors with large presence in high risk countries	Companies in other sectors with smaller presence in high risk countries
Human Rights Systems	The company meets at least one indicator.	No requirements	No requirements	No requirements

Health & Safety

	All companies
Health&Safety Systems	The Company meets at least one indicator (Except senior responsibility).

6. PERIODIC AND NON-PERIODIC CHANGES ON CONSTTUTENT STOCKS

- 6.1. At the periodic review, companies which do not meet the requirements of “Index Selection Criteria” are excluded from the index.
- 6.2. Stocks whose trading are halted permanently, stocks whose trading are suspended for more than 5 consecutive trading days except those that are suspended due to additional public offering, stocks transferred to the Watchlist market from their current markets and stocks transferred from lists A or B to List C are excluded from the index to be effective on the date of halt, suspension or transfer.
- 6.3. Stocks excluded from the indices because of the reasons mentioned in 6.2. are not included to the index until the end of the index period in which the stocks are excluded.
- 6.4. In case two or more companies included in the index merge or acquire one another, the stocks of the resulting or surviving company, as the case may be, remain within the index.
- 6.5. If a company included in the index acquires a company out of the index, then the resulting company will remain in the index.

- 6.6. If a company included in the index is acquired by a company out of the index, then the acquired company is excluded from the index effective from the date of the distribution of stocks to the shareholders.
- 6.7. If a company included in the index spins-off into two or more companies, then the resulting companies remain within the index until the end of the index period.

7. MONITORING AND ADMINISTRATION OF INDICES

- 7.1. Index and Data Department is responsible for monitoring and administration of indices.
- 7.2. At periodic reviews, the stocks to be included in the index are determined by Borsa İstanbul after the assessment done by EIRIS and announced following the approval of Borsa İstanbul Management.
- 7.3. Borsa İstanbul Management is authorized with regard to issues that are not stipulated by BIST Sustainability Index Ground Rules.