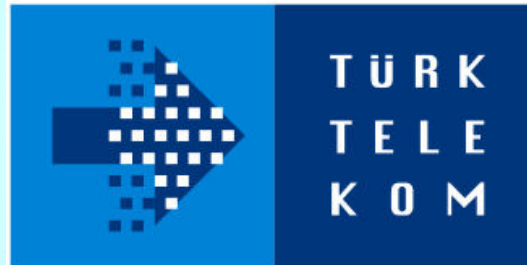




Corporate Governance Rating Report



28 December 2009

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## Rating and Executive Summary

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

 SAHA  
Corporate Governance Rating:

**8.01**

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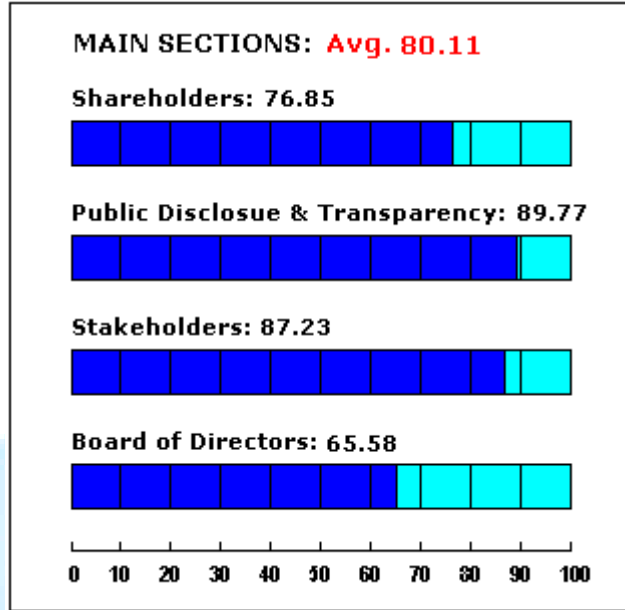
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## EXECUTIVE SUMMARY

Türk Telekomünikasyon A.Ş. (Türk Telekom) is rated with **8.01** as a result of the Corporate Governance study done by SAHA. Details of this study are presented in the following chapters as main sections and sub-sections. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" (the Principles). Ratings of main sections and sub-sections are disclosed separately.

We observed that Türk Telekom took the necessary steps to determine its governance risks and improved in setting up sound internal controls and management systems. There is still room, on the other hand, for improvements in order to fully comply with the CMB's Corporate Governance Principles.

Under the **Shareholders** heading, Türk Telekom scored **7.69**. The presence of an active investor relations department, having no ceilings applied on the number of votes that a shareholder may exercise, conducting general shareholder meetings in compliance with the national rules and regulations are positive aspects. On the other hand, having privileged votes on the nomination of board members, the lack of cumulative voting rights and of individual shareholders' right to appoint an independent auditor is observed to be areas which need further improvement.

Türk Telekom attained **8.98** under the **Public Disclosure and Transparency** chapter. The company prepared a comprehensive information policy, presented it to the shareholders at the general shareholders' meeting and disclosed it to the public on its web site. Also, a comprehensive Corporate Governance Compliance Report is prepared and disclosed to public. Events which may affect the value of the company's capital market instruments are announced in accordance with the CMB and ISE's rules and regulations. Türk Telekom's website is actively used as a means of public disclosure. However, the list that shows Türk Telekom's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners needs to be more detailed.

On the topic of **Stakeholders**, Türk Telekom has broadly complied with the CMB Principles apropos company policy regarding stakeholders, protection of company assets and relations with the customers and suppliers and scored a well deserved **8.72**. Türk Telekom's undertakings in areas of sports, education, culture and environment are exceptional.

From the perspective of the Principles regarding the **Board of Directors**, Türk Telekom's tally is **6.56**. There is a well communicated company mission and vision; a board that consists of broadly experienced, competent, suitably educated individuals; and majority of the board are non-executives. However, the lack of a corporate governance committee in the board and of cumulative voting rights remains to be potential areas for improvement.

#### DISCLAIMER

This Corporate Governance Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) based on information made available by Türk Telekomünikasyon A.Ş. and according to the Corporate Governance Principles issued by the Turkish Capital Markets Board as amended on 2005.

This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

SAHA A.Ş. has embraced and published on its web site ([www.saharating.com](http://www.saharating.com)) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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## 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 July 2003, as revised on February 2005.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, the Istanbul Securities Exchange 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 the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of the Principles is optional. 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 the future should all be included in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders and board of directors:

On the foundation of these Principles, SAHA Corporate Governance Rating methodology features over 400 code 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.19).

In compliance with the CMB's directive and to reach an overall Corporate Governance Rating, SAHA allocates the following weights to the four main sections of the Principles:

Shareholders: **%25**  
Disclosure and Transparency: **%35**  
Stakeholders: **%15**  
Board of Directors: **%25**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

<b>Türk Telekomünikasyon A.Ş.</b>	
	<p><b>CHAIRMAN</b> Mohammed Hariri</p> <p><b>CEO</b> Dr. Paul Doany</p>
<p>Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara <a href="http://www.turktelekom.com.tr">www.turktelekom.com.tr</a></p>	<p><b>Capital Markets and Investor Relations Director</b> Abdullah Orkun Kaya Tel: (0212) 306 8080, Fax: (0212) 352 9610 <a href="mailto:ir@turktelekom.com.tr">ir@turktelekom.com.tr</a></p>

With over 29 thousand employees, country wide distribution network, strategic partners, and service providers, Türk Telekom is a prominent player amongst fixed-line telephone operators in the area as well as in the world. In terms of communications, technology, and content, Türk Telekom is a fully integrated service provider that offers land-line, mobile and internet services.

Established in 1840 under the name Postane-i Amirane, Türk Telekom had witnessed one of the most important developments in its history when Oger Telecom had purchased 55% of the company's shares after its privatization in 2005.

"Group D" bearer shares with a total nominal value of TL 525 million which belonged to the Turkish Treasury and which correspond to 15% of Türk Telekom's paid-in capital were publicly offered following the authorization of the sale by the Capital Markets Board. Once the public offering had been completed, the shares have been listed on the national market of ISE as of May 15, 2008.

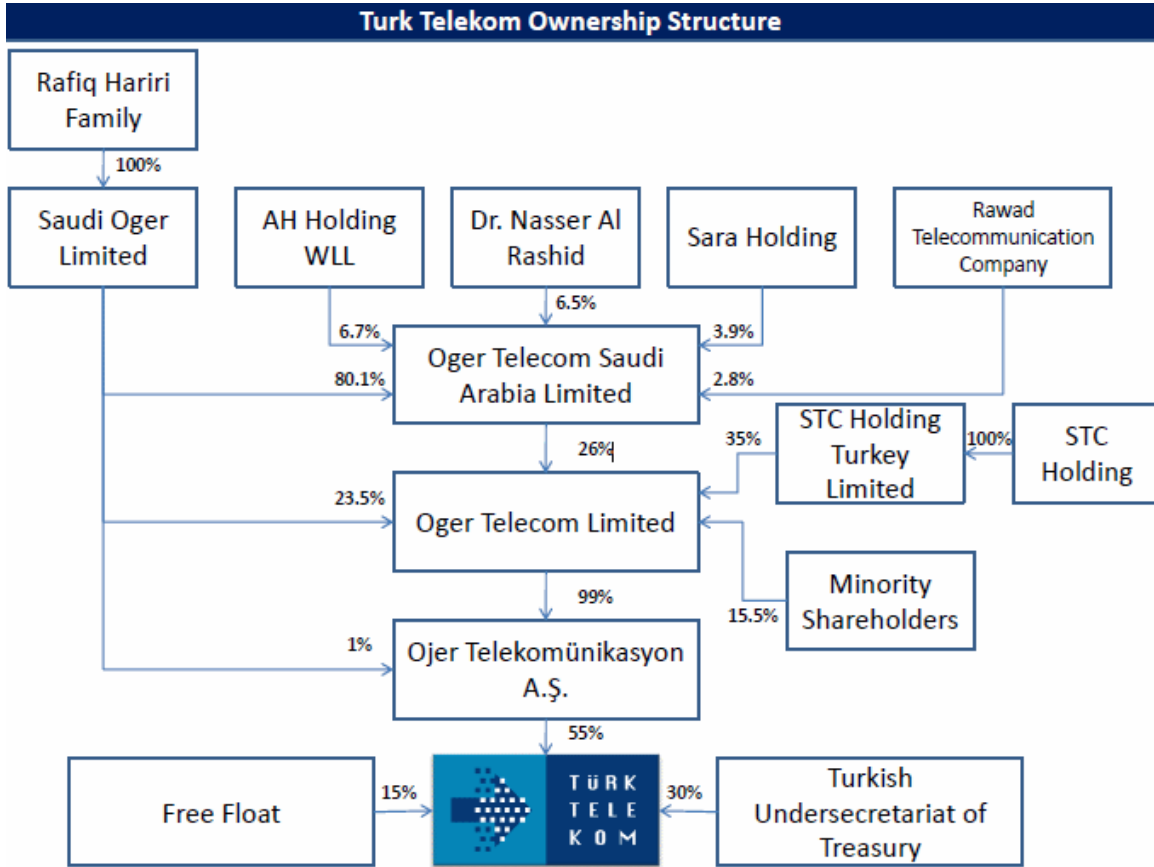
The 2008 public offering of 15% shares of Türk Telekom was the seventh biggest public offering in the world and the biggest ever in Turkey. As a result of this offering, the Turkish Treasury secured a total of USD 1.9 billion (TL 2.4 billion) in revenue.

Türk Telekom group provides integrated telecommunication services from PSTN, GSM to wide band internet. Türk Telekom group companies have 16.8 millions of PSTN customers, 6 millions of ADSL customers and 12.1 million GSM customers as of September 30, 2009. The 55% of the shares of Türk Telekom belongs to Ojer Telekomünikasyon A.Ş. and the 30% of the shares belongs to Undersecretariat of Treasury of Turkey. The remaining 15% of shares has been offered to public.

<b>Türk Telekom's Capital Structure and Shareholding</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Share %</b>
Ojer Telekomünikasyon A.Ş.	1,925,000,000	55.00
The Undersecretariat of Treasury of Turkey	1,050,000,000	30.00
Free Float	525,000,000	15.00
<b>TOTAL</b>	<b>3,500,000,000</b>	<b>100.00</b>

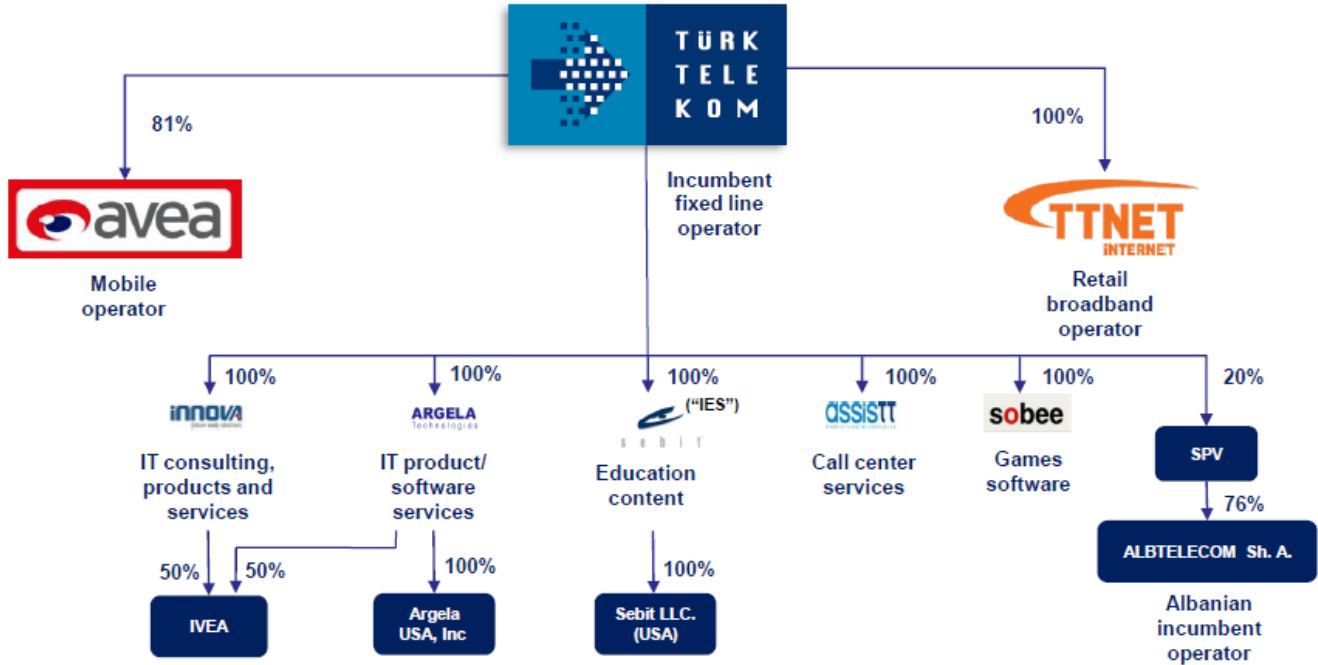
**\*Through recent open market purchases from the free float shares, shares of The Undersecretariat of Treasury of Turkey and Oger Telekomünikasyon A.Ş. have increased by 1.7% and 0.8% respectively.**

The controlling shareholder, Oger Telekomünikasyon A.Ş.'s capital structure is as follows:



**(\*) Among Oger Telecom's direct and indirect minority shareholders are regional and "blue chip" global financial investors.**

Türk Telekom, who is the owner of the 99.9% of shares of the companies TTNET, Argela, Innova, Sebit A.Ş. and AssisTT, is also the owner of 81% of the shares of Avea, which is one of the three GSM operators in Turkey. Türk Telekom also supports Altelecom in Albania.



Türk Telekom’s public shares are traded at the Istanbul Stock Exchange (ISE) under the code “TTKOM” and are a constituent of ISE National 30 (XU30), ISE National 50 (XU50), ISE National 100 (XU100), ISE National All Shares (XUTUM), ISE National Services (XUHIZ), ISE Communications (XILTM), ISE Ankara (XSANK) and now ISE Corporate Governance (XKURY) indices.

The Board of Directors of Türk Telekom is as follows:

Türk Telekom Board of Directos		
Name	Title	Executive/Not
Mohammed Hariri	Chairman	Executive
İbrahim Şahin	Vice Chairman	Executive
Dr. Paul Doany	Member / CEO	Executive
Saad Zafer M. Al Kahtani	Member	Executive
Abdullah Tivnikli	Member	Executive
Samir Asaad O. Matbouli	Member	Not Executive
Basile Yared	Member	Not Executive
İsmet Yılmaz	Member	Not Executive
Dr. Ali Arıduru	Member	Not Executive
Mehmet Habib Soluk	Member	Not Executive

Türk Telekom’s summary consolidated income statement as of end of 3rd. quarter 2009 is as follows:



<i>TL millions</i>	2008 YE	2008 9M	2009 9M
<b>Revenues</b>	<b>10,195</b>	<b>7,592</b>	<b>7,818</b>
<b>EBITDA</b>	<b>4,342</b>	<b>3,412</b>	<b>3,257</b>
<i>Margin</i>	43%	45%	42%
<b>Operating Profit</b>	<b>2,710</b>	<b>2,191</b>	<b>2,057</b>
<i>Margin</i>	27%	29%	26%
<b>Financial Income/Expense, net</b>	<b>(574)</b>	<b>(80)</b>	<b>(348)</b>
FX & Hedging Gain/Loss, net	(596)	(132)	(224)
Interest Income/Expense, net	29	60	(54)
Other Financial Income/Expense, net	(7)	(8)	(70)
<b>Tax Expense</b>	<b>(509)</b>	<b>(466)</b>	<b>(474)</b>
<b>Profit/Loss <sup>(a)</sup></b>	<b>1,752</b>	<b>1,680</b>	<b>1,369</b>
<i>Margin</i>	17%	22%	18%

Türk Telekom's summary consolidated balance sheet as of end of 3rd. quarter 2009 is as follows:

<i>TL millions</i>	2008 YE	2008 9M	2009 9M
Intangible Assets <sup>(a)</sup>	2,734	2,611	3,140
Tangible Assets <sup>(b)</sup>	6,588	6,371	6,711
Other Assets <sup>(c)</sup>	2,295	2,373	2,527
Cash and Equivalents	1,042	1,109	856
<b>Total Assets</b>	<b>12,659</b>	<b>12,464</b>	<b>13,234</b>
Share capital	3,260	3,260	3,260
Reserves and Retained Earnings	1,853	1,783	1,740
Interest Bearing Liabilities <sup>(d)</sup>	3,455	3,322	4,418
Provisions for Long-term Employee Benefits	667	887	732
Other Liabilities <sup>(e)</sup>	3,424	3,212	3,084
<b>Total Equity and Liabilities</b>	<b>12,659</b>	<b>12,464</b>	<b>13,234</b>

(a) Intangible assets excluding goodwill.

(b) Tangible assets include property, plant and equipment and investment property.

(c) Major items within Other Assets are Trade Receivables, Due from Related Parties, Other Current Assets and Deferred Tax Asset.

(d) Includes short-term and long-term borrowing and short-term and long-term obligations under finance leases.

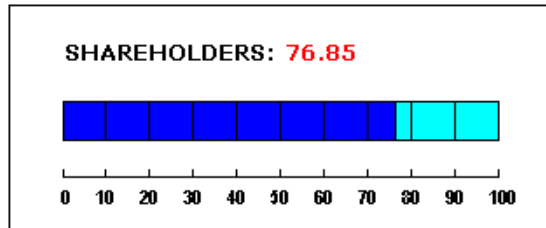
(e) Major items within Other Liabilities are Deferred Tax Liability, Trade Payables, Provisions, Income Tax Payable, Due to Related Parties, Other Current Liabilities, Provisions for Employee Termination Benefits and Minority Put Option Liability.

As per the decision adopted at the general shareholders' meeting of 11 May 2009, Türk Telekom distributed the 100% of the remaining profit of 2008 as cash dividend after first and second legal reserves are set aside. The distributed amount of TL 1,490,156,976.53 corresponds to 0.4257591 Kuruş (42.57591%) gross cash dividend per each share worth for 1 Kuruş nominally.

Türk Telekom paid cash dividends of 0,07839 Kuruş/share (total TL 2,743,604,970) in 2007. (2006: 0,7393 Kuruş/share; total TL 2,587,381,884).

**\* Türk Telekom's books were prepared according to the Turkish Tax Legislation until 2008 when the IPO took place. Since then, CMB Accounting Principles are being applied.**

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Shareholder relations unit is established and active
+	All information required to exercise shareholders' rights in a sound manner are made available to all shareholders
+	General shareholders' meetings conducted in compliance with CMB rules and regulations
+	Equal treatment of shareholders
+	Voting rights are facilitated
+	No upper limit in voting rights
-	Shareholders do not have the right to request appointment of special auditors from the general shareholders' meeting
-	Majority of board members do not attend the general shareholders' meeting
-	Minority rights are not extended beyond legislative threshold
-	Lack of cumulative voting procedures
-	An informative document relating to the agenda items of the general shareholders' meeting is not prepared
-	There are voting privileges
-	There are limitations on transfer of shares

In exercising shareholders' rights, legislation, articles of association and other in-house regulations are applied and necessary precautions to ensure use of such rights are adopted. To this

end, a Capital Markets and Investor Relations Department has been formed.

All information required to exercise shareholders' rights in a sound manner are made available to all shareholders. However, there is no provision in the articles of association that allows each shareholder to have the right to request from the general shareholder meeting that a special auditor is appointed for the examination and clarification of a specific material situation.

Minority rights are not extended beyond the regulatory provisions of Turkish Commercial Code and legislation that governs public incorporated companies and the articles of association of the company do not allow cumulative voting procedures.

Procedures followed prior to the general shareholders' meeting as well as the conduct of the actual meeting are in compliance with the relevant legislation and regulations and serve to enable shareholders to exercise their rights in a most efficient manner. Shareholders are provided with sufficient information prior and during the general shareholders' meeting, however, an informative document relating to the agenda items was not prepared.

There are no ceilings applied on the number of votes that a shareholder may exercise during the general shareholders' meeting. Provisions that may prevent voting by use of a proxy who is not a shareholder are not included in the articles of association. The one Class C golden share which is owned by the Undersecretariat of the

Treasury of the Turkish Republic has veto rights. Furthermore, this golden share, along with Class A shares that belong to Ojer Telekomünikasyon A.Ş. enjoy voting privileges when it comes to appointing candidates for the board of directors.

Türk Telekom has a clearly defined and consistent dividend policy which is disclosed to the public. The articles of association of the company allow for the implementation of interim dividend payments.

The articles of association of Türk Telekom (Article 6/A) contain various provisions that limit the transfer of shares.

All shareholders, including the minority and foreign ones, are treated equally and fairly.

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

In exercising shareholders' rights, legislation, articles of association and other in-house regulations are applied and necessary precautions to ensure use of such rights are adopted. At Türk Telekom, a Capital Markets and Investor Relations Department ("the Department") has been formed in order to maintain relationships with existing and potential shareholders in a structured manner, effectively respond to investor and analyst queries, and carry out activities targeted at increasing shareholder value. Shareholder relations are carried out by a working group that consists of the department as well as the Legal Affairs Department and the Secretariat of the Board of Directors. The Capital Markets and Investor Relations Department is headed by Mr. Abdullah Orkun Kaya, staffed by 5 employees.

The Capital Markets and Investor Relations Department keeps proper,

secure and up-to-date records of shareholders; responds to written queries for information regarding the company, excluding the undisclosed information that is confidential and trade secret; ensures that the general shareholders' meeting is conducted in accordance with the legislation, the corporate statute and other inter-company regulations; prepares the documents to be used by the shareholders in the general shareholders' meeting; keeps the records of voting results and ensures that all reports related to the resolutions of the general shareholders' meeting are sent to the shareholders; and conducts supervision and surveillance of all issues concerning public disclosure, including the related legislation and information policy of the company.

To this end, primary tasks such as fulfilling the requirements of the capital market legislation; handling necessary internal and external disclosures and monitoring related processes; introducing and presenting the Türk Telekom Group to domestic and foreign individual and corporate investors; keeping existing and potential investors regularly informed about the company's activities, financial standing and strategies on the principles of timeliness, accuracy and completeness; responding to information requests of analysts; ensuring proper and optimum promotion of the company and guaranteeing that reports for investors are prepared accurately and completely; sharing the interim and year-end financial statements, investor presentations, press releases and annual and interim activity reports regarding financial and operational results with investors and the press; updating the corporate website regularly to ensure that shareholders have access to accurate and complete information; keeping investors regularly informed about Türk Telekom

and the Turkish capital markets by participating in conferences and investor meetings; and monitoring public disclosures made pursuant to the company's disclosure policy and applicable legislation are implemented by the Capital Markets and Investor Relations Department.

The staff of the Capital Markets and Investor Relations Department is suitably trained, adequately experienced to facilitate the exercise of shareholders' statutory rights, proactive, willing to efficiently apply corporate governance principles, and open to improvements.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no discrimination among shareholders when exercising their right to obtain and evaluate information and all information required to exercise shareholders' rights in a sound manner are made available to all shareholders. This information is submitted as complete, accurate and in a timely and diligent manner.

Türk Telekom's obligation to inform shareholders includes legal or commercial relationships with other enterprises or individuals with whom there is a direct/indirect managerial, administrative, supervisory or ownership related relationship.

In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis in electronic form. However, there is no provision in the articles of association that allows each shareholder to have the right to request from the general shareholder meeting that a special auditor is appointed for the examination and

clarification of a specific material situation.

### **1.3. Minority Rights:**

There are no ceilings applied to the number of votes that shareholders may cast. In order to include the foreign investors into general shareholders meeting, proxy forms are made available on the company's web site.

On the other hand, minority rights are not extended beyond the regulatory provisions of Turkish Commercial Code and legislation that governs public incorporated companies. The articles of association of the company do not allow cumulative voting procedures and there are certain voting privileges.

### **1.4. The Right to Participate in the General Shareholder 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 was performed through all means of communication available to the company and was published in trade registry gazette as well as in newspapers that enjoy nationwide circulation and on the company's web site 3 weeks prior to the meeting. The procedure, content and timing of invitation to the general shareholders' meeting, allowed shareholders to acquire adequate information about the agenda items to be discussed prior to the meeting and enabled preparations thereto.

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 the general shareholder meeting; and the place where annual report, financial statements and other meeting documents can be examined were

clearly indicated in all announcements prior to the general shareholders' meeting. However, an informative document relating to the agenda items was not prepared.

Commencing from the date of announcement of invitation for the general shareholder meeting; financial statements and reports including the annual report, proposal for dividend distribution, all other related documents pertaining to the agenda items, and the final version of the articles of association were made available to all shareholders for examination purposes at the headquarters of Türk Telekom and also in electronic form.

During the preparation of the general shareholders' meeting agenda items, each proposal was put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" in the agenda were avoided.

Prior to the meeting, voting procedures as well the forms of proxies were announced for those who will appoint a proxy for the meeting, and those forms were made available for the use of shareholders in electronic media.

While preparing the agenda, the board gave considerable attention to the issues raised within the "Capital Markets and Investor Relations Department" and to the issues that shareholders wish to include in the agenda.

The meeting took place at the headquarters of Türk Telekom. The location of the general shareholders' meeting was easily accessible to all shareholders and the possible number of attendance was predicted beforehand. The meeting did not lead

to any discrimination among the shareholders, and took place at the least possible cost, and in the least complex manner.

Agenda items were expressed in an unbiased and detailed manner with, clear and concise method in the general shareholders' meeting. Shareholders were provided with equal opportunities to express their opinions, and raise any questions and a sound discussion environment was created. However, the total number of votes and privileges to be cast by shareholders during the meeting, as determined and classified by the board, were not presented to the shareholders at the beginning of the meeting.

The general shareholders' meeting served as a forum of shareholders in which the annual report and Türk Telekom's performance indicators were discussed. Since the board members were permitted to enter into transactions with the company or to be involved in competition with the company, information about such transactions was included in the annual report. Shareholders were also informed about company related controversial news and analysis that took place in the media.

The chairman conducted the meeting on fair grounds, and in an efficient manner that would enable shareholders to exercise their rights and ensured that each question imposed by any of the shareholders was answered directly in the general shareholders' meeting.

Auditors and authorized persons who were responsible for preparing the financial statements, persons who were in a position to inform shareholders about peculiar agenda items and only one member of the board participated the meeting. The chairman of the meeting did not

announce the reasons for the absence of missing board members.

The chairman of the meeting should take all the necessary precautions with respect to the application of voting procedure in which would best reflect the intention of the majority of the shareholders. Each agenda item was voted separately and the votes were counted and results of voting announced before the end of the meeting. The minutes of the meeting were made available to the shareholders in writing or in electronic media at all times.

The current board of directors is elected at the extraordinary general shareholders' meeting of 14.11.2008. Not all of the newly elected board members participated this meeting. Shareholders were provided with adequate information about the existing members in the annual reports that were made available to the shareholders prior to the meeting. Sufficient information about the new members was not provided during the meeting. Shareholders were informed about the other companies on which existing board members fulfill a duty as a board member and exclusively on whether or not in-house regulations in that respect are observed, however, the same information about the new members is lacking. Nevertheless, curricula vitae of all memebres, including those newly elected, are lsited in the annual report which was submitted to the shareholders at the ordinary general shareholders' meeting of 11.05.2009.

Shareholders were provided with equal opportunities to express their opinions, and raise any questions about the remuneration of board members as well as executives. Nevertheless, minimum requirements for disclosure of information about the candidates for board membership are not stated in

the articles of association of the company.

The audit firm explained in writing to the shareholders whether or not the financial statements and other financial reports such as capital adequacy table comply with the current standards; the statements and reports truly and completely reflect the real status of the company; whether or not there are any issues hindering the independence of the external auditor company; and services provided to the company and to its subsidiaries/affiliates by the external auditor company and its subsidiaries.

The articles of association of Türk Telekom includes a provision to maintain that decisions, regarding the division and allocation of shares which changes the capital and management structure of the company and the composition of the company's assets.

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

Each shareholder, including foreign shareholders, are provided with the opportunity to exercise his/her voting right in the most appropriate and convenient way. There are no ceilings applied on the number of votes that a shareholder may exercise during the general shareholders' meeting.

The right to vote is automatically granted once the share is acquired. Hence, under no conditions, arrangements that would postpone the exercise of the right to vote a certain period following the acquisition of share are adopted.

In order to protect national benefits in relation to the economy and national security, amendments to the articles of association and transfer of shares that would change management control may not be carried out without the affirmative vote of the one Class C golden share which is owned by the

Undersecretariat of the Treasury of the Turkish Republic. Furthermore, this golden share, along with Class A shares that belong to Ojer Telekomünikasyon A.Ş. enjoy voting privileges when it comes to appointing candidates for the board of directors.

Provisions that may prevent voting by use of a proxy who is not a shareholder are not included in the articles of association of the company. Legal representation was documented in writing. The board communicated with the institutional representatives and open representation principle was applied for the voting of institutional representatives.

Voting was conducted through open ballot and by raising hands during the general shareholders' meeting. Shareholders were notified about the voting procedure prior to the start of the meeting. The chairman requested shareholders to raise hands to cast their votes for each agenda item as the meeting proceeded, however, shareholders were not informed of this voting procedure verbally at the beginning of the meeting.

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

Türk Telekom has a clearly defined and consistent dividend policy. This policy is announced to the shareholders via the web site of the company. The dividend policy is revised during the fourth quarter of 2009 and therefore did not find place in the past year's annual report.

The dividend distribution proposal of the company included information such as the annual profit; amount and sources of distributable profit; the criteria according to which the board had prepared the dividend distribution proposal; dividends per share; location, time and terms of payment for dividends; and information

regarding past donations and contributions performed by the company during the accounting period.

Distribution of dividends was performed within the period prescribed by the legislation and as soon as possible after the general shareholders' meeting. The articles of association of the company allow for the implementation of interim dividend payments, however, no such payment is carried out to date.

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

Neither the articles of association of the company nor any general shareholders' meeting decisions contain any provisions to impede the transfer of public shares. However, the articles of association of Türk Telekom (Article 6/A) contain various provisions that limit the transfer of Class A and Class B shares.

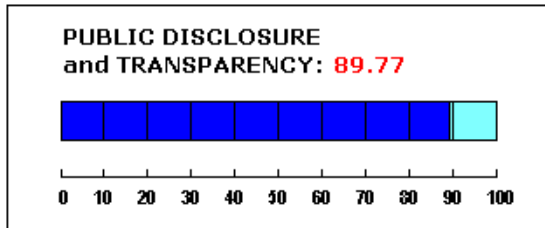
#### **1.8. Equal Treatment of Shareholders:**

As a result of our review of the articles of association of the company, the conduct of the general shareholders' meetings, and interviews with company officials, we have observed that the shareholders, including minority and foreign shareholders, are treated equally and fairly.

We did not come across to a sign of any shareholder acting with the intention of harming other shareholders and the bank unless aimed at protecting his/her own justified interest.



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS	
+	Information policy established, and presented to the shareholders at the general shareholders' meeting
+	Comprehensive corporate governance report disclosed to public
+	Ethical rules are established and disclosed to public
+	Comprehensive web site, actively used for public disclosure
+	Comprehensive annual report
+	Concept of trade secret defined
+	Insider list is published
+	Disclosure about developments that may affect the value of the holding complies with the legislation
=	The new audit committee has not been active in the selection of the independent auditors, but working procedures include this task
-	Corporate Governance Compliance Report does not include reasons of lacking implementation
-	Capital structure is not presented in a table format that would include the names of the ultimate controlling individual shareholders
-	Board of directors' statement about the status of internal control system not in the annual

	report.
-	Remuneration of executives not in annual report

The Capital Markets and Investor Relations Department is responsible for public disclosure at Türk Telekom.

The board prepared collective principles to be used in the information policy of the company, presented them to the shareholders at the general shareholders' meeting and disclosed it to the public on its web site.

Any developments that may affect the value of the company's capital market instruments are disclosed to the public without any delay and within the time period required by the current legislation.

A comprehensive Corporate Governance Compliance Report is prepared and disclosed to public in Türk Telekom's annual report and web site. The ethical rules of the company are also disclosed to public both in the annual report and on the company's web site.

Türk Telekom's website is actively used as a means of public disclosure. The company's website emphasizes the announcement of the planned general shareholders' meeting, agenda items, other information, documents and reports on the agenda items, and information on methods of participation in the general shareholders' meeting. An informative document relating to the agenda items, however, has not been prepared.

Transactions between the company and board members, executives and shareholders; transactions performed

by these parties on Türk Telekom's capital market instruments; and any changes affecting the shareholding structure of the company are disclosed to public according to CMB and ISE regulations.

Türk Telekom's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public; however, this list needs to be more detailed. This information is not presented in a table format and incorporated into the annual report and financial statement footnotes.

The annual report of Türk Telekom complies with the relevant legislation and the periodical financial statements and footnotes are prepared in accordance with the IFRS. Apart from minor exclusions, the annual report is informative and comprehensive.

The external audit of the company is done by a well known and reputable firm and complies with the current legislation.

A list of the names of executives and other persons/institutions who provide services to the company, and who can potentially possess price-sensitive information is prepared and disclosed to public in accordance with the information policy.

Türk Telekom fully complies with CMB and ISE legislations when disclosing important events and developments.

### **2.1. Principles and Means for Public Disclosure:**

The Capital Markets and Investor Relations Department is responsible for public disclosure at Türk Telekom. The CEO, VP Legal, and the Accounting and Tax Director are authorized to sign disclosures on the Public Disclosure Platform (KAP). The Capital Markets

and Investor Relations Department is assigned solely to monitor and supervise all issues pertaining to public disclosure. Additionally, investors, financial analysts, press members and similar groups are guided to this department.

In compliance with the transparency principle, the company accurately discloses its accounting policy and operational financial results to the public. The board prepared collective principles to be used in the information policy of the company, presented them to the shareholders at the general shareholders' meeting and disclosed it to the public on its web site.

This information policy covers category of information to be disclosed to the public in addition to the requirements of the relevant legislation; form and methods of disclosure; the method to be adopted in order to answer the questions submitted to Türk Telekom and other relevant issues; and the method to be adopted for disclosing forward looking information. Furthermore, information such as the form, frequency and methods of disclosure; the frequency at which the executives would confront the press/media; the frequency at which meetings for public disclosure would be conducted; and the type of information to be discussed at the general shareholder meeting is included in the information policy.

Any developments that may affect the value of the company's capital market instruments are disclosed to the public without any delay and within the time period required by the current legislation. Should there be a significant change in the financial status and/or operations of the company, or in case of an expectation of such a significant change in the financial status and/or operations in the future, the information is disclosed to the public, save for the relevant

provisions of legislation. Any changes or new developments in the already disclosed information are regularly updated and disclosed to the public.

A comprehensive Corporate Governance Compliance Report is prepared and disclosed to public in Türk Telekom's annual report and web site. However, the unilateral declaration of the board, which covers information about whether or not the Principles are being properly applied, if the Principles are not being applied, the reasons for such non-application and all possible conflicts of interest due to the improper adoption of the Principles, are not incorporated in the report.

Türk Telekom's dividend policy is disclosed to public via the web site of the company. The ethical rules of Türk Telekom, on the other hand, are disclosed to public both in the annual report and on the company's web site.

Financial statements and reports are disclosed together with underlying statistical data and evidence. This information does not consist of any exaggerated provisions or misleading information that would lead to false interpretations about Türk Telekom's financial status and operational results. The principles applicable to disclose forward looking information are included in the information policy of the company.

The independent audit and disclosure of the consolidated financial reports are made in line with the CMB rules and international standards.

Türk Telekom's website is actively used as a means of public disclosure. It is easily accessible, user friendly and comprehensive. It is also made available in English for foreign investors with the same content. The company ensures that the information disclosed to the public is also available

on its website which is configured and designed accordingly and takes all the necessary precautions in order to prevent any modifications on the information displayed on its website.

The website includes trade register information; information about the shareholder and management structure; information about preferred shares; the final version of the company's articles of association together with date and numbers of the trade register gazettes in which amendments are published; publicly disclosed material information; annual reports and periodical financial statements; 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; minutes of the important board meetings which may affect value of capital market instruments and frequently asked questions including requests for information, queries and notifications and responses thereof.

The company's website emphasizes the announcement of the planned general shareholders' meeting, agenda items, other information, documents and reports on the agenda items, and information on methods of participation in the general shareholders' meeting. An informative document relating to the agenda items, however, has not been prepared.

The company's web address is printed in the company's letterhead. The criteria regarding the use of the company's website are included in the company's information policy. In addition to disclosing information as required by the legislation, the company also publicly discloses any information that may affect decisions of shareholders and investors. Türk Telekom has also produced detailed

reports about the company's social and environmental initiatives.

## **2.2. Public Disclosure of Relations between the Holding and Its Shareholders, the Board of Directors and Executives:**

Türk Telekom officials declared that in case shareholding or voting right percentage of an individual or group reaches, exceeds or falls below the thresholds designated by the regulating authority, the company will disclose such information immediately upon being informed thereof, except otherwise required under relevant legislation. Türk Telekom's public disclosure policy is in accordance with the current CMB and ISE rules and regulations.

Türk Telekom's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public in the corporate governance compliance report as well as the company's annual report, however, this list needs to be more detailed.

The company's capital structure is not presented in a table format that would include the names of the ultimate controlling individual shareholder/s (names of the real personalities), amount and proportion of their shares and their share class and not incorporated into the annual report and financial statement footnotes.

Board members, executives and shareholders, who directly or indirectly own 5% of the company's capital, disclose all transactions performed on Türk Telekom's capital market instruments as well as those of other group companies or any other company with whom the company maintains a material commercial relationship.

Commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess management control or effect managerial decisions, are disclosed to public according to CMB and ISE regulations.

## **2.3. Periodical Financial Statement and Reports in Public Disclosure:**

Periodical financial statements and footnotes are prepared in accordance with the CMB legislation and IFRS and applied accounting policies are also included in the footnotes of the financial statements.

The footnotes of the periodical financial statements include all off-balance sheet transactions including contingent claims, all liabilities and operational results that would affect future financial status, liquidity of the holding, investment expenditures, investment sources, and all relations which can effect the income-expense items with other natural persons and legal entities which are not within the scope of consolidation.

The annual report and the periodical financial reports are approved and signed by the board of directors. Nevertheless, a statement signed by the board of directors, the CEO, and the department manager responsible for the preparation of periodical financial statements and reports, indicating that the current periodical financial statements completely reflect the true financial status of the company and that the company acts in accordance with the related legislation, is not incorporated in the annual report of the company.

Türk Telekom's annual report includes the scope of activities of the company; information about the sector in which

the company operates and the company's status within this sector; the board of directors' evaluation and analysis of financial status and operational results; explanation about the foreseeable risk factors regarding future operations; analysis of significant transactions carried out during the preceding year with the group companies and other related persons and institutions; commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding or having the control of the latter; the curriculum vitae of the company's board members and executives; their duties and responsibilities within the company; positions held outside the company; the organization, capital, ownership and management structure of the company; and statistical data and graphics.

However, the board of directors' statement about the status of internal control system as well as the audit firm's opinion about the internal control system; ownership structure table showing the controlling shareholders, as released from any indirect and cross shareholding relations; fines levied as a result of practices acting against the legislative provisions and the reasons thereof; and a detailed dividend policy of the company is not incorporated in the annual report.

The annual report does not include any information about the employees' social rights and professional training and a detailed table that incorporates executives, their positions, their seniority ranking, and remunerations is not provided.

#### **2.4. Functions of External Audit:**

The operations and the contents of the contract signed with Güney Bağımsız Denetim ve SMMM A.Ş (an Ernst and Young company), which is the firm selected to audit the financials for the year ending 2009 are in compliance with the CMB legislation. There has been no legal conflict between the holding and PwC.

Ernst and Young, its auditors and other related staff working for Ernst and Young, or a consultancy firm which Ernst and Young has a direct or indirect controlling relationship did not provide consultancy services to Türk Telekom to which they provide external auditing services within the same period, either in return for a fee or free of charge. Also, there has been no incidence where the independent firm refused to declare an opinion.

The audit committee of Türk Telekom has been established after the selection of the independent auditors. Therefore, the audit committee did not play a role in the selection process. However, the working procedures of the audit committee clearly indicate that this is one of the primary tasks of the committee.

#### **2.5. The Concept of Trade Secret and Insider Trading:**

The concept of trade secret is defined in the human resources procedures of Türk Telekom. When identifying information within the scope of trade secret, a balance was maintained between providing transparency and protecting the interests of the company and the company acts in accordance with the rules of accuracy, reliability and good faith in cases where the stakeholders seek to exercise their rights to obtain information.

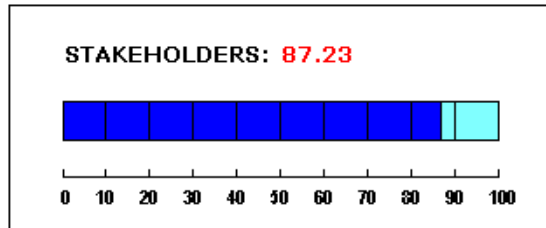
In order to prevent insider trading, necessary measures and precautions are taken. A list of the names of executives and other persons/institutions who provide services to the company, and who can potentially possess price-sensitive information is prepared and disclosed to public in accordance with the information policy.

## **2.6. Significant Events and Developments That Must Be Disclosed to the Public:**

Türk Telekom fully complies with CMB and ISE legislations when disclosing important events and developments.

All “Significant Developments That Must Be Disclosed to the Public” as per the Corporate Governance Principles of the CMB and their possible implications on the financial status and operational results of the holding are disclosed immediately to the public via the “disclosure of special events”.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	All necessary facilities are utilized to preserve stakeholders' rights
+	Effective human resources policy
+	Compatibility in the field of social responsibility
+	Active trade union within the company
=	Ethical rules specified and declared to the public but not yet presented to the shareholders' meeting
=	No provision in the articles of association regarding the participation of stakeholders in the management of the holding but the practice is satisfactory
-	No provision in the articles of association regarding the participation of employees in the management of the company

With regard to relations between the company and all related public and private parties (stakeholders), our conclusions are particularly positive with respect to company policy about stakeholders, protection of company assets, human resources policy and relations with customers and suppliers.

The company acts with goodwill and within the capabilities of the company in cases that are related to the protection of stakeholders' rights when these rights are either regulated or not regulated by the legislation. Furthermore, the company acts as a

pioneer in overcoming and solving any possible conflicts and disputes that may arise between the company and its stakeholders.

Although no such provisions are incorporated in the articles of association of the company, mechanisms and models supporting the participation of stakeholders, and especially of employees, in the company's management have been developed.

Being a telecommunication company, there is no direct production; instead the company provides services to customers. Türk Telekom, being the locally dominant operator, has a countrywide customer and supplier network.

We have detected no evidence of negligence or wrong doing either by the board or the top management that caused the company assets to lose value and led to a deliberate loss for stakeholders.

Türk Telekom has a detailed human resources policy. Training, performance evaluation and remuneration are applied satisfactorily within the framework of this policy.

Türk Telekom is highly considerate of its social responsibilities. Activities of NGOs and initiatives concerning education, environment, athletics, and arts and culture are supported.

### 3.1. Company Policy Regarding Stakeholders:

Company officials stated that; all the employees, who preferred to leave instead of using their right to transfer to another state-owned company,

received their legal compensation packages. Officials also stated that; all the lawsuits of seniority, denunciation and reinstatement concluded in favor of Türk Telekom. Employees' right to transfer to another state-owned company ends as of 14 November 2010 due to the related laws Nr. 406 and Nr. 4046.

In case the rights of the stakeholders are not regulated by the relevant legislation, the company preserves the interest of stakeholders under good faith principles and within the capabilities of the company. Türk Telekom acts as a pioneer in overcoming and solving any possible conflicts and disputes that may arise between the company and its stakeholders.

In order to inform the stakeholders sufficiently about the company's policies and procedures, which aim to protect stakeholders' rights; employees use the web portal of the company; customers, suppliers and shareholders use the web site [www.turktelekom.com.tr](http://www.turktelekom.com.tr) as well as Türk Telekom Call Center.

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

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

Although no such provisions are incorporated in the articles of association of the company, the company officials stated that; mechanisms and models supporting the participation of stakeholders, and especially of employees, in the company's management have been developed. Employees are encouraged

to participate in management through the company's web portal.

Türk Telekom carries out the online loyalty questionnaire ("SÖZSİZİN") targeting all employees with the employee, distributes other questionnaires, organizes dealer meetings several times a year. Besides, all the executives convene annually and attend two-day meetings. Executives of all departments at the headquarters as well as provincial offices also meet periodically.

### **3.3. Protection of Company Assets:**

The company pays due attention to the protection of company assets as its ISE (Istanbul Stock Exchange) listing and shareholder structure dictate stringent care and adherence to rules and regulations.

Neither the board nor any of the executives of Türk Telekom have been involved in any actions that caused the company assets loose value and led to deliberate loss for stakeholders.

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

With respect to country specific standards, the company has a well established Human Resources policy that ensures social rights and sound career planning.

The company formed a corporate structure for its training activities and training management products, and reorganized them under Türk Telekom Academy Ankara and Istanbul. Moreover, the company launched e-learning activities in 2008 over the website accessible at [www.turktelekomakademi.com.tr](http://www.turktelekomakademi.com.tr).

Within this context, Türk Telekom group companies signed contracts with universities to work under the supervision of Türk Telekom Academy.



Cooperation contracts signed with Bahçeşehir University and Fatih University include the following items:

- 1) Masters/Certificate Programs,
- 2) Applied development courses,
- 3) Usage of university resources and facilities.

Co-developed by Türk Telekom, British Telecom and BT Consult and Harvard, Stanford and Ashridge Universities, the Executive Development Program took place with the participation of Türk Telekom and group companies at General Manager and VP levels. Management Skills Improvement Trainings ("yöneTT") were held for TT managers. Developed for Türk Telekom Dealers, Dealer Uplift Project Phase 1 Certification Program was carried out. TTNET My Business Place Sales Training is another educational program. Also implemented was the Office Uplift Program covering the customer-focused communication training targeting all office employees, role and process based training programs lasting from 2 to 6 days for employees in different roles.

Measures are taken in order to prevent race, religion, language and sex discrimination among the employees; each employee is treated on equal grounds; while determining compensation and other benefits, productivity and other factors that are deemed material are prioritized; working conditions of the company's personnel is safe and secure and is being maintained and improved in time. There have been no complaints from employees about discrimination in recent years.

Haber-İş trade union takes active part in the company. Various committees, in which representatives of the trade union take part, convene periodically to discuss company matters.

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

The company applies the "Customer Retention Management" project with a view to enhancing customer satisfaction. Within the scope of the project, teams at the call center contact customers in an effort to understand the problems they face and solve their issues. As a step aimed at enhancing the satisfaction from services of Türk Telekom, customers are guided to transfer to the tariff that best suits their telephone usage behaviors, and they are advised on this subject.

The call center of the company is highly sophisticated and all the records are kept for evaluation. Likewise, confidentiality is a high priority item.

### **3.6. Ethical Rules:**

Türk Telekom has prepared an ethical code, disclosed it to public on its web site, but not yet submitted to the shareholders' attention at the general assembly.

Processes to be applied in case of unethical personnel behavior and acts against operational rules and regulations are determined in the internal personnel and discipline codes in detail.

### **3.7. Social Responsibility:**

Türk Telekom's performance is well above the country averages in terms of social responsibility. Türk Telekom makes considerable contribution to the fields of education, environment, culture & arts and sports.

Under the "Full Support for Education" campaign, which is being carried out under a protocol that Türk Telekom has signed with the Ministry of Education, a total of 78 buildings for educational purposes are constructed.

When completed, this project will provide modern educational opportunities for about 40,000 students. The project calls for the construction of 50 schools, 16 dormitories (each with its own cafeteria), 4 gymnasiums, 4 multipurpose auditoriums, 1 personnel housing, 1 concert hall, and 1 workshop. During 2008 Türk Telekom completed the construction of ten of the buildings called for in the project and delivered them to the Ministry of Education. This brings the number of buildings finished and turned over to the ministry since the project began to 72. Work is currently in progress on the remaining 6 facilities.

“Vitamin” is a project that Türk Telekom launched to provide “content” support to education. The Vitamin educational software package was developed by Sebit Eğitim ve Bilgi Teknolojileri A.Ş. and Türk Telekom began distributing the package free of charge to 33,000 public primary schools for use in the 2008-2009 academic year.

Türk Telekom Internet Houses initiative is a program whose aim is to provide at least one internet access point that is available for general public use in every town in Turkey and in this way to acquaint young people as well as their families with the internet. Under the project, an Internet House is to be set up in each of Turkey’s 950 towns. These premises will have 20 fully-equipped computers on average through which broadband internet access will be available. To date, 932 of the planned Internet Houses have been completed and will be in operation in 81 cities of Turkey when the project is completed.

Türk Telekom will be sponsoring the celebration of Children’s Day (April 23rd) for five years.

After the Finance Ministry’s announcement that electronic invoices qualify as legal instruments, Türk Telekom became the first company in Turkey to introduce e-bills. Sharing the same environmental awareness as its subscribers switching to e-bills, Türk Telekom launched its “E-billing Forests” project, under which it will be planting a total of 100,000 trees all over Turkey.

Türk Telekom also invests in culture and arts projects. In this aspect, Türk Telekom supports, as one of its main sponsors, Istanbul Museum of Modern Art which is the first museum of modern arts in Turkey and which will open exhibitions designed by the Museum, in London, Vienna and Berlin after Istanbul.

Under the Seismic Data Transmission Platform (sVIP) project launched jointly by Türk Telekom and the Boğaziçi University Kandilli Observatory and Earthquake Research Institute, the world’s most advanced earthquake monitoring technology will be installed in the Marmara Sea. The sVIP Seismic Data Transmission Platform project is scheduled for completion by the end of 2009.

The company seeks to promote growth and development of universal values of sports in Turkey. For this purpose:

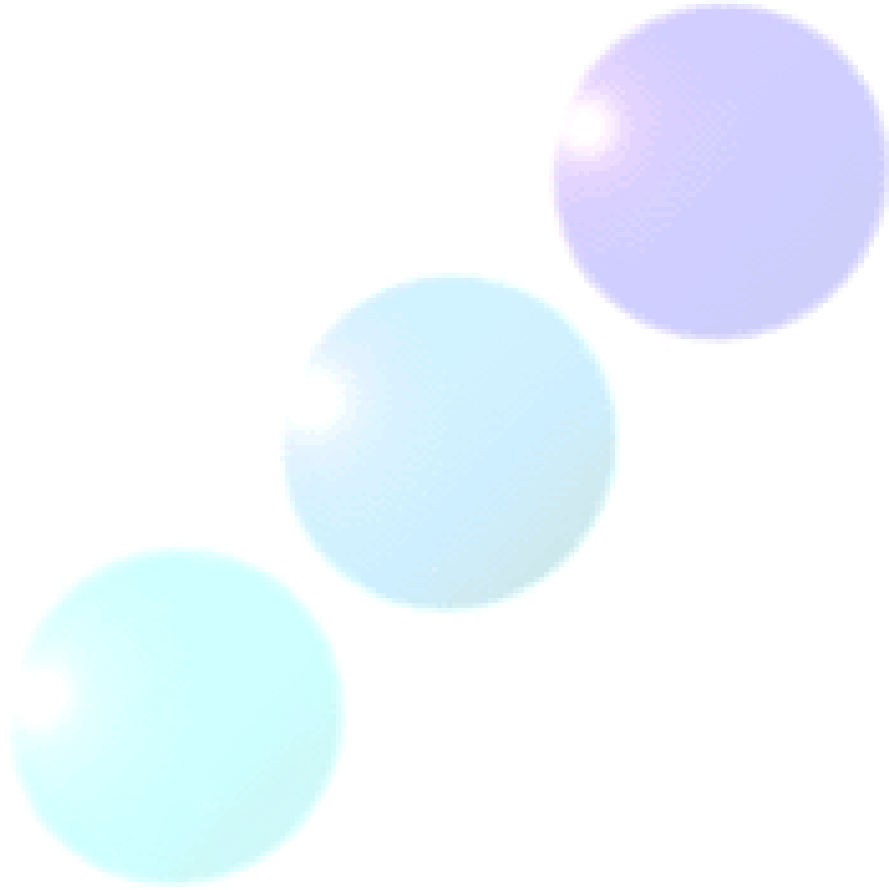
- Türk Telekom is the owner and main sponsor of Turkey’s leading men’s basketball and women’s volleyball teams. The company also provides support for about 6,000 licensed athletes, more than 1,600 sports academy students, and 47 sports clubs as well as direct assistance for the training of young athletes in seventeen different sports branches. In addition, Türk Telekom helps bring up players for Turkey’s national teams.

- The company is the main sponsor of the Men's National Volleyball A Team, the Young and Star Men's National Volleyball Teams, and the Young and Star Women's National Volleyball Teams.
- In 2008 Türk Telekom and its subsidiaries reorganized the Group's football sponsorships. Türk Telekom became a sponsor of the Galatasaray Sports Club and will also be acting as the main sponsor of the Trabzonspor club beginning with the 2009-2010 season. The company will also act as a sponsor of the Fenerbahçe football team for four years.
- Türk Telekom has acquired the naming rights of Galatasaray's new stadium for a period of ten years. Under the terms of the agreement that has been signed, Galatasaray Sports Club's new stadium will be named as "Türk Telekom Arena" for a period of ten years.
- Türk Telekom is the main sponsor of International Istanbul Cup Tennis Tournament. Moreover, in 2009, Türk Telekom sponsored Izmir Cup Tennis Tournament and the name of the tournament became Türk Telekom Izmir Cup. A similar activity is the co-sponsorship of 2009 Dakar Rally.
- TTNET is one of the main sponsors of Turkish National Football Teams. TNET also sponsors 2008-2009 Turkish Super Cup and Türk Telekom basketball team as well as contributing to sailing sports in Turkey.
- Avea is the sponsor of Galatasaray, Fenerbahçe and Beşiktaş football teams as well as sailing sports and Istanbul Golf Club.
- Türk Telekom supports and sponsors a variety of sports festivals organized at universities, such as the Boğaziçi University Sports Festival. This enables the company to inform young people and the general public about its activities and investments in sports while also underscoring its reputation as an up-and-coming name in Turkey's sports scene.
- In addition to the sports venues for young people that it owns in many provinces around the country, Türk Telekom also acts as a sponsor for others as well, providing them with material and financial support to improve their premises and make them more suitable for the conduct of sports.
- In line with the importance that it gives to its own feeder teams, Türk Telekom provides assistance and support to the feeder teams of other sports clubs so that children and teenagers everywhere may grow up in good physical and mental health.
- In addition to such sports investments, Türk Telekom gives ongoing support to Turkish sports as a sponsor for such organizations as the General Directorate for Youth and Sports, the Turkish Volleyball Federation, the Turkish Basketball Federation, the Turkish Fencing Federation, and other sports federations as well as for the various events that they hold, such as the First International Black Sea Games and national sports festivals at many venues in Turkey.

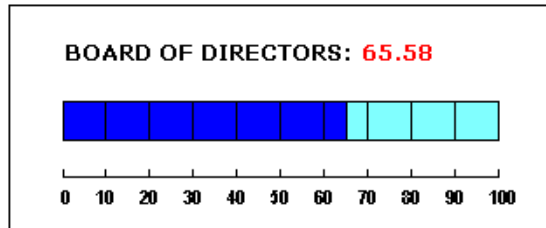
Türk Telekom is sensitive to environmental issues is now taking steps in the way of diversifying its energy sources, using these sources more effectively, and transforming its work processes to ensure less emission of CO2.

For this reason, the company has 15 wind tribunes and 512 solar tribunes around Turkey. The total capacity of these tribunes is 463.000 kVA.

Türk Telekom started work at the beginning of 2008 to initiate the Green Data Center concept. This project, which aims to increase the effectiveness of refrigeration, is targeted to be accomplished in 2009.



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The company's vision, mission and strategic goals are clearly defined
+	The board is staffed with effective and highly qualified members
+	Executive board members do not constitute the majority
=	There is only an audit committee within the board
-	Lack of cumulative voting procedures
-	No signed compliance and liability statement by board members.
-	No provisions in the articles of association defining procedures for shareholders or stakeholders to invite the board to convene.
-	Controlling shareholders have the privilege to nominate board members

The board of directors has clearly defined the vision and mission of the company and is staffed by highly qualified, experienced members maintaining high moral standards. The board is overseeing that company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

The board approves the annual budget and business plans of the company, ensures that the general shareholder meeting is conducted in accordance with the legislation and the company's

articles of association, approves the career plans and remuneration of executives, determines the information policy and ethical rules of the company, and discloses the same to public.

Each member on the board has one vote. Executive board members do not constitute the majority. The member representing the group C share has veto power on certain issues due to the strategic importance of the sector in which Türk Telekom operates.

A corporate governance committee has not yet been established within the board. On the other hand, an audit committee from within the board of directors is established to take all necessary measures in order to ensure that internal and external auditing are carried out adequately and transparently, to supervise whether or not periodic financial statements and its footnotes are prepared in accordance with the current legislation and international accounting standards, and to manage the relations and processes that involve the external audit firm.

On the other hand, the facts that there are no independent board members and therefore any committees that consist of independent board members, the required specifications to be a board member are not listed in the articles of association, and that the cumulative voting procedures are not embraced should be underlined as areas for improvement.

Similarly, before commencing work, members of the board have not declared in writing that they will comply with the legislation, articles of association, in-house regulations and

policies, and in case of incompliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders.

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

The board of directors of Türk Telekom has defined the corporate vision as follows: to provide customer-focused integrated communication solutions to our customers anywhere and anytime. The mission of the company is defined as; to be the preferred communication operator carrying to the future. Türk Telekom's mission and vision are disclosed to public on the company web site and in the annual report.

The board is overseeing that company activities are managed in compliance with the legislation, articles of association of the company, internal procedures and established policies and monitoring the degree of accuracy of the company related financial information. The strategic goals determined by the executives in accordance with the company's plans are presented to the approval of the Board of Directors prior to authorization.

The Board of Directors continuously monitor the status of the holding against its strategic goals and the results of company's activities and its performance are evaluated in detailed reports. In 2009, the company had a preliminary work with PricewaterhouseCoopers to establish a risk management mechanism that is appropriate for the company to minimize adverse effects of the present risks and the risks that the company may face.

The board assesses whether the executives are well qualified to suit the demands of their positions and seeks measures that would encourage qualified employees to work for the

holding over a long period of time. As the board deems appropriate, it terminates the employment of executives and appoints new executives to replace the former without delay.

#### **4.2. Principles of Activity and Duties and Responsibilities of the Board of Directors:**

Although there are no articles specifying qualifications for the members, the holding ensures that Board members: are preferably university graduates; possess a high level of competence and knowledge; are educated and experienced in holding management; are sufficiently competent to interpret the financial statements and reports; possesses basic knowledge of legal framework regulating the activities and transactions related to holding's field of activity; have never been convicted of violating regulations; and are able to attend board meetings.

The board of directors determines the policies concerning shareholders, stakeholders and public relations, disclosure policy, and ethical rules, and takes necessary measures to ensure the organization's compatibility with the current conditions.

No evidence has been encountered as to any misuse of confidential and undisclosed information about the company for the benefit of board members or other parties.

From the beginning of 2009 until the issue date of this report, the board of directors of Türk Telekom held 22 meetings. All decision taken at these meetings are officially recorded. A secretariat is established under the responsibility of the board chairman in order to serve the board and records kept by the secretariat are made available for inspection by the board members.

Each member in the board has one vote. However, the member representing the group C share of Undersecretariat of Treasury of Turkey has veto power on certain issues regarding national security.

The Ethical Rules document has a clause stating that members of the board cannot disclose confidential information and trade secrets to the public. The board has also taken necessary precautions to prevent disclosure of such information by the employees of the company.

Before commencing work, a written declaration by members of the board that they will comply with the legislation, articles of association, in-house regulations and established policies, and in case of incompliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders, is not practiced.

As per the 334th and 335th items of the Turkish Commercial Code, board members obtained the permission from the general shareholders' meeting, except for the items restricted by Turkish Commercial Code.

The members of the Board of Directors are assured to access any type of information to carry out their tasks, and with this respect issues to be discussed at Board meetings are conveyed to members prior to each meeting along with the agenda.

#### **4.3. Formation and Election of the Board of Directors:**

None of the Board members have been convicted or sentenced of non-conformity with the capital markets legislation or the Turkish penal code. All members are qualified and experienced persons maintaining high moral standards and fully capable of

endorsing the required tasks to direct the company. Nevertheless, general rules in this respect are not incorporated in the articles of association of the company.

There are five executive and five nonexecutive members on the board. The board chairman and the chief executive officer is not the same person. However, the board does not comprise independent members. Thus, there is no committee which fully consists of independent members.

The lack of Corporate Governance Committee and lack of a cumulative voting system are important shortcomings with respect to full compliance to the "Corporate Governance Principles" of the Capital Markets Board.

#### **4.4. Remuneration of the Board of Directors:**

Türk Telekom officials confirm that the company did not lend money or extend any credits to a member of the board or the executives.

Apart from this, no other payments are affected to the members of the board as an incentive remuneration which is based upon the performance of the members of the board in connection with the performance of the company.

#### **4.5. Number, Structure and Independence of Committees Established by the Board of Directors:**

An Audit Committee is established within the board. The members are Mehmet Habib Soluk, Basile Yared and Samir Asaad O. Matbouli. The Audit Committee has taken all necessary measures to make sure that internal audit mechanisms are carried out adequately and transparently. The Audit Committee is also supervising

the activities of the external auditors and full compliance with accounting standards. The audit committee also controls the compliance of periodic financial statements and footnotes as per the CMB and IFRS standards.

The appointment of the external auditors and the services to be provided thereby are subject to a preliminary approval by the Audit Committee. However, prior to appointment of the external audit firm, the Audit Committee does not prepare a report stating whether or not there exist any issues that may jeopardize independence of the audit firm.

A corporate governance committee is not established in order to monitor Türk Telekom's compliance with the corporate governance Principles and perform improvement studies and offer any possible suggestions to the board.

#### **4.6. Executives:**

The executives ensure that the company conducts its business within the framework of its mission, vision, goals, strategies and policies and act in accordance with the financial and operational plans of the company as approved by the board each year.

The executives are authorized to perform their duties and have the required professional qualifications in order to perform the assigned duties. During the rating process, we came across to no incidence of any executives exploiting company related confidential and publicly unavailable information in favor of themselves or others. Company officials confirm that there no executives who have been convicted of non-conformity with the capital markets legislation and/or the Turkish Penal Code. Moreover,

employment agreements do indicate that the executive may not be permitted to work for a competitor of the company in case the executive renounces from his/her duty, to protect the interests of the company for a certain period of time.

It has been stated by the company officials that the executives are issuing reports regarding the conformity of in-house procedures to the articles of association and internal procedures to the board of directors. However, this reporting is not on a monthly 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.
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.
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. 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.