

# TURK TELEKOMUNIKASYON A.S.



**INTERIM ANNUAL REPORT AS OF 30 JUNE, 2008**

**BASED ON SERIAL:XI NO:29 COMMUNIQUÉ OF CAPITAL MARKET BOARD**

**20 August, 2008**

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## 1. OVERVIEW OF TURK TELEKOM

Türk Telekomünikasyon A.Ş. (“Türk Telekom”) provides a wide range of communications services from PSTN to mobile, from internet and broadband to value-added services for customers in Turkey.

Türk Telekom is the leading fixed-line operator that provides value-added services beside voice and data services for its wholesale and retail customers through its extensive fixed-line telecommunications network, which covers almost 100% of the population.

Through its wholly owned subsidiary TNet, Türk Telekom offers infrastructure services for other operators besides being broadband internet provider with having the widest sales network in Turkey.

Türk Telekom having 81% shares of Avea, the third largest mobile operator in Turkey, provides a range of mobile communications services, including pre-paid, post-paid and value-added voice services.

Moreover, Türk Telekom operates IT consulting services, telecommunications product and software services and education content businesses through its wholly owned subsidiaries Innova, Argela and IES. The Company also operates CRM systems, directory services and call centers through its wholly owned subsidiary AssisTT.

In addition to providing quick, economic and high quality services everywhere and every time for its customers, Türk Telekom supports various education projects, sports, art and environment sensibility related activities as part of its sense of social responsibility.

In the second quarter ended June 30, 2008; essentially, applications related to Initial Public Offering were made, amendments in the Articles of Association were approved and also Audit Committee Regulations was published after establishing the Audit Committee.

## 2. CORPORATE STRUCTURE

### • Ownership Structure

Current share capital of the Company that is not subject to registered capital system is TRY 3,500,000,000 and entirely paid up. Allocation of paid-in capital among shareholders is below:

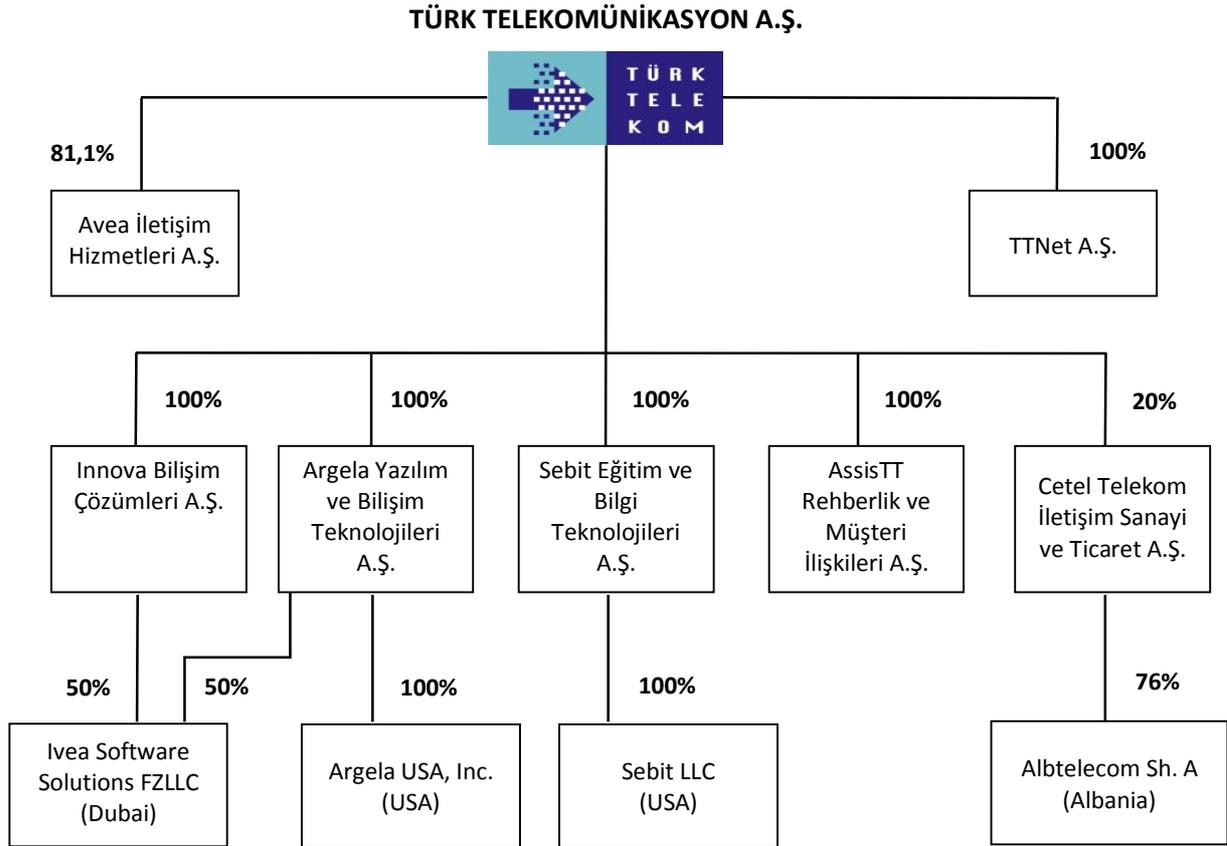
CLASS	SHAREHOLDER	SHARE CAPITAL (TRY)	SHARE (%)
A	Ojer Telekomünikasyon A.Ş.	1,925,000,000.00	55
B	Turkish Treasury	1,049,999,999.99	30
C	Turkish Treasury	0.01	
D	Free Float	525,000,000.00	15

The Türk Telekom Shareholders’ Agreement and the Articles of Association further state that the Turkish Treasury owns a “golden share” (Class C share). The “golden share” is required under the Telephone Law and provides that, in order to protect Turkey’s national interests relating to national security and the economy, the Turkish Treasury’s approval is required for the following matters:

- Any proposed amendments to the Articles of Association;
- The transfer of any of the Company's registered shares (i.e., the Class A shares) which would result in a change in management control;
- The registration of any transfer of the Company's registered shares in the shareholder ledger.

Trading in the shares is made on Istanbul Stock Exchange. (TTKOM.IS).

- Subsidiaries**



- **Management and Organization**

**Board of Directors**

Mohammed Hariri	Chairman of the Board of Directors
İbrahim Şahin	Deputy Chairman of the Board of Directors
Dr. BOULOS H.B. Doany	Member of the Board of Directors, Chairman of the Executive Board and CEO
Doç. Dr. Rıza Metin Ercan	Member of the Board of Directors and Member of the Executive Board
Mehmet Emin Başer	Member of the Board of Directors and Member of the Executive Board
Saad Zafer M Al Kahtani*	Member of the Board of Directors
Samir Asaad O Matbouli*	Member of the Board of Directors
Basile Yared	Member of the Board of Directors
Dr. Hüseyin Altaş	Member of the Board of Directors
Ali Arıduru	Member of the Board of Directors

*\*Assignment of Saad Zafer M Al Kahtani and Samir Asaad O Matbouli to replace Ayman Al Hariri and Ghassan Taher Fadlallah who have resigned from the Board membership, was decided by the Board of Directors on 30 July, 2008. (For the related material disclosure, please look at 10. Material Issues After the End of Period, Amendment in the Board Membership).*

**Executive Board**

Dr. BOULOS H.B. Doany	Chairman of the Executive Board
Doç Dr. Rıza Metin Ercan	Member of the Executive Board
Mehmet Emin Başer	Member of the Executive Board

**Statutory Audit Board**

Mehmet Solgun	Member of the Statutory Audit Board
İsmet Yılmaz	Member of the Statutory Audit Board
Efkan Ala	Member of the Statutory Audit Board

**Audit Committee**

Mohammed Hariri	Chairman of the Audit Committee
İbrahim Şahin	Member of the Audit Committee

### **Senior Management**

Dr. Boulos H.B. Doany	Chief Executive Officer
Celalettin Diñer	VP Operations
Ersin Topçuođlu	VP Finance
Mehmet Candan Toros	VP International and Wholesale
Şükrü Kutlu	VP Regulation and Support Services
Gökhhan Kamil Bozkurt	VP Human Resources
Dr. Mehmet Kömürcü	VP Legal
Tunç Yorulmaz	VP Strategy and Business Development
Erem Demircan	VP Marketing and Internal Communications
Aydın Çamlıbel	VP Sales
Paul Taylor	Commercial Transformation Officer

### **3. GENERAL MEETINGS**

An Ordinary General Meeting was made on 15 April, 2008; in the meeting balance sheet, income statement accounts were approved unanimously, members of the Board of Directors and Statutory Audit Board were acquitted, distribution of 2007 profit to Ojer Telekomünikasyon A.Ş. and Turkish Treasury in proportion of their shares and completion of the profit distribution process in 2008 were decided, Board of Directors was authorized to set a calendar about that issue, membership approval of new assigned Statutory Audit Board member in order to conclude his remaining time were approved unanimously in accordance with articles 315 and 351 of Turkish Commercial Code. Issues regarding the Ordinary General Meeting were published in 7048 numbered Trade Registry Gazette on 24 April, 2008.

An Extraordinary General Meeting was made on 30 April, 2008; in the meeting revision of some provisions of the Company's Articles of Association in related with the Initial Public Offering procedure was approved unanimously. In the Preferred Stock Holder Private General Meeting which was made on the same date, approval of the decisions that were made in 2008 year Extraordinary General Meeting was decided unanimously. Detailed information related to revisions in Articles of Association was given below in the third section headed Amendments in the Articles of Association. Extraordinary General Meeting Minutes regarding amendments in the Articles of Association named, Preferred Stock Holder Private General Meeting Minutes and amended provisions of the Company's Articles of Association were published in 7054 numbered Trade Registry Gazette on 2 May, 2008.

### **4. MEETINGS OF THE BOARD OF DIRECTORS**

In the interim period of this report, meetings of the Board of Directors held on 2 April 2008, 8 April 2008, 22 April 2008, 25 April 2008, 6 May 2008, 21 May 2008, 2 June 2008, 5 June 2008 and 9 June 2008.

From the resolutions of the Board of Directors meetings listed above;

- With the resolution numbered 16 at the meeting numbered 8 held on 22 April, 2008,  
To pay half of the Company's 2007 financial year total distributable profit, TRY 2,743,604,969.86, on which distribution decision was made, until the end of April and to pay the remaining amount by three equal installments in accordance with the financial capacity of the Company at the end of June, July, August,
- With the resolution numbered 18 at the meeting numbered 8 held on 22 April, 2008,  
To elect the Board Member Mohammad Hariri as the Chairman of the Board of Directors, thus to terminate the chairmanship term of Dr. Boulos H.B. Doany,
- With the resolution numbered 22 at the meeting numbered 9 held on 25 April, 2008,  
To amend the related provisions of the Articles of Association to make them in accordance with the Capital Market Board Law, other related law and regulatory provisions as part of the Initial Public Offering of a portion of the Company' shares, to apply for required authorization to Capital Market Board and Ministry of Commerce, to complete the legal procedure after getting the authorization, to submit all of those issues for the General Board approval and to authorize the Head Office to make the Initial Public Offering related transactions,
- With the resolution numbered 24 at the meeting numbered 9 held on 25 April, 2008,  
To apply the second alternative from the alternative methods mentioned in the footnote numbered 2.2. of the consolidated financial tables in 2007 year Financial Report that was prepared as of 31 December, 2007 and approved with the decision of the Board of Directors dated 8 April, 2008 and numbered 15 related to the "Service Concession Agreement" that was published by the International Financial Reporting Interpretations Committee ("IFRIC") and is applicable as of 1 January, 2008,
- With the resolution numbered 29 at the meeting numbered 13 held on 2 June, 2008,  
To make Dr. Boulos H.B. Doany, Member of the Board of Directors and CEO, severally authorized for the following issues, as part of the procedures for which the Company works with CETEL related to privatization of Albtelecom,
  - To make all deals and transactions -on behalf of the Company- related to finance operations under the loan agreement dated 18 April, 2008 and signed among CT Telecom Sh.A whose 100% shareholder is CETEL Telekom İletişim Sanayi ve Ticaret A.Ş., in which Türk Telekom has 20% shares, and the credit grantors
  - To sign "Project Funds Agreement", "Security Sharing Agreement", "Subordination Agreement" and all other documents related to finance operations that have to be signed by the Company,
- With the resolution numbered 33 at the meeting numbered 13 held on 2 June, 2008,  
To authorize Ersin Topçuoğlu, Finance Vice President, or Dr. Mehmet Kömürcü, Legal Vice President, with their several signatures for following issues,
  - To approve all deals, transactions and all signed documents, forms -on behalf of the Company- by the managers and officials of the Company related to the public offering of 15% portion of D Class shares that are hold by the Turkish Treasury and to confirm that those documents are binding for the Company,

- To make material disclosures by Istanbul Stock Exchange (“ISE”) on behalf of the Company and to provide information and documents claimed by Capital Market Board and ISE,

were decided.

## **5. AMENDMENTS IN THE ARTICLES OF ASSOCIATION**

At the 2008 year Extraordinary General Meeting dated 30 April, 2008, to make the related provisions of the Articles of Association in accordance with the Capital Market Board Law, other related law and regulatory provisions as the part of the public offering of 15% portion of D Class shares that are hold by the Company’s shareholder Turkish Treasury, amendment of the first clause entitled “Establishment”, the third clause entitled “Objective and Scope of the Company”, the fourth clause entitled “Head Office and Branches of the Company”, the sixth clause entitled “Capital”, clause 6/A entitled “Share Transfer”, clause 6/B entitled “Default”, clause 6/C entitled “Judgement and Consequences of Share Transfer”, the seventh clause entitled “Issue of Bonds, Equity Securities and Other Securities”, the eighth clause entitled “the Board of Directors”, the ninth clause entitled “Qualifications and Requirements of the Board Members”, the twelfth clause entitled “Board of Directors Meetings”, the twenty-first clause entitled “Invitation to Meeting and Quorum”, the twenty-second clause entitled “Appointment of Proxy”, the twenty-fourth clause entitled “Voting Method”, the twenty-sixth clause entitled “Forwarding Documents”, the twenty- eighth clause entitled “Profit Distribution”, the thirtieth clause entitled “Profit Payment Period and Method”, the thirty-first clause entitled “Announcements”, the thirty-second clause entitled “Definitions” and addition of the clause 17/A entitled “Independent Audit Firm” to the Articles of Association were approved unanimously. Approved amendments in Articles of Association were published in 7054 numbered Trade Registry Gazette on 2 May, 2008.

## **6. ESTABLISHMENT OF THE AUDIT COMMITTEE**

Assignment of Mohammad Hariri and İbrahim Şahin as the Chairman of the Audit Committee and Member of the Audit Committee respectively and acceptance of the Audit Committee Regulations were approved with the resolution numbered 35 at the Board of Directors meeting numbered 15 held on 9 June, 2008.

## **7. TRANSACTIONS RELATED TO THE INITIAL PUBLIC OFFERING**

Ensuring amendment of the related provisions of the Articles of Association in accordance with the Capital Market Board Law, other related law and regulatory provisions as the part of the public offering of 15% portion of D Class shares that are hold by the Company’s shareholder Turkish Treasury, amendments of clauses of the Articles of Association that were mentioned above in the fifth section entitled “Amendments in the Articles of Association” were approved at 2008 year Extraordinary General Meeting held on 30 April, 2008 and those accepted amendments were published in 7054 numbered Trade Registry Gazette on 2 May, 2008.

At the 13/526 numbered meeting of Capital Market Board held on 2 May, 2008, registration of the Company’s shares in the portfolio of Turkish Treasury including additional public offering at TRY 603,750,000 nominal value and also shares representing the existing capital that will not be

offered to public, in the Capital Market Board was decided and that issue was declared to the Company with B.02.1.SPK.0.13-779-7452 numbered letter of Capital Market Board on 2 May, 2008. Based on those, Shares of the Company were registered in the Capital Market Board and 22/526 numbered, 2 May, 2008 dated "Document Related to the Registration of the Incorporated Company's Shares" was given to the Company. B.02.1.SPK.0.13-779-7452 numbered, 2 May, 2008 dated letter of Capital Market Board, 22/526 numbered, 2 May, 2008 dated "Document Related to the Registration of the Incorporated Company's Shares" and Türk Telekom Public Offering Prospectus were published in 7060 numbered Trade Registry Gazette on 12 May, 2008.

On the other hand, application for Istanbul Stock Exchange to be listed the Company's shares that will be offered to public on the Stock Exchange was approved and the shares offered to public started trading on Istanbul Stock Exchange on 15 May, 2008.

As the result of the membership application for the Central Registry Agency to ensure the registration of the Company's shares, confirmation of the Company's performance related to requirements of the membership was reported with M.3/14834-17675 numbered, 23 June, 2008 dated letter of the Central Registry Agency and the completion of the Company's membership procedures was declared with the 13 June, 2008 dated Board decision of the Central Registry Agency.

## **8. OPERATIONAL PERFORMANCE**

- The number of PSTN access lines, which was 18,2 mn in 2007 year end, decreased 17,8 mn for the end of June 2008.
- Total ADSL connections, which was 4,5 mn in 2007 year end, reached 5,2 mn for the end of June 2008.
- Mobile subscribers continued to increase. Mobile subscribers, which were 10 mn for 2007 year end, reached 11 mn for the end of June 2008. During the same period, the post-paid subscribers increased from 3,7 mn to 3,9 mn and pre-paid subscribers increased from 6,3 to 7,1 mn.
- Despite the decrease in PSTN access lines, PSTN ARPU reached to the TRY 24,3 in H1 2008 compared to the TRY 23,6 of the same period of 2007.
- ADSL ARPU, which was TRY 28,6 for H1 2007, decreased TRY 26,8 for the same period of 2008
- GSM blended ARPU increased to TRY 15,8 (prepaid ARPU: TRY 10,2, postpaid ARPU: TRY 24,5) in the H1 2008 compared to the TRY 15 (prepaid ARPU: TRY 8,6, postpaid ARPU: TRY 23,8) of the same period of 2007
- Number of Turk Telekom employees except its affiliates decreased to 33 thousand at the end of H1 2008 while it was 38,7 thousand in 2007 year end. In result, access lines per employee increased to 540 compared to the 490 of the 2007 year end.
- While Turk Telekom maintained its market share in domestic telephony and wholesale broadband in H1 2008 compared to 2007 year end, it increased its GSM market share to 17,2% compared to the 16,2% of the same period.

## 9. SUMMARY FINANCIAL RESULTS

- Summary Türk Telekom Consolidated Balance Sheet as of 2007 YE and 2008 H1

<i>TRY million</i>	2007 YE	2008 H1
Intangible Asset	2,689	2,650
Tangible Assets	6,546	6,263
Other Assets	2,200	2,365
Cash and equivalents	1,333	1,103
<b>Total Assets</b>	<b>12,768</b>	<b>12,381</b>
Share capital	3,260	3,260
Reserves and retained earnings	2,898	1,133
Interest Bearing Liabilities	2,148	2,942
Provisions for long-term employee benefits	965	872
Other Liabilities	3,497	4,174
<b>Total Equity And Liabilities</b>	<b>12,768</b>	<b>12,381</b>

- Summary Türk Telekom Consolidated Income Statement as of 2007 H1 and 2008 H1

<i>TRY million</i>	2007	2007 H1	2008 H1
<b>Revenues</b>	<b>9,423</b>	<b>4,463</b>	<b>4,977</b>
<i>Change</i>			12%
<b>EBITDA</b>	<b>4,184</b>	<b>2,042</b>	<b>2,182</b>
<i>Margin</i>	44%	46%	44%
<b>Operating Profit</b>	<b>2,546</b>	<b>1,200</b>	<b>1,351</b>
<i>Margin</i>	27%	27%	27%
<b>Profit Before Tax</b>	<b>2,981</b>	<b>1,404</b>	<b>1,298</b>
<i>Margin</i>	32%	31%	26%
<b>Profit/(Loss) For The Year</b>	<b>2,572</b>	<b>1,102</b>	<b>1,026</b>
<i>Margin</i>	27%	25%	21%

- **Summary Türk Telekom Consolidated Revenue Breakdown as of 2007 H1 and 2008 H1**

<b>TRY million</b>	<b>2007</b>	<b>2007 H1</b>	<b>2008 H1</b>
Domestic telephony	5,336	2,647	2,613
ADSL	1,224	580	791
Wireless operations	1,706	748	1,017
Data service revenues	170	77	109
International settlements	210	80	110
Interconnect	170	90	82
Leased lines	523	257	288
Rent from GSM operators	117	57	62
Other	9	4	21
Discounts/returns	-14	-2	-9
Business segment eliminations	-220	-102	-121
<b>Sub-Total net revenue</b>	<b>9,232</b>	<b>4,436</b>	<b>4,970</b>
Construction Revenue (IFRIC 12)	191	27	7
<b>Total net revenue</b>	<b>9,423</b>	<b>4,463</b>	<b>4,977</b>

- **Summary Türk Telekom Consolidated OPEX Breakdown as of 2007 H1 and 2008 H1**

<b>TRY million</b>	<b>2007</b>	<b>2007 H1</b>	<b>2008 H1</b>
Personnel costs	-1,824	-960	-1,045
Domestic interconnection	-582	-279	-292
Maintenance and repairs	-344	-145	-273
Bad debt provision expense	-267	-138	-116
Taxes	-458	-218	-238
Commissions	-234	-84	-85
International interconnection	-92	-40	-53
Advertising and marketing expense	-198	-85	-132
Other expenses	-1,334	-628	-652
<b>Sub-Total operating expenses</b>	<b>-5,333</b>	<b>-2,577</b>	<b>-2,886</b>
Construction Expense (IFRIC 12)	-171	-24	-6
<b>Total operating expenses</b>	<b>-5,504</b>	<b>-2,601</b>	<b>-2,892</b>

## **10. MATERIAL ISSUES AFTER THE END OF PERIOD**

- **Tender of Kyrgyztelecom**

According to the material disclosure that was made on 17 July, 2008: The State Committee of State Property of the Kyrgyz Republic has recently invited local and foreign strategic investors to take part in the block sale tender for the State's shareholding in Kyrgyztelecom Open Joint-Stock Company, which is the Kyrgyz Republic's national telecommunications operator. Kyrgyztelecom is the leading fixed line service provider of the Kyrgyz Republic and also holds a GSM licence through its wholly-owned subsidiary, KT Mobile LLC. The State holds 77.84% of Kyrgyztelecom. Turk Telekom Board decided to evaluate participation to Kyrgyz Telecom tender. A joint team is formed between Oger Telecom and Turk Telekom to consider the opportunity and make necessary preparations for the tender submissions in line with the set tender procedures. In case of any material development occurs with regards to this subject, necessary announcements will be made accordingly.

- **Amendment in the Membership of Board of Directors**

According to the material disclosure that was made on 30 July, 2008: In accordance with the Article 315 of the Turkish Commercial Code, assignment of Saad Zafer M Al Kahtani by the Board of Directors to replace the resigned Board Member Ayman Al Hariri was approved according to 44 numbered Board of Directors' resolution on 30 June, 2008. By the same way, In accordance with the Article 315 of the Turkish Commercial Code, assignment of Samir Asaad O Matbouli by the Board of Directors to replace the resigned Board Member Ghassan Taher Fadlallah was approved according to 45 numbered Board of Directors' resolution on 30 June, 2008. In accordance with the Article 315 of the Turkish Commercial Code, new Board Members will be submitted for approval of the General Board in the first General Meeting of the Company.