



BASED UPON  
“The Corporate Governance Principles of Turkey” issued by  
the Capital Markets Board of Turkey

RATING REPORT ON  
**TAV Airports Holding Co.**



RATING RELEASE DATE  
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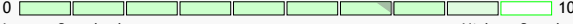
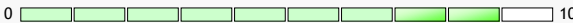
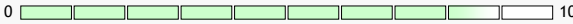
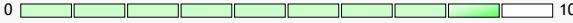
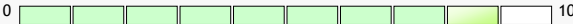
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**ISS**   
CORPORATE  
SERVICES  
RATING SUMMARY

| COMPANY INFORMATION  |  |
|--|--|
| <p><b>TAV Airports Holding Co.</b><br/>Istanbul Ataturk Havalimani Dis Hatlar Terminali<br/>34149 Yesilkoy/<br/>Istanbul, Turkey<br/><a href="http://ir.tav.aero">http://ir.tav.aero</a></p> | <p>CHAIRMAN<br/>Mr. Hamdi Akin</p> <p>PRESIDENT AND CEO<br/>Mustafa Sani Şener</p> |
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| ICS RATING RESULTS   |  |
|--|--|
| <p><b>OVERALL SCORE</b></p> <p style="text-align: right;"><b>90.35%</b></p> <p>0  10<br/>Lowest Standard Highest Standard</p> <p><b>RESULTS BY CATEGORY</b></p> <p>Shareholders<br/>0  10<br/>Lowest Standard Highest Standard</p> <p>Public Disclosures and Transparency<br/>0  10<br/>Lowest Standard Highest Standard</p> <p>Stakeholders<br/>0  10<br/>Lowest Standard Highest Standard</p> <p>Board of Directors<br/>0  10<br/>Lowest Standard Highest Standard</p> |  |

**SUMMARY**

ISS Corporate Services (hereafter, ICS) assigns a rating score of 9.03 to TAV Airport Holding Co. (TAV). This rating reflects a good overall performance of the company regarding its current corporate governance structures as measured against the Principles of the Turkish Capital Markets Board (CMB). TAV has made a continuous effort to adopt progressive corporate governance practices in its corporate management structures and this is reflected in its improved score. These changes include, but are not limited to; an enhanced information document, updated articles of association, a smaller board, an updated disclosure policy, a new IR web site, and an extended FAQ section on the website. The degree of compliance with the underlying CMB principles of 90.35% indicates that the company has made a strong effort to comply with the CMB principles.

TAV Airports Holding Co. has implemented a range of corporate governance enhancements in the past several years in numerous areas such as and internal control and reporting mechanisms, the reconstitution of the audit committee, an information document pertaining to the AGM, a more direct reporting system and a comprehensive disclosure policy. The company has also re-vamped its website to accommodate these changes.

TAV continues to score particularly well in the area of Public Disclosure and Transparency and with regard to Interactions with Stakeholders. It has also improved in matters reporting and functioning of the board.

**METHODOLOGY AT A GLANCE**

ICS was appointed by TAV in July 2010 to update its current corporate governance structures and workings in line with Corporate Governance Principles developed by the Turkish Capital Markets Board. This is the second rating conducted for TAV Airports Holding Co. The rating is based on public information. Correspondence and conversations with the company expanded upon the disclosures.

The Rating Report is based on information provided to ICS in July and August 2010. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

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## RATING METHODOLOGY

### UNDERLYING REFERENCE

The corporate governance (CG) rating at hand has been conducted by ISS' Corporate Services division based on the *Capital Markets Board (CMB) CG Principles* (CMB Principles). As such, it differs in content and methodology from ISS' standard CG ratings that are based on ISS' own methodology.

With respect to global financial market developments the CMB of Turkey has defined CG principles in 2003, followed by an amendment in early 2005. The CMB Principles have been compiled in line with an approach to restructure and harmonize the country's capital market according to international standards. Created by a committee consisting of representatives of the CMB, the Istanbul Stock Exchange, the Turkish Corporate Governance Forum as well as participants from the academic field and the private sector, the established CMB Principles represent a synthesis of various national and international regulations and codes (e.g. the *OECD Corporate Governance Principles*) on the one side and particular domestic considerations on the other side.

The CMB Principles are divided into four main sections:

- Shareholders
- Public Disclosure and Transparency
- Stakeholders
- Board of Directors

In addition to existing legislation, the Principles include provisions that go beyond legal obligation. Though the company is not obliged to fulfill these additional provisions, it has to fully apply a "comply or explain" approach. However, the Principles also contain certain recommendations, where a deviation does not have to be disclosed.

### THE RATING

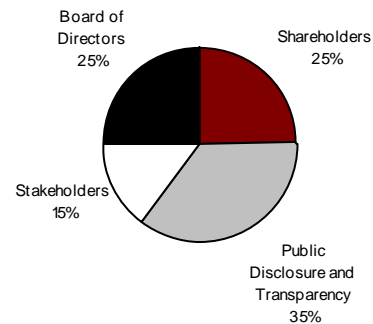
Based upon the CMB Principles, we identified more than 350 criteria to be included into the rating. Each single criterion has been examined thoroughly upon compliance by the company, on the basis of publicly available information. Additional information was provided by the company upon request.

Correspondence and conversations with senior company representatives clarified and expanded upon the disclosures.

While in most instances a straightforward 0 (no) or 1 (yes) scoring approach has been applied, we also attributed a score of 0.5 points in some instances to acknowledge a partial fulfillment by the company or where the rating criteria could not be applied to the full extent. In order to reach the highest rating result, a company also has to comply with the recommendations put forward by the CMB Principles.

The weighting scheme to be applied to the four main sections was pre-determined by the CMB as outlined below:

### Weighting Scheme



Further sub-weightings have been attributed to the sub-criteria according to ISS' own reference.

Based upon the scoring and adjusted weightings the overall rating result has been calculated. The result reflects the overall compliance of the company with the constituted CG rating criteria. Besides the overall assessment, results also have been calculated for each main section, providing a differentiated picture of the company's strengths and weaknesses.

The rating results are displayed as a percentage, thereby indicating the most accurate result, and as a numeric result on a scale from zero (lowest) to ten (highest) with half-point steps to provide nuanced results.

## EXECUTIVE RATING SUMMARY

Though the corporate governance (CG) structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the CG situation on the country level. Despite the fact that the country level is not a part of the rating itself, we believe that an overview can enable investors to enhance their CG perspective and evaluation in a more holistic approach.

Turkey, as a promising emerging market and a candidate for future EU accession, is well aware of structural changes and the need for an ongoing development and harmonization of its capital market legislation and has amended its legislation accordingly. Although, Turkey can be considered as a latecomer in CG development, it has tried to speed up the progress since the year 2000. The overall legal framework regulating public companies in Turkey is determined by the Turkish Commercial Code, the Capital Markets Law, the Decree-law, Capital Markets Board (CMB) regulations, and *Istanbul Stock Exchange* (ISE) listing requirements. Focusing in particular on CG the CMB and the ISE can be observed as key players in promoting relevant regulations. They are supported by several other organisations such as the *Turkish Industrialists' and Businessmen's Association*, *Corporate Governance Association of Turkey*, *Corporate Governance & Sustainability Center* and the *Corporate Governance Forum of Turkey*. However, despite rapid process on the regulatory side to improve the legal and institutional framework, the necessary implementation on the companies' side remains dissatisfying. According to a survey on CG in Turkey, conducted by *The Institute of International Finance* in 2005, the country finds itself still at an early stage of implementing a strong equity culture.

In the following, general aspects of Turkish CG practice are outlined.

### COUNTRY ROUNDUP

- Within Turkish companies stock ownership is concentrated, very often characterised by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings are quite common. Through these mechanisms Turkish families control a considerable amount of Turkish listed companies. Additionally one can also find shares containing multiple voting rights, thus preserving family control.
- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers appear to be rare, thus, weakening the market for corporate control. However, state ownership has declined significantly in line with massive privatization, but is still to be found in the energy, communication and mining industries. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few state-owned companies. The two types of equity securities in Turkey are bearer and registered shares, whereby most of the shares traded at ISE belong to the former one.
- Minority rights are granted to shareholders that own at least 5 % of the company's capital, providing them with the right to call an extraordinary General Meeting or bring in a shareholder proposal.
- In order to vote at a General Meeting, shareholders must either be present in person or can be represented by a proxy. Provisions do not contain postal or electronic voting possibilities as well as voting via a company representative, so called oriented proxy voting.
- Even though preemptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude preemptive rights in case of capital increases up to 100 % of their registered capital.
- Mandatory tender offer bid requirements exist according to different thresholds (e.g. increasing stake above 25 %)
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75%) are passed.
- With the beginning of 2008, listed companies have been urged to adopt IFRS accounting standards.

- Turkish companies have a single tier board structure.
- The CMB Principles outline rules that regulate the independence of board members, thereby also indicating that the board should be composed of at least 2 independent members and/or to at least one third.

### **TAV'S PERFORMANCE OVERVIEW**

TAV's overall rating result of 9.03 indicates a high compliance level with the established rating criteria with respect to the CMB Principles. Transferred on the numeric rating scale, the company's result equals a 9.0, conveying that the company has very good CG structures and performance. The company's effort to continuously improve its corporate governance is reflected in the score again this year.

TAV is committed to the CMB guidelines and in the last years has reviewed its practices and implemented pertinent CG mechanisms to comply with these principles. This can be seen in recent company initiatives in 2010 that include, but is not limited to; (1) an enhanced public information document; (2) revised articles of association; (3) updated disclosure policy; (4) an extended FAQ section; (5) IR website that utilizes the latest technology; (6) an updated code of ethics

At the December 5, 2008 Extraordinary Meeting (EGM) it was agreed to revise TAV's Articles of Association (AoA) according to the CMB principles. The major matters concerned by the amendment were, among others, independent director qualifications, the governing principles for both the Audit and Corporate Governance Committees, determination of duties and responsibilities of the board of directors and the announcement time period for general assembly meetings and Company announcements.

TAV has made significant efforts to ensure compliance with the CMB guidelines. In addition to the mandatory CG compliance report as part of its annual report, TAV also reconstituted its Audit and Corporate Governance Committees to comply with its Corporate Governance Principles.

After reconstituting the above mentioned committee in 2008, TAV implemented a comprehensive

Corporate Governance Policy that is posted on the Company's website. Considering these developments, one can see evidence that TAV is proactively pursuing good corporate governance practices on a continuous basis.

TAV has improved upon the aforementioned changes in 2010. This is evident in the public release of an information document that details the company's annual agenda items. Updates have also been made to the company's disclosure policy. The company's website has also been improved and leverages the latest technology to keep investors better informed.

Reflecting the single results of the four main components of the rating, TAV performs well in all of them, but continues to show particular strength in its Public Disclosure and Transparency area where it outperforms most of its Turkish peers. Impressive gains were also made in board related functioning, disclosure, and transparency.

### **SHAREHOLDERS**

With respect to shareholder issues, TAV adheres to good practices as outlined by the CMB principles. Although no dividends have been made since its IPO in February 2007, a policy exists and dividends can come in the form of shares or cash distributions. The Company's accumulated losses at the end of fiscal years 2008 and 2009, however, have been instrumental in deterring the Company from making any type of dividend payment. The company also continues to embark on a period of investment into longer term growth prospects to realize its aggressive growth strategy. In 2010, this strategy has continued to unfold and be built upon. Voting rights are sufficiently defined and TAV only has bearer shares.

An Investor Relations Department continues to be pro-active in maintaining continuous communications with shareholders and stakeholders. One of its main responsibilities is the corporate investor relations' website. The IR website contains a high level of information in a clear and organized format. The IR website was awarded the best IR website according to Turkey's 1<sup>st</sup> Investor Relations Awards, supported by Thomson Reuters and Acclaro in 2009 and ranked 2nd in 2010.

The Company's Articles Association (AoA) currently do not recognize request for the assignment of a



special auditor as an individual right. It does, however, authorize shareholders to direct attention of auditors to doubtful matters and to request explanations. We acknowledge that shareholders have the right to ask for appointment of a special auditor under the Turkish Commercial Code. In this case, however, the company has refrained from making explicit mention of this recourse in the material made publicly available to shareholders.

The company has not yet implemented cumulative voting measures. This issue is still being contemplated by the company. We suggest that TAV continue in its efforts to add special provisions related to shareholder rights in its articles of association and other widely publicized corporate governance documents. The corporate governance friendly measures taken at the extra-ordinary meeting of shareholders in December of 2008, in the form of enhanced shareholder rights in the AoA, are a good starting point and will help keep the company in-line with international best practices

The AGM follows principles ensuring fair and equitable treatment of shareholders. Overall, this has been improved upon in 2010, The AGM notification, however, was sent seventeen days prior to the meeting. The minutes in English of the AGMs are available to shareholders on the website.

#### **PUBLIC DISCLOSURE AND TRANSPARENCY**

A new information policy has been approved by the Board and published on the corporate website. The Company also has a corporate website for investors with a CG section. The English site has been significantly enhanced once again in 2010. Relevant information related to past AGM's and agenda items is provided and is easily accessible in the corporate governance section on the Company's website.

The company has taken several measures to enhance its level of transparency. Its adherence to its code of ethics and the insider trading list (with the people having potential access to confidential information) and the measures to avoid insider trading are publicly disclosed. Disclosure from the external auditor reveals that it does not offer consulting services and that it is subject to regular rotation. Both conditions work to ensure independence.

#### **STAKEHOLDERS**

Stakeholders' issues are duly considered and respected by TAV. While most CMB suggestions are followed, some minor deficiencies are identified and examined within the rating report.

The company takes actions to address stakeholders' issues through the Investor Relations Department, Corporate Communications Department, and the corporate website. The company is very active and responsive on all of these fronts.

Although stakeholders' opinions are taken into account in the management of TAV, a comprehensive model to ensure this interaction is not in place. The ethical rules applicable provide the essential rules that govern the relationships between the company and its different stakeholders. This dynamic continues to be evaluated by the company.

TAV has a Human Resources policy and has introduced a performance based compensation model. This process has continued in 2010.

#### **BOARD OF DIRECTORS**

The board of TAV consists of nine members, four executive and seven non-executive members, of which two are independent. This is in compliance with the guideline that at least two or one-third of directors qualify as independent according to a strict interpretation of the CMB Principles. In order to support the work of the board, two committees have been established: the Corporate Governance Committee and the Audit Committee. Whereas the Audit Committee is headed by an inside NED, the Corporate Governance Committee is headed by independent director.

The board can be considered as actively involved in the company's development and performance and contributes to a material extent in setting up the vision and mission statements of the company.

Every board member is entitled to one vote without any privileges. Our assessment did not reveal issues that would question a good working atmosphere during board meetings. The company provides basic rules for the procedures for running the meetings in the AoA. The remuneration structure of board



members follows most CMB recommendations on the subject and it should be noted that only independent directors are compensated for their service.

A secretariat has been established to support the work of board members and ensure proper communication, but there limited information provided concerning the responsibilities.

A monthly report of the work performed by the executives as recommended by the CMB is prepared.

Compensation still is not sufficiently explained in the company's public documents, but according to the Company, there is a performance based bonus for executives.

#### **FINAL REMARKS**

With the rating at hand, investors are able to evaluate the corporate governance practices of TAV according to their individual preferences. On the whole, the established structures and mechanisms can be considered in to closely follow the CMB principles. Continuing the implementation of these principles at country level and considering international best practice will further enhance CG practice at TAV and lower potential risk factors for investors. As structural changes in the capital market of Turkey proceed and economic development remains benign, one can assume that Turkey will remain to be attractive to foreign investors. However, existing holding structures and majority shareholdings could be seen as a threat to minority shareholders, discouraging investment.

Thus, an extension of the free float coupled with an amplified engagement by domestic and international shareholders, can be considered favorable, especially by foreign investors.

## COMPANY OVERVIEW

TAV Airport Holdings Company was founded in 1997 and is the leading airports operator in Turkey. TAV was initially formed as a joint venture between Tepe and Akfen Groups following their successful bid for the Istanbul Atatürk Airport International Terminal Contract in 1997. In the thirteen years since its inception, TAV has established itself in both the airport construction and operation businesses.

In order to keep in step with its growth and investment opportunities, the Company reorganized its businesses in 2006 into TAV Airports Holding Company and TAV Construction, respectively. This was followed by the IPO of TAV Airports Holding Company in 2007.

TAV Airports Holding Company is comprised of thirteen companies (7 airport and 6 service companies, excluding their subsidiaries). In addition to its core service of airport operations, the Company is engaged in the complementary business lines of ground handling services, duty free shops, food and beverage services, operations & services, and IT and security services.

The Company seeks to build on its record of horizontal expansion in the industry by successfully leveraging its economies of scope and track record in both the region, as well as in the emerging markets of Eastern Europe, North Africa and in the Caucasus region. For example, the Havas subsidiary NHS has operations in Riga (Latvia, EU member) and Helsinki.

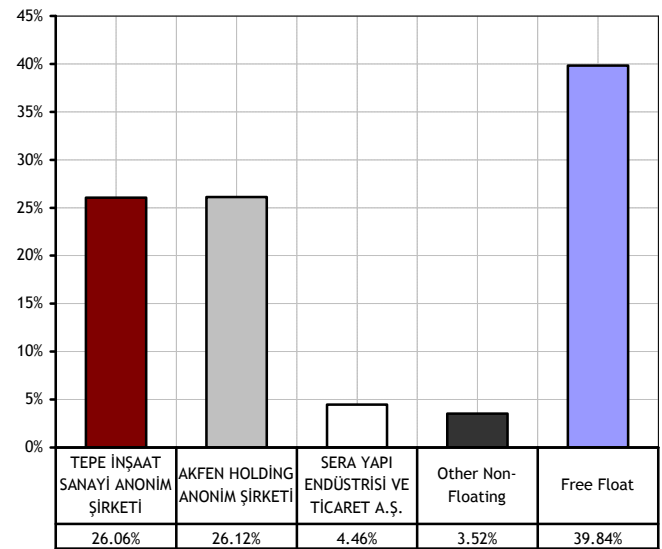
This is evident in the construction and operation of four major airports in Turkey (Istanbul Atatürk, Ankara Esenboga, Izmir Adnan Menderes, Gazipasa Airports), two in Georgia (Tbilisi and Batumi Airports), two in Macedonia (Skopje and Ohrid Airports), and two in Tunisia (Enfidha and Monastir Airports). TAV started operating Monastir Airport in 2008 and operations in Enfidha commenced in 2009. The company continues to position itself to take advantage of continued growth in the regions it operates. Recent expansion into Macedonia serves as an example of this market positioning.

Currently, TAV Airports serves 374,952 flights by 300 airline companies every year, with 42 million passengers on average. With this capacity, TAV Airports is among the leading airport operators in the world.

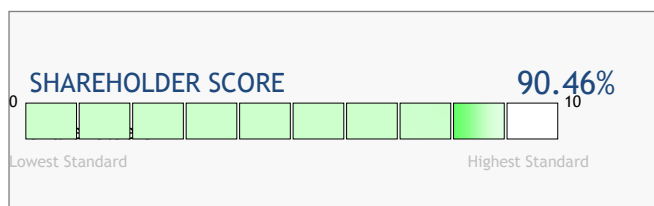
**Table 1: Stock performance**

|  | YTL  |
|--|------|
| 26.08.2010                                 | 6.75 |
| 52 Week High*                              | 7.60 |
| 52 Week Low*                               | 3.82 |
| *One year / (Source: Bloomberg 26.08.2010) |      |

**Table 2: Shareholder Structure of TAV**



## SECTION 1 - SHAREHOLDERS



### 1 Summary

TAV reaches an excellent quality result of 9.04 in this category, in-line with the overall rating score. A clear dividend policy is in place and voting rights are well defined. Each share is subject to the one share - one vote - one dividend principle.

An Investor Relations Department was established in 2006 to enable shareholders to exercise their rights and obtain relevant information. This department reports directly to the CEO and is actively engaged in responding to shareholder requests in a timely fashion. In 2010, TAV's investor relations department received awards for "Best Investor Relations Officer," "Best CEO for Investor Relations", and "Best CFO for Investor Relations", from Thomson and Acclaro at the second annual Turkish Investor Relations Awards. The company also placed in "Best IR Team" and "Best IR Website" categories.

With a free-float high above the Turkish capital market, TAV pays close attention to minority rights. Minority rights are clearly defined. However, the right to request a special auditor is not provided by the articles of association, although minority shareholders can direct to the attention to auditors any doubtful matters that may arise. This right is guaranteed in the company's articles of association. Cumulative righting votes do not exist and the company revealed that it is still examining the merits of this voting system.

The Annual General Meeting (AGM) invitation and agenda including the proxy voting form were made available to shareholders 17 days prior to the meeting. The English version of the invitation, summary of the voting results and attendance rate (minutes) was uploaded on the company website for the previous four years (AGMs held in 2007, 2008, 2009 and 2010). The AGM is run in a fair and efficient manner and

shareholders are allowed to exercise their statutory rights

### 1.1 Rights of Shareholders

| GOVERNANCE FOCUS   |
|--|
| + Established dividend policy  |
| + Clearly defined voting rights  |
| + Proxy voting   |
| + No preferred stocks  |
| + Respect of one share - one vote - one dividend principle                   |
| + Minority rights apply to shareholders owning at least 5 % of share capital |
| + Information provided to shareholders                                       |
| - No cumulative voting procedures  |
| - Right to appoint a special auditor not in the AoA                          |

#### 1.1.1 Dividend and Voting Rights

A *dividend policy* is established and accessible through the company's public documents and through the website, in both English and Turkish. Although there are no privileges associated with respect to participation in the Company's profit, a consistent distribution policy is stated in the Corporate Governance Principles Compliance Report and in Article 37 in the Articles of Association (AoA). In the event the Company paid a dividend, 20% of the distributable net profit is subject to distribution. In the last AGM, it was decided that dividends would not be distributed to shareholders due to losses in the previous years.

None of the company's shares incorporate special rights concerning the distribution of the company's profits. Each share entitles the holder thereof to an equal dividend.

*Voting rights* are well defined in the company's AoA, and CGCR, thereby ensuring equal and clear voting procedures. According to the AoA, voting is exercised by show of hands, but a secret ballot system may also be applied in the event the absolute majority of the General Assembly decides to do so. Additionally, there

are no ceilings on the number of votes a shareholder may exercise during the meeting.

As the company has not issued any preferred stock, each share is entitled to the one share - one vote - one dividend principle without any further privileges. The right to vote is automatically granted when the share is purchased, and no arrangements should be installed that would hinder this right or cause a delay in exercising voting rights, following the share acquisition. Shareholders are enabled to exercise their proxy voting rights, through either another shareholder or a non-shareholder. Mail-in ballots or electronic voting procedures are not yet permitted by law in Turkey.

There are no provisions installed or included in the AoA that may impede the free transfer of shares by shareholders.

According to our analysis, we identified no provisions hindering the equitable treatment of shareholders. The company discloses in its Corporate Governance Compliance (CG report), a list of directors and management with access to insider information and has recently elaborated and published on the website a comprehensive code of ethics.

As it is common standard in Turkish listed companies, an official representative of the Ministry of Industry and Trade attends AGMs to oversee legal aspects. And in case of prior awareness of contentious issues an additional observer of the CMB would be present.

### **1.1.2 Shareholders' Right to Obtain and Evaluate Information**

The level of information provided to allow shareholders exercise their voting rights continues to be improved. The information regarding the AGM is noticeably improved in 2010. It is provided in a timely manner, and is complete. For instance, the information document, often prevalent in this market regarding the agenda items has been added and sent out before the general meeting announcement.

The AoA does not contain provisions to disclose minimum information about board candidates to the shareholders, or about the possibility to open the AGM to media members and interested parties. Nevertheless, according to information provided by the

company, employees are always welcome to the AGM and participation of the press is welcome.

In 2006 TAV established an Investor Relations Unit. This department is very active in corresponding with shareholders and is empowered to act as a conduit between the Board of Directors and shareholders. This department is also tasked with the reporting function to the financial world. It regularly attends Board meetings and according to the Company, frequently meets with the Corporate Governance Committee. In addition, it reports directly to the CEO, who is also an Executive Member of the Board of Directors. This unit is also responsible with updating the IR website, preparing the annual report and responding to both verbal and written requests by shareholders, regulatory and legal bodies, and potential investors.

The unit's other main duties include: keeping record of shareholders, preparing and sending materials to the KAP (Public Disclosure Platform), updating the IR website, preparing the Annual Report, responding to shareholders' requests, monitoring the AGM, and preparing and attending investor meetings.

### **1.1.3 Minority Rights**

Minority rights, as stipulated by the AoA, are granted to shareholders owning (collectively) at least 5% of the equity capital. Those rights include raising a request to call an extraordinary meeting or requesting special agenda items. According to the Turkish Commercial Code, both aspects are up to the discretion of the board of directors, though shareholders can appeal to the court to decide on the AGM to convene. According to the CG report, minority shares are not represented in the management.

In line with minority rights, the ability to appoint a special auditor is considered crucial and this is a recommended practice by the CMB principles. TAV does reserve the right of minority shareholders direct auditors to doubtful matters, but does not reflect this right on its AoA, and notes that in the preceding years that no requests were received concerning the appointment of a special auditor. Cumulative voting procedures are not permitted by the company either. The company is evaluating the adoption of cumulative voting.

## 1.2 General Meeting

| GOVERNANCE FOCUS  |
|---|
| <ul style="list-style-type: none"> <li>+ Timely provision of information on agenda items</li> <li>+ Sound execution of the General Meeting</li> <li>+ Each ballot item is clearly separate; not bundled.</li> <li>+ The board prepares and discloses to the public an information document regarding the agenda items.</li> </ul> |

### 1.2.1 Invitation

In the run-up to the AGM, shareholders are kept informed by TAV regarding the annual meeting. The company has recently prepared and disclosed an information document regarding the ballot items for the meetings. According to the Company's CGR, the announcement and date of the AGM was posted on the website at least 17 days ahead of the meeting in 2010. This deviates from the CMB suggestion of communicating this information at least 3 weeks in advance. The agenda is prepared in a fair manner, clearly indicating each agenda item.

The company provides additional information, e.g. the annual report and financial statements which are accessible two weeks prior to the meeting at the headquarters. Considering the administrative proceedings, voting procedures are set up in a clear and understandable manner and proxy forms are available in electronic form.

All shares are bearer shares and there is no limitation for the transfer of bearer shares. Also, there is no information on the existence or need of admission cards to the AGM.

The Articles of Association does contain provisions regarding the adoption by the general meeting of decisions such as the sale, acquisition or lease of a substantial amount of assets, and such decisions are subject to authorization of the General Directorate and the Board of Directors.

### 1.2.2 Functioning

TAV held its AGM on the 24th of May 2010, which is more than three months following the end of its

financial year. However, it is common practice in Turkey that companies have their AGMs between April and June.

The agenda, invitation and the annual report and financial statements were made available to shareholders prior to the meeting, at the headquarters and on the website. The company discloses all the information pertaining to its current and past AGM's in English of the last four meetings on its website since the company's IPO in 2007.

The location of the AGM is Istanbul at the Afken Meeting Hall and this has historically been the location of the Company's AGMs. This location can be considered as easily accessible to shareholders.

TAV's AGMs seem to be held in an appropriate way, led in an unbiased manner by the chairman and overseen by an official representative of the Ministry of Industry and Trade and thereby ensuring that all shareholders are able to exercise their statutory rights. According to the CG report and through interviews with a company representative, shareholders are allowed to explain their views and ask questions related to agenda items, without any limitations.

The AGM functions as a forum to discuss the company's annual report and financial results. The appointed audit company is held responsible to present the latter to the general assembly.

The chairman of the meeting appears to ensure the equitable participation among shareholders and seems to lead the meeting in a fair and efficient manner, where each agenda item is voted upon separately and where there are no special privileges enjoyed by any shareholders.

There was no public information on whether board members, auditors and other authorized and responsible persons were invited and attended the AGM to answer requests put forward by shareholders. However, correspondence with the company revealed that all executive and some non-executive Board members, statutory auditors, the CFO, Head of Financial Affairs, and members of the Audit Committee, amongst others, are always present at the meetings. Deviating from the CMB guidelines, there is

no provision on the AoA stating that if any company officer invited to a meeting cannot attend the meeting, the reasons of non-attendance of such officer will be declared by the Chairman of the General Assembly of Shareholders. Information on suggestions or questions on agenda items raised by shareholders or their proxies during the AGM is reflected in the AGM minutes.

In 2010, no board member, executive or controlling shareholder, including those who may have access to insider information, conducted business in the company's line of business on behalf of themselves.

There is no provision on the AoA on the information that candidates to be elected to the board of directors are obliged to disclose. Following the CMB guidelines, this information should comprise for example their level of education, previous board membership and experience, their financial status as well as independence considerations. However, some of this information can be found on the website.

There is information on the AoA on how the votes are collected but not on how they are counted. In correspondence with the Company it was mentioned that the votes are counted after each item using a tag system and that the result of each item voted is announced by the chairman of the council. The result together with the details of the voting (number of votes for, against or the abstentions) are disclosed in the AGM minutes.

### **1.2.3 After the General Meeting**

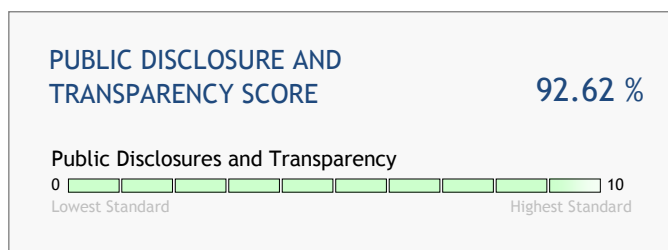
As a follow-up to the meeting, minutes are made available for the examination of shareholders on the company's website, in a short but clear manner.

As previously stated, information on the AGM of the last 4 years (since the IPO in 2007) is available on the company's website. This information is easily accessible and complete.

The corporate governance policy states that in cases where questions are raised by shareholders that cannot be answered immediately, the Investor Relations Department is responsible to answer them within a reasonable period of time after the meeting.



## SECTION 2 - PUBLIC DISCLOSURE AND TRANSPARENCY



### 2 Summary

TAV scores 9.26 in this category, higher than the overall rating result. This reflects the continued extraordinary flow of information between the company and investors and a very high level of transparency.

A website for investors with a Corporate Governance section has been established and is updated on a regular basis. This section has been re-vamped in 2010 with easily understandable drop-down menus and a comprehensive corporate governance section. It could still, however, benefit from a section that includes prospectuses and circulars.

The annual report is laudable in terms of form and content, and has been improved with respect to providing more complete information on forecasts. For example, a performance evaluation of the Corporate Governance Committee is still missing.

A public disclosure policy has been in place and is published on the website. The Corporate Governance Committee informs the Board, Audit Committee, and IR Department about the Disclosure Policy and makes advice. The IR Department is responsible for all areas of public disclosure.

TAV also discloses the ethical rules it applies, a rule that stipulates that employees are to abstain from all attempts of pursuing the interests of their own or those of acquaintances. The code of ethics has been expanded to safeguard shareholder interests.

### 2.1 Disclosure Means

| GOVERNANCE FOCUS  |
|---|
| + Website in both Turkish and English   |
| + Website contains and archives information disclosed to the public                     |
| + Website provides valuable information for investors, including documents for download |
| + Detailed explanation about the foreseeable risk factors regarding future operations   |
| + The annual report provides fair and clear information and has been improved           |

#### 2.1.1 Website

In recent years, TAV significantly enhanced its website for Investor Relations. It easily allows shareholders to access information on the company. Foreign investors are able to access an English version of the website. The content is structured in a sound manner, where investors find relevant documents (e.g. annual reports, audit reports, AGM documents) available for download. A comprehensive and robust section on corporate governance exists. This year is no exception.

The company has added a number of menu features such as an interactive investor toolkit. This allows investors to access company financials, operational information, and an enhanced FAQ section. This section also provides an overview of the company's Enterprise Risk Management System.

Examined in more depth, it contains most of the information suggested by the CMB principles, e.g. information about the shareholder structure and the management, the articles of association or annual reports and financial statements.

The Investor Relations Department successfully leverages technology and the Company website to communicate with its shareholders and the financial world. This has continued in 2010.



In reference to the AGM, the website contains relevant information for shareholders. This includes the announcement, agenda, the attendee list, and the minutes.

### 2.1.2 Annual Report

Overall, the annual report is well prepared and houses all of the pertinent content and information relevant to investors.

It includes the signature of the Chairman, Vice-Chairman (Chairman of the Audit Committee) and President & CEO. These signatures serve to reflect the opinion of the Board. It could benefit from the additional signature of the individual responsible for the preparation of the financial statements, in order to explicitly indicate that the financial statements truly reflect the current financial status of the company and to specify that the company acts in accordance with the related legislation. Interviews with the Company revealed that a signed statement by individual preparers concerning the validity of the financials is sent to the KAP, which is required for the announcement of financials and is in compliance with market law.

There is a risk management & internal control mechanism in place that is mentioned in the 2008 Corporate Governance Compliance Report. This section has a dedicated section in the 2009 annual report. A Holding Audit Directorate is charged with identifying existing and newly merging risks to management and the board. A more complete description covering credit, liquidity and market risk is in the financial footnotes in the annual report.

There is no information on the opinion of a rating agency about the company in the annual report. This is due to the fact that the Company has never applied for a rating and procures project finance loans through alternative means that do not require a rating.

While the annual report provides most required elements, there is some room for improvement to cover more items, as outlined by the CMB principles. Issues that could be added are: a performance evaluation of the Corporate Governance Committee

and independence statements by the independent board members.

According to the annual report, the Company's activities have caused no infringements of the environmental legislation, and information regarding lawsuits (VAT concessions) is fully disclosed. There is no information, however, on fines levied against TAV as a result of legislative practices or on warnings or administrative fines from public authorities. Information provided by the company reveals, nevertheless, that no fines were levied against the Company.

## 2.2 Disclosure Procedures

| GOVERNANCE FOCUS  |
|---|
| <ul style="list-style-type: none"> <li>+ Disclosure policy is established and covers material disclosure aspects</li> <li>+ Disclosure proceedings are clearly defined and assigned to high level personnel</li> <li>+ Ethical rules are disclosed</li> <li>+ Audit company is subject to regular rotation and does not provide any consulting services</li> <li>+ The company discloses a comprehensive list of insiders</li> <li>+ Periodical financial statements and footnotes are prepared in accordance with the current legislation and international accounting standards and applied accounting policies are included in the footnotes of the financial statements.</li> <li>± Forward looking information can be improved</li> <li>- Board of directors' statement about the status of internal control is missing</li> </ul> |

### 2.2.1 Information Policy

TAV's Disclosure Policy is available on the corporate website that has been approved by the Board. It outlines the scope, forms, frequency and methods of disclosure that this policy covers. The methods used to disclose information to the public are: financial statements and footnotes, internet site, analyst meetings and conferences, declarations and announcements in newspapers and to data vendors, and press releases. Company press releases can be found on the website in the "announcements" section.

The Investor Relations Department amongst other responsibilities is in charge of observing and complying with all considerations related to public disclosure within the scope of applicable legislation. It also responds to information requests.

TAV has included a reference to the persons entitled to make public statements concerning its forward looking statements in its disclosure policy. This continues to be limited in 2010 to authorized spokesmen and in the case of press statements can only be made by the CEO and CFO. The manner in which these disclosures are to be performed is also explained.

The list of the persons with access to insider information is disclosed in the annual report and on the corporate website.

### 2.2.2 Public Disclosure

After reviewing the public disclosure of TAV again in 2010, no major issues could be found that would harm investors' interests. The executives responsible for public disclosures and authority to sign official documents are disclosed and comprehensive principles applicable to disclose forward looking information are included in the expanded in 2010 disclosure policy of the company.

A publicly available declaration by the board on whether or not the principles are properly followed is listed in the Corporate Governance Compliance Report and is also made available on the Company's website. A declaration is made about the application of the principles and the reasons are discussed for non-application.

The Investor Relations Department is very active in publicly disclosing all information about the company. The unit, managed by Ms. Nursel Ilgen continues to report directly to the CEO. This department continues to manage relationships between the company and its shareholders and to ensure that all shareholders can fully exercise their right to information.

Within the scope of its public disclosure the company publicly announces its dividend policy. Financial statements are disclosed in line with the local and international (IFRS) financial reporting standards. As current legislation does not allow companies to grant shares to employees as a means of incentive compensation, the company does not provide public

disclosure on this aspect. However, legislation is expected to change.

TAV's shares are traded on the Istanbul Stock Exchange in Turkey. TAV does explain how forward looking information is communicated to the market and also states who is entitled to disclose that information.

TAV has an email distribution list, to which it sends the public disclosures in Turkish and in English after the disclosure is made to Public Disclosure Platform.

## 2.3 Transparency Issues

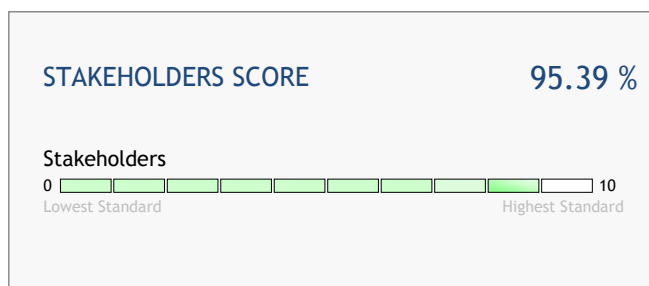
Transparency issues cover ethical behavior, insider trading rules, and the functions of the external audit.

To ensure a high degree of transparency TAV discloses its ethical rules to the public. A brief code of ethics, that all employees and managers have to sign and follow, can be found on the website. This code of ethics is prominently displayed throughout the company's materials and has been updated and expanded upon in 2010

In order to prevent insider trading, a list of executives who have access to information that might affect the price of the Company's securities is publicly disclosed on the website and in the annual report. This list is comprehensive and includes all employees with access to company sensitive information. This listing is also present in the Corporate Governance Compliance Report and is augmented by a comprehensive employment clause prohibiting 'insider information' transactions.

Since the appointed audit company (currently KPMG) does not provide any consulting services, it can be considered as independent from having other business interests that may impede the objectivity of the auditing services. As the audit company should be subject to regular rotation, the AoA states that the General Assembly elects the auditor for a term of max 2 years from among the candidates.

## SECTION 3 - STAKEHOLDERS



According to the Company's CG principles, TAV is not directly involved in any direct relationships with customers and suppliers. It does, however, determine the general policies and framework of supplier expectations and customer satisfaction. This is accomplished through customer satisfaction surveys, third-party contracting for support services, and channels by which customers can register complaints.

### 3 Summary

TAV reaches a result of 9.53 in this category, above the overall rating result. TAV continues not have a concrete model to have stakeholders participate in the management of the company, but actions are in place in order to ensure their participation and a clear model is developing.

Through registering Email Distribution List of Investor Relations Team on the internet, both employees and shareholders are continuously updated about the developments.

TAV has a `Contact the Board` form on its website. By submitting this form, all stakeholders can communicate their opinions, concerns and suggestions with the Board directly.

Although not required by law, TAV has been working on the release of a sustainability report on its operations that it hopes to make public this year.

TAV has a Code of Ethics and Human Resources (HR) policies that grant the essential framework of rules to be applied in the relationships between the company and its stakeholders. The HR policies, in particular, contain concrete measures to avoid conflicts and discrimination of employees. These policies are readily accessible for all stakeholders to remain informed.

In addition to these policies, performance measurement techniques continue to be implemented. Information regarding the personal and professional training programs available to employees is provided in the annual report, internal communications media and on the company's website.

| GOVERNANCE FOCUS  |
|---|
| + Comprehensive company-wide human resources policy   |
| + Employee rights are warranted   |
| + Code of Ethics govern the company-wide relationships  |
| + Performance based component to compensation model   |
| + Each employee is treated on equal grounds with respect to education and promotion. Training plans and policies are designed to enhance the knowledge and skills of employee base. |
| Emerging model to include stakeholders in the management  |

### 3.1 Participation in Management

According to the annual report and correspondence with the company, employees are constantly encouraged to participate in management, and their proposals aimed at the improvement of business are taken into consideration, assessed accordingly and rewarded. This can be seen in management practices such as the company's performance management system, employee satisfaction surveys and programs; such as the Company's Management Trainee Development Program that was implemented in 2007. In 2009, a Strategic Action Groups Program was implemented with the assistance of multifunctional project groups and individual initiatives.

To date, no comprehensive model has been set up to include all stakeholders in the Company's management.

Notwithstanding, in order to take into account the stakeholders' opinions in the management of the company, as recommended by the CMB principles, some additional measures are in place. For example, shareholders are continuously informed via the Investor Relations Department and the corporate website.

According to the correspondence with the company, opinions, suggestions and demands of stakeholders are conveyed to the management via relevant bodies, but there is no information on the bodies or the concrete mechanisms in place. Direct representation of the employees at board level, as suggested by the CMB principles, does not exist.

## 3.2 Company Policy

### 3.2.1 Rights and Duties of Stakeholders

TAV recognizes the rights of employees in its Code of Ethics. There is a Corporate Social Responsibility (CSR) section in the annual report where information on some of TAV's social initiatives and information on social donations is provided. The company's website also has a dedicated section regarding TAV's stance on environmental reporting.

Stakeholders are kept informed by the Company through general meeting minutes, material event disclosures, press releases, meetings, emails and the website. In addition, a corporate intranet and a quarterly magazine have been created in order to keep the employees informed and up to date. However, there is no specific information provided on stakeholders' rights.

TAV could benefit from publishing a new policy that establishes concrete measures on how potential disputes between the company and the stakeholders are dealt with. According to correspondence with the company, however, no conflicts have occurred to date.

### 3.2.2 Relation with Customers and Suppliers

TAV makes an effort to ensure good relations with its customers and suppliers and this is inherent in its mission statement.

The main channels to voice concerns and to share thoughts can be found in the contacts section on the Company website ([www.tavairports.com](http://www.tavairports.com)) or by

contacting designated representatives in the Company's Investor Relation and Corporate Communications Departments, respectively.

The code of ethics provides basic guidance and description of relations with clients, but could be expanded upon to include such issues as the quality of its products and importance of keeping customers informed. It should be noted, however, that customer service is a foundation of these policies.

According to the Company's CG principles, TAV is not directly involved in any direct relationships with customers and suppliers. It does, however, determine the general policies and framework of supplier expectations and customer satisfaction. This is accomplished through customer satisfaction surveys, third-party contracting for support services, and channels by which customers can register complaints.

A policy covering compensation rendered to customers and suppliers is not mentioned. However, according to the code of ethics, employees must strive to pursue customer satisfaction in their duties. Similar customer service friendly measures are also listed in the annual report and on the company's website.

## 3.3 Employees and Social Responsibility

TAV has defined a written human resources policy that is available on the website.

The company ensures that equal opportunities are provided to all employees. While, according to the company, no cases of discrimination have been reported, the explicit mechanisms to avoid such instances are listed in the HR policy.

There is general information on the professional and personal training of employees once again in 2010, and the different training categories are outlined on the website and in the annual report. According to the company, there are regular sessions organized to inform all employees about the company's financial capability, training, and health.

TAV's code of ethics is also prominently displayed on its website and since January 2010 on individual performance evaluation forms of all employees. This code contains the main core values of the company, the main responsibilities of its employees; core guidelines in respect to customer, supplier, public,

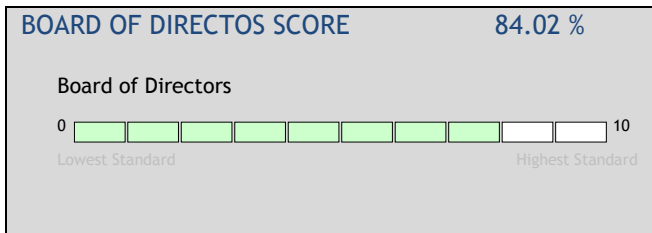
with the company revealed that regular staff meetings and information sessions for new employees occurs.

With respect to performance based compensation, the company revealed that it has mechanisms in place to accurately account for the performance of employees based on productivity metrics and this is reflected in their pay.

HRM actively analyzes future needs of the company in terms of HR and competencies/skills to be required and develops and implements talent management practices which are widely communicated throughout organization.

The company provides information on its social responsibility activities within its annual report as well as on its website, where there is a CSR section. Some examples relate to cultural activities, education, and donations. Company policies in relation to the environmental, educational and social policies and the actions in these areas can be found on the company's website.

## SECTION 4 - BOARD OF DIRECTORS



contrast to the CGC Committee; the Audit Committee, has a majority of NEDs. The duties and responsibilities of the Corporate Governance Committee are stipulated in the Company's Articles of Association

There is a risk management and internal control system in place. It has been expanded upon from last year and this is evident in the annual report and on the company website.

### Summary

TAV scores a satisfactory score of 8.4 in this category, which is a significant improvement from last year.

There are nine members on the BoD, two executives (ED) and seven non-executives (NED), of whom two are independent. The board size has been reduced significantly from last year. The company believes this will improve the company's efficiency and effectiveness.

The board structure does comply with at least two or the one-third proportion of independent directors recommended by the CMB principles. The AoA clearly describes the duties of the board members. However, board members do not prepare explicit declarations of compliance with internal and external regulations, as recommended by the CMB guidelines. The suggested separation of the Chairman and President and CEO positions is respected.

Each board member has one vote without any privileges. Attendance at board meetings is not provided, but correspondence with the company revealed that it is very high.

The remuneration policy could be explained in more detail, but only independent members receive compensation for their duty as board members. The General Assembly resolved that the Company shall not pay any salary or attendance fee to the other Board members.

Two committees have been set up to support the work of the board: The Audit Committee and Corporate Governance Committee. The Corporate Governance Committee is headed by an independent director and in

### BOARD OF DIRECTORS

| GOVERNANCE FOCUS   |
|--|
| + The board plays an active role in the company's strategic planning                             |
| + Each board member is entitled to one vote  |
| + A secretariat has been established to support the board  |
| + The majority of the board is composed of NEDs  |
| - Authority and responsibility of each board member is not disclosed                             |
| - Priority should be given to the use of cumulative voting in the election of the board members. |



#### 4.1.1

#### 4.1.2 Principles of Activity, Duties, and Responsibilities of the Board of Directors

According to the undertaken examination, the board of directors again fulfills its duties with diligence and meets its responsibilities to a fair degree, but it has room for improvement.

The board defines the mission and vision and is thereby leading the company. This is internalized in the policies that govern employee conduct and behavior.

The concrete mechanisms used to keep the board members regularly and comprehensively informed on pertinent matters are not explained, but there is a secretariat with the aim of keeping directors informed.

The information on the attendance of board members to the meetings is not disclosed.

Overall, the AoA contain clear rules describing the activities and duties of board members. Board members in theory have no restrictions before accepting outside duties. The annual report states that no board member engaged in any business or competed with the company in 2009. The holding of outside positions by board members is not a serious concern in Turkey, as long as they can dedicate 10-15 days a year to the monthly board meetings.

TAV does not apply a recommendation put forward by the CMB principles, envisioning that before board members start their work, they are to declare compliance with all necessary internal and external regulations in writing. Compulsory obligations to comply with the laws company principles and rules are spelled out in the code of ethics and duties of employees.

The Board issues a separate resolution for approval of financial statements and accompanying notes, the independent audit report, the corporate governance compliance report, and the annual report.

Turkish Law foresees the joint liability of the board. In accordance with this the BoD should perform and carry

out its duties respecting the provisions of the Capital Markets Law, Turkish Commercial Law and the AoA.

There are no publicly disclosed sanctions foreseen for employees that obstruct the flow of information to board members, apart from the ones foreseen in Turkish Labor Law.

#### 4.1.3 Structure

The board of TAV is composed of nine members of whom two are executive (ED) and seven are non-executive (NED) directors.

The suggested separation of the Chairman of the Board and the CEO is followed.

TAV complies with the suggested proportion of at least two board members or one-third independence. However, it could still benefit from a CG policy reflecting the independence criteria and a CG statement that refers explicitly to the criteria put forward by the CMB guidelines.

**Table 3: Board Structure**

| NAME                      | ED/NED | INDEPENDENCE |
|---------------------------|--------|--------------|
| Mr. Hamdi Akin            | NED    | NO           |
| Mr. Ali Haydar Kurtdarcan | NED    | NO           |
| Mr. Mustafa Sani Şener    | ED     | NO           |
| Mr. İbrahim Süha Güçsav   | NED    | NO           |
| Mr. Abdullah Atalar       | NED    | NO           |
| Mr. Ahmet Ersagun Yücel   | ED     | NO           |
| Mr. Mehmet Cem Kozlu      | NED    | YES          |
| Mr. Onder Sezgi           | NED    | NO           |
| Mr. Pierre de Champfleury | NED    | YES          |

Appointed board members at TAV seem to be highly qualified and show a high level of knowledge and experience. This reflected in broad career backgrounds, advanced degrees, and specialized expertise. TAV's board can draw on a wealth of experience in the engineering and construction sectors but also other areas, such as the public sector, academia and general business. Gender diversity is lacking, however, as the entire Board is comprised of men. Information concerning the age of directors is disclosed. TAV deviates from the CMB recommendation to include a statement with the information that must



be submitted to the AGM when candidates are nominated to the board for the first time.

TAV takes into consideration the qualifications of its board members. However, the annual report still does not explain if there is an adaptation or training program for directors.

In reference to the election of the board members, TAV does not permit cumulative voting.

#### 4.1.4 Functioning

It is not stated in the AoA if executives have to attend the meetings. According to the company, executives attend on a frequent basis and when called upon by the Board. According to the CG report, during the reporting period, decisions were adopted unanimously and no dissenting opinions were voiced against any decision. Each board member is entitled to one vote without any preferential voting or veto rights.

All board members must be present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB principles, related to important company's operations such as the establishment of committees, the dividend policy or the decrease or increase of capital.

In order to ensure adequate preparation, the CMB recommends that the agenda and relevant documentation are provided to board members at least seven days in advance. TAV ensures that all members have adequate time and information in preparation for the meeting.

A board secretariat has been established in order to ensure convenient access to information for board members. Its functions are not disclosed.

The BoD must meet at least four times a year; it met four times during 2009. Decisions can be adopted without board members being physically present, as the AoA does not mention allowing for remote access to those meetings.

The board and majority decision quorum are both stated in the AoA: the board shall convene in the presence of at least eight directors and decisions shall be taken also by eight participants.

Board meetings appear to be conducted in an open manner. There is a clear definition of the duties of the board but there is little information regarding the secretariat.

According to an internal policy, meeting and travel expenses are reimbursed to independent board members only.

#### 4.1.5 Remuneration

Currently TAV's board compensation is fixed and is only payable to independent directors. No additional attendance or committee fees, as suggested by the CMB principles, are paid. The compensation is discussed and determined by the AGM, in theory providing material power to the shareholders. The CG statement or the AoA does not contain information on how the remuneration is calculated (taking into account the salary of the GM, the time board members will spend for the meetings, its preparation and the duties assumed).

Table 4: Board Compensation

| POSITION                    | COMPENSATION (PER ANNUM, US\$)          |
|-----------------------------|---|
| Independent Director (only) | \$50,000 (per independent board member) |

TAV offers performance based incentive schemes to ED, as proposed by the CMB principles. An internal bonus regulation specifies the performance criteria and the methods of calculation for the bonus.

In line with performance-based incentives the CMB principles recommend accountability of the board members according to the company's level of success. Within this scope the board declares possible deviations in the results within the annual report, and conducts a self-assessment and a performance evaluation.

To avoid conflicts of interest TAV strictly adheres to the principle not to grant loans to board members or executives.

## 4.2 Board Committees

| GOVERNANCE FOCUS  |
|---|
| + Two committees have been established  |
| + Audit Committee oversees external audit appointment and audit execution           |
| + Corporate Governance Committee deals with Corporate Governance issues proactively |
| - The CGC does not fulfill the CMB suggestion to be composed of a majority of NEDs. |

### 4.2.1 In General

The board of TAV has established two board committees to support its work and ensure an effective and efficient work flow.

There is an Audit Committee (AC) and a Corporate Governance Committee (CGC).

According to the CMB Law, each committee should be composed of at least two members. The Audit Committee has four members and the Corporate Governance has three.

The CGC does not fulfill the CMB suggestion to be composed of a majority of NEDs.

**Table 5: Committee Overview**

| COMMITTEE            | NO. OF MEMBERS | INDEPENDENT CHAIRMAN* | NO. OF NED |
|----------------------|----------------|-----------------------|------------|
| Audit                | 4              | NO                    | 1          |
| Corporate Governance | 3              | YES                   | 1          |

\*according to the status "Independent Board Member"

### 4.2.2 Audit Committee

The Audit Committee oversees the financial and operational activities of the company. In doing so the committee should be supported by the board and be enabled to access all necessary information. There is no mention of a committee charter and it is not posted on the English website. This is not required by the CMB CG principles, but it would help outlining the details of the work of the AC.

It is the task of the AC to ensure that all internal and external audit activities are carried out adequately and transparently. It advises the board in appointing the external audit company and attends the appointing process. This includes, amongst others, a statement on the independence of the audit company. According to TAV's CG statement, the AC scrutinizes the effectiveness and adequacy of the internal control system and the risk management system. It is also responsible for ensuring that measures are taken such that internal controls are transparent. Furthermore, the AC is responsible for the company's financial disclosure. Internally, the AC is also responsible for evaluating the audit system. According to the Company, and in accordance with CMB guidelines, the Audit Committee is tasked with responding to complaints and suggestions put forward by any member of the company.

The external audit firm is invited to the meetings of evaluation of the financial statements if the committee members consider that its presence could help clarify issues.

**Table 6: Audit Committee Composition**

| NAME                       | BOARD MEMBER | NED | INDEPENDENCE |
|----------------------------|--------------|-----|--------------|
| Mr. Ali Haydar Kurtdarcan  | YES          | YES | NO           |
| Mr. Pierre De Champfleury  | YES          | YES | YES          |
| Mr. Önder Sezgi            | YES          | YES | NO           |
| Mr. Hüseyin Kadri Samsunlu | NO           | YES | NO           |

### 4.2.3 Corporate Governance Committee

A CG committee was created in 2006, with the aim of monitoring the company's compliance with CG principles. It met 2 times in 2009.

Following the CMB guidelines, TAV's CEO is not a member of this committee but majority members are executives.

Table 7: Corporate Governance Committee Composition

4.4 Executives

| NAME             | BOARD MEMBER | NED | INDEPENDENCE |
|------------------|--------------|-----|--------------|
| Mehmet Cem Kozlu | YES          | YES | YES          |
| Özlem Tekay      | NO           | NO  | NO           |
| Murat Uluğ       | NO           | NO  | NO           |

| GOVERNANCE FOCUS   |
|--|
| + Distinction between ED and NED in the definition of responsibilities |
| + Operational performance monthly report provided                      |
| + Liable for company’s losses caused by a violation of their duties    |

Core responsibilities of the committee during are: to determine the compliance with CG principles, to develop recommendations on the appointments, structure and effectiveness of the BoD, and to work towards the adoption of a regulation on conflicts of interest.

The charter of the CGC is available in Turkish and English, and an abbreviated version be found on the website.

4.3 Internal Control and Risk Management

TAV’s BoD has defined and integrated a risk management mechanism and an internal control system for which it is responsible for in December 2009. In pursuit of this objective, a Risk Management Group has been formed. The specifics of this group’s activities, as well as a comprehensive description of the internal control system were not mentioned in the publicly available documentation or on the company’s website, but a solid general overview is provided.

For example, a brief examination of TAV’s main risks coming from financial instruments is provided in the annual report (credit, liquidity, and market risks). The CG report only offers a brief description of the risk management and internal control system which is reviewed annually or on an as needed basis.

Also, it is a duty of the board to oversee whether or not the company complies with the relevant legislation, AoA, in-house regulations and policies. Our analysis did not reveal any instance that the board would fail to fulfill this duty in an adequate manner.

Correspondence with the company revealed that monthly reports of the performed works by the executives are prepared, as recommended by the CMB.

There is still, however no mention of an internal bonus regulation requiring executives to compensate losses that occur as a result of not performing their duties properly. Management liability insurance is being discussed internally, but has not yet been formalized. The company does have D&O insurance for its directors.

TAV follows the Code of Obligations and recommendation of the CMB principles and incorporated the non-competition clause into the employment contract of all executives.

## 5 Appendix

### SHAREHOLDER STRUCTURE

Table : Shareholders of TAV Holdings Co.

| Shareholder              | Nominal value (TRY) | % shareholding interest |
|--------------------------|---------------------|-------------------------|
| Tepe İNŞAAT Sanayi A.Ş   | 94,664,477          | 26.06%                  |
| Akfen Holdings A.Ş       | 94,886,071          | 26.12%                  |
| Sera Yapi Endustrisi A.Ş | 16,208,775          | 4,46%                   |
| Other Non-floating       | 12,775,048          | 3.52%                   |
| Other Free Float         | 144,746,879         | 39.84%                  |
| SOURCE: COMPANY WEBSITE  |                     |                         |

## BOARD OVERVIEW

Table 10: Board of Directors

| Name                      | Age | First Appointment | Position        | Executive / Non-Executive Director | Independence | CGC | AC  |
|---------------------------|-----|-------------------|-----------------|------------------------------------|--------------|-----|-----|
| Mr.Hamdi Akin             | 56  | 1997              | Chairman        | NED                                | NO           | NO  | NO  |
| Mr. Ali Haydar Kurtdarcan | 59  | 2000              | Vice Chairman   | NED                                | NO           | NO  | YES |
| Mr. Mustafa Sani Şener    | 55  | 1997              | President & CEO | ED                                 | NO           | NO  | NO  |
| Mr. İbrahim Süha Güçsav   | 42  | 2000              | Board Member    | NED                                | NO           | NO  | NO  |
| Mr. Adbullah Atalar       | 56  | 2009              | Board Member    | NED                                | NO           | NO  | NO  |
| Mr. Ahmet Ersagun Yücel   | 38  | 2009              | Board Member    | ED                                 | NO           | NO  | NO  |
| Mr. Mehmet Cem Kozlu      | 64  | 2006              | Board Member    | NED                                | YES          | YES | NO  |
| Mr. Önder Sezgi           | 42  | 2009              | Board Member    | NED                                | NO           | NO  | YES |
| Mr. Pierre de Champfleury | 64  | 2007              | Board Member    | NED                                | YES          | NO  | YES |