

Improvement of Corporate Governance Practices of İstanbul Stock Exchange (ISE) Corporate Governance Index Companies

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Abstract

A series of corporate scandals highlighted the corporate governance issue all around the world. Like other countries, Turkey has adopted strong regulatory framework for corporate governance in the last decade. The purpose of this study is to analyze the improvement in corporate governance practices of İstanbul Stock Exchange Corporate Governance Index Companies between the years of 2007 and 2012. With this purpose corporate governance rating reports of companies were examined. Based on the examination of corporate governance rating reports; it is observed that overall corporate governance ratings have been gradually increasing year by year. Further analysis demonstrates that while stakeholders section is the most strength side, board of directors is the weakest part of Corporate Governance Index Companies. Nonetheless, in 2012 a sharp increase in the ratings of board of directors section was observed thanks to enactment of new Commercial Code and enforcement of Communiqué Serial : IV, No:56.

Keywords: Corporate Governance, Corporate Governance Index, Corporate Governance Rating, İstanbul Stock Exchange, Capital Market Board of Turkey.

INTRODUCTION

After a series of corporate scandals, the importance of transparency issues have increased and corporate governance has become one of the most fundamental themes for business environment. These developments have fostered widespread belief in the economic benefits of companies having more responsibility against all beneficiaries including employees, directors, shareholders, stakeholders, customers, suppliers, and the society as a whole (Yuksel, 2008). As a consequence of such developments, corporate governance principles are enacted by many countries to minimize the agency problem and ensure that managers act in the interests of shareholders. In addition to being a potential solution to principal-agent problem, well defined and functioning corporate governance system helps a firm to attract investment, raise funds with a low capital cost, strengthen firm performance, overcome financial crisis more easily and generate long term economic value for its shareholders.

From the perspective of national development, effective corporate governance system is also essential for development of equity markets. Additionally, corporate governance leads a sustainable growth and enables companies to compete effectively in global marketplace and attract long-term capital to grow their businesses (Ararat and Ugur, 2003).

The purpose of this paper is to analyze the improvements of İstanbul Stock Exchange (ISE) Corporate Governance Index Companies with respect to compliance with Corporate Governance Principles of Capital Markets Board of Turkey between 2007 and 2012. In order to demonstrate the improvement level of compliance, corporate governance rating

reports of companies which are listed on Corporate Governance Index of Istanbul Stock Exchange were examined. The analysis comprises corporate governance rating reports between the years of 2007 and 2012 to monitor the evaluation of corporate governance practices.

Corporate governance rating reports of Istanbul Stock Exchange (ISE) Corporate Governance Index Companies have examined by Toraman and Abdioğlu in 2008 (Toraman and Abdioğlu, 2008), however this study is different from previous study by highlighting the improvements in the compliance degree of companies between 2007 and 2012.

In this study the next section summarizes the literature review, section 2 briefly explains the development of corporate governance in Turkey, section 3 reviews research methodology and findings regarding corporate governance practices of ISE Corporate Governance Index companies. The study ends with summary, concluding remarks and recommendation for future research.

1. LITERATURE REVIEW

Review of literature on corporate governance in Turkey indicates that some of the previous studies cover the development of corporate governance in Turkey. (Ararat and Ugur 2003; Ararat and Yurtoglu 2006; Yuksel 2008; Akdogan and Boyacioğlu 2010; Akdogan and Akdogan 2011; Akbulak 2011). Furthermore, Arsoy and Crowther (2008) investigated the extent of convergence of regulations and practice regarding corporate governance between Turkey and UK. They found that although corporate governance code of Turkey and UK are similar, the degree of compliance is higher for UK companies. Toraman and Abdioglu (2008) examined corporate governance rating reports of ISE Corporate Governance Index companies and they observed most powerful corporate governance practices at the stakeholders section, and the weakest corporate governance practices at the board of directors section. Mandacı and Gumus (2010) examined the effects of ownership concentration and managerial ownership on the profitability and the value of non-financial firms listed on the Istanbul Stock Exchange (ISE). They found that ownership concentration has a significantly positive effect on both firm value and profitability, while managerial ownership has a significant negative effect on firm value. Gurbuz et al. (2010) evaluated the impact of corporate governance on financial performance of companies in Turkey. They found that corporate governance practices enhance firm financial performance. Sakarya (2011) and Ergin (2012) analyzed the relationship between corporate governance rating and the return on common stocks. Both of the studies demonstrated that there is a positive correlation between the announcement of a favorable corporate governance rating score and the associated stock returns. Sengur (2011) examined whether properly implementation of corporate governance principles make difference in performance of companies in Turkey. The results of her study showed that there is no significant difference in performance of Corporate Governance Index Companies in Turkey when performance is measured in terms of ROA and Tobin Q. In their study Needles et al. (2012) concluded that Turkish high performance companies apply superior corporate governance practices in comparison to ordinary Turkish companies.

2. DEVELOPMENT OF CORPORATE GOVERNANCE IN TURKEY

In recent macroeconomic restructuring efforts of Turkey, Turkey has been adopted strong regulatory framework for corporate governance in the last decade. As a starting point for the implementation of best practices in corporate governance, in 2002 Turkish Industry & Business Association (TUSIAD) published a report entitled “Corporate Governance Code of Best Practices: Composition and Functioning of the Board of Directors.” Code of best practices introduced by TUSIAD comprised of voluntary principles with the aim of providing a guideline for corporations.

Within the scope of its mission, in July 2003 Capital Market Board of Turkey (CMB) issued the Corporate Governance Principles of Turkey with the purpose of enhancing the corporate governance regulations for listed companies. CMB principles were established mainly in accordance with OECD Corporate Governance Principles. Additionally, CMB took into consideration the particular conditions of Turkey during the preparations stage of principles. Parallel to OECD principles, CMB Corporate Governance Principles were revised in 2005. The CMB principles are based on the principle of “comply or explain”. In other words, the implementation of the principles is optional and companies should disclose the extent of compliance and explain the reasons why some of the principles are not adopted. The implementation status of the principles should be disclosed in corporate governance compliance report that is included in the annual report as a separate section.

In 2003, Corporate Governance Association of Turkey (TKYD) was founded with the aim of disseminating best practices of corporate governance. Since its foundation, TKYD has been conducting academic research projects to determine strategic priorities in Turkey with respect to corporate governance. A research project, “Governance Map of Turkey” was conducted in 2005 and indicated that boards’ excessive involvement in execution and insufficient disclosure are the main issues in Turkish corporate world.

In February 2005 Istanbul Stock Exchange (ISE) published the rules of Corporate Governance Index. ISE Corporate Governance Index has been active since August 31, 2007 and it aims to measure the price and return performances of ISE-listed companies with a corporate governance rating of minimum 7 out of 10. The corporate governance rating is determined by the rating institutions that are approved by CMB. CMB regulates principles of rating institutions under the Communiqué on Principles Regarding Ratings and Agencies (Seria: VIII, No: 51). Corporate governance rating of a company is granted upon the request of these companies and Corporate Governance Rating Reports are published by the rating agencies.

Four national and one international rating institutions are permitted to rate the corporate governance practices of the companies in Turkey. These institutions are shown in Table 1.

Table 1 Corporate Governance Rating Institutions

Rating Institutions	
National	Turkish Credit Rating
National	Saha Corporate Governance and Credit Rating Services Inc.
National	Kobirate Corporate Governance and Credit Rating Services Inc.
National	JCR Eurasia Rating
International	RiskMetrics Group Inc.

Source: Capital Markets Board of Turkey,
<http://www.spk.gov.tr/indexcont.aspx?action=showpage&showmenu=yes&menuid=6&pid=10&subid=1&submenuheader=10>

Under Decree Law No. 654 (Official Gazette: October 11, 2011, No:28081) the following paragraph was added to Capital Market Law in order to extend the functions of Capital Markets Board of Turkey : “to determine and announce the principles of corporate governance in the capital market, to oblige the public joint stock companies quoted in the stock exchange market totally or partially comply with the principles of corporate governance in accordance with the groups determined by taking (i) the free float rates, (ii) the number and the quality of these companies’ investors and (iii) the index which companies are subjected to and their transaction volume in a certain time zone into account so as to make a contribution to the improvement of investment environment”. With this paragraph, the Capital Markets Board of Turkey (CMB) has been authorized to determine corporate governance principles and to oblige the public joint stock companies comply with the principles.

Capital Market Board published the Communiqué Serial: IV, No: 54 Principles Regarding Determination and Application of Corporate Governance Principles on 11.10.2011. The Communiqué introduced the obligation for Istanbul Stock Exchange (ISE) National-30 Index companies (excluding banks) to comply with some of the corporate governance principles. Afterwards the Communiqué Serial: IV, No: 56 Principles Regarding Determination and Application of Corporate Governance Principles replacing the Communiqué Serial: IV, No: 54 was published on 30.12.2011. With this new Communiqué the scope of application of the previous Communiqué which covered ISE National-30 Index companies (excluding banks) has been enlarged to include other companies traded on the Istanbul Stock Exchange. However, companies trading on Watch List Market and Developing Companies Market are exempted from mandatory implementation of Corporate Governance Principles.

By the Communiqué Serial: IV, No: 56, the public joint stock companies that are quoted in the Istanbul Stock Exchange (ISE) were divided systematically into three groups by taking into account of their market values and the market values of their shares in circulation. Each categories are required to obey different level of mandatory rules. Under the Communiqué, Category 1 companies are required to comply with all mandatory Corporate Governance Principles while Category 2 and Category 3 companies may benefit from certain exemptions.

The principles of corporate governance that was published by Capital Market Board of Turkey in 2003 aimed to contribute all joint stock companies in the private and public sector. Compliance to the principles was not compulsory. Communiqué Serial: IV, No: 56 was published with the aim to expand the application of corporate governance principles and to oblige the public joint stock companies comply with the principles. Through this Communiqué, one step forward was taken regarding the approach of “comply or explain” that has been adopted by Capital Market Board of Turkey since 2003 about corporate governance.

The provisions of Communiqué Serial: IV, No: 56 are valid for Istanbul Stock Exchange (ISE) Companies (excluding listed banks) from the date of publication of the Communiqué on 30.12.2011. For listed banks, Communiqué will be effective on 30.12.2012.

Two major legislations comprise the legal framework of the Turkish capital markets; Capital Markets Law (CML) and Turkish Commercial Code. Turkish Commercial Code basically governs commercial relationships and establishment and governance of companies. On February 14, 2011 the new Turkish Commercial Code was published in the official gazette and came into force on July 1, 2012. In the European Union (EU) integration process of Turkey, the code mainly aims to harmonize the Turkish Commercial Code with European legislation system. Provisions set forth in the Turkish Commercial Code aims to regulate commercial relations in accordance with the recent changes in the local and global business environment. The Code concerns social responsibility of the companies and take corporate ethical standards into consideration. The corporate governance approach of the Code is based on four pillars: transparency, fairness, accountability and responsibility.

The Code accepts the single shareholder joint stock company and single member partner limited liability company. The Code allows the board meetings and general assembly meetings to be held in electronic media. The Board of Directors is responsible for the preparation of the financial statements in conformity with the Turkish Financial Reporting Standards which are identical with International Financial Reporting Standards (IFRS). The audit is required to be performed in accordance with Turkish Auditing Standards which are identical with International Auditing Standards (ISAs). Furthermore, the Code allows the application of special audits on the request of any shareholder.

3. RESEARCH METHODOLOGY AND FINDINGS

With the aim of analyzing development in corporate governance practices, corporate governance rating reports of ISE Corporate Governance Index Companies were examined for the years between 2007 and 2012. The study covers seven companies for 2007, 12 companies for 2008, 24 companies for 2009, 31 companies for 2010, 38 companies for 2011 and 44 companies for 2012. The list of ISE corporate governance index companies and their corporate governance ratings for the years between 2007 and 2012 are listed in Appendix I. In appendix I, ratings for each section of corporate governance principles are given along with the overall corporate governance grades.

Corporate governance ratings between the years of 2007 and 2012 demonstrate the degree of compliance with CMB's Corporate Governance Principles released in 2003 and revised in 2005. Rating Institutions has revised their rating methodology for corporate governance ratings issued on or after December 31,2012. After December 31, 2012 corporate governance ratings are going to be determined on the basis of both Corporate Governance Principles and the Communiqué Serial: IV, No: 56. As a result, this study includes corporate governance ratings merely based on corporate governance principles.

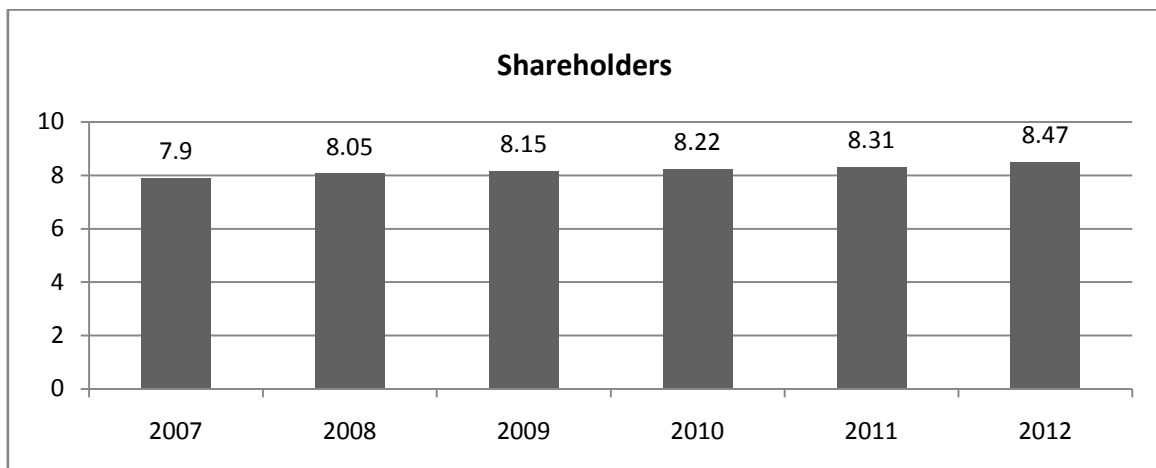
Corporate governance ratings are granted out of 10. Rating scale and the explanation of each rating are given in Appendix II. Like Corporate Governance Principles, corporate governance rating reports include 4 main sections namely Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. In compliance with the CMB's directive, rating institutions use weights for each main section to reach an overall Corporate Governance Rating. The weights are as follows: Shareholders 25%, Disclosure and Transparency 35%, Stakeholders: 15%, Board of Directors 25%. In the remaining part of the paper, each section will be analyzed in detail. For each section, initially corporate governance principles will be summarized, the weaknesses and strenghtnesses of

companies until 2009 will be explained and then the improvements in corporate governance practices after 2009 will be analyzed.

3.1.Shareholders

The first section of the CMB Corporate Governance Principles concerns the protection of shareholders' rights. The Principles list some basic rights of shareholders including; obtaining accurate information, actively participating in the general shareholders' meeting, voting rights, minority and dividend rights, and equal treatment. Under Principles, "Shareholders Relations Department" should be established to enhance relations between shareholders and the company. Except trade secrets, all information required to exercise shareholder's rights should be available to all shareholders and there should not be any discrimination among them. Shareholders should have right to request a special auditor to be appointed. Shareholders section of principles covers the process of preparation for the general shareholders' meeting, its conduct and publication of the results. In this context, in order to assure a high participation, general shareholders' meeting should be announced at least three weeks in advance. Invitation should include date, time, location and agenda of the meeting along with all necessary informative documents. During the meeting, shareholders should have equal opportunities to declare their opinions especially regarding remuneration policy for board members and executives. Once one owns a share, the right to vote is automatically granted. Privileges regarding voting rights should be avoided and a shareholder may have right to vote by use of a proxy who is a shareholder or not. The cumulative voting procedure should be adopted with the purpose of protecting minority rights. Moreover, company's dividend policy should be defined clearly in the annual report and it should be announced at the general shareholders' meeting. Figure 1 shows the ISE Corporate Governance Index companies' average ratings for shareholder sections between 2007 and 2012.

Figure 1 Average Ratings for Shareholders Section



3.1.1. Strengthnesses and Weaknesses of Companies Until 2009

After examining shareholders sections of corporate governance rating reports, following strengtnesses and weaknesses were identified. Even though some of the companies do not have Corporate Governance Committee, Shareholders Relations Departments have been established by almost all companies. For the companies which have Corporate Governance

Committee within the board, the activities of the Shareholders Relations Department are performed under the supervision of Corporate Governance Committee.

General Shareholders' Meetings are held in accordance with the articles of associations and related legislation. With regard to facilitating shareholder rights, all necessary information and documentation are available for and easily accessible by the shareholders. In compliance with corporate governance principles, a substantial number of companies do not have provisions to apply ceiling limit to shareholders' number of votes. Shareholders generally have right to exercise proxy voting and proxy forms are duly disclose for those who are not able to participate in the general shareholders meeting in person. A vast number of companies have a clearly defined dividend policy which is announced to the shareholders at the general shareholders meeting and also included in the company's annual report. As a result of rating institutions' review of the articles of associations of the companies, the minutes of the general shareholders meetings, and the interview with company officials, institutions have observed that equal treatment of shareholders are prominently pervasive among Turkish companies.

However, there are some prominent areas that need further improvements to protect the rights of minority shareholders. Almost all companies do not have provision that allows shareholders the right to request from the general shareholder meeting the appointment of a special auditor for the examination and clarification of a specific material situation. Likewise, almost all companies do not have cumulative voting procedure. Additionally, some companies have voting privileges for preferred stocks. The strengths and weaknesses of companies regarding shareholder section are summarized below:

Table 2 Shareholders

Successful Implementation
Shareholders relations department
General shareholders meeting
No ceiling limits applied on the number of votes
Shareholders generally have right to exercise proxy voting
No provisions to impede the transfer of shares
Dividend policies are established and publicly disclosed
Equal treatment of shareholders
The Issues Should Be Improved
Corporate governance committee within the board
Voting privileges
Deficiencies
Right to request appointment of special auditors from the general shareholders meeting
Lack of cumulative voting procedures

3.1.2. Improvements and Ongoing Weaknesses after 2009

The most prominent development after 2009 is related to establishment of committees. It is observed that almost all companies has established a corporate governance committee within the board. It is also observed that almost all company's corporate governance committee chair is an independent member. Voting privilege is still exist for some companies. For example, a company has voting privileges for the nomination of candidates for board membership in the articles of association and another company has some

privileges for preferred stocks. In conclusion, it is observed that voting privilege is one of the areas that still needs improvements.

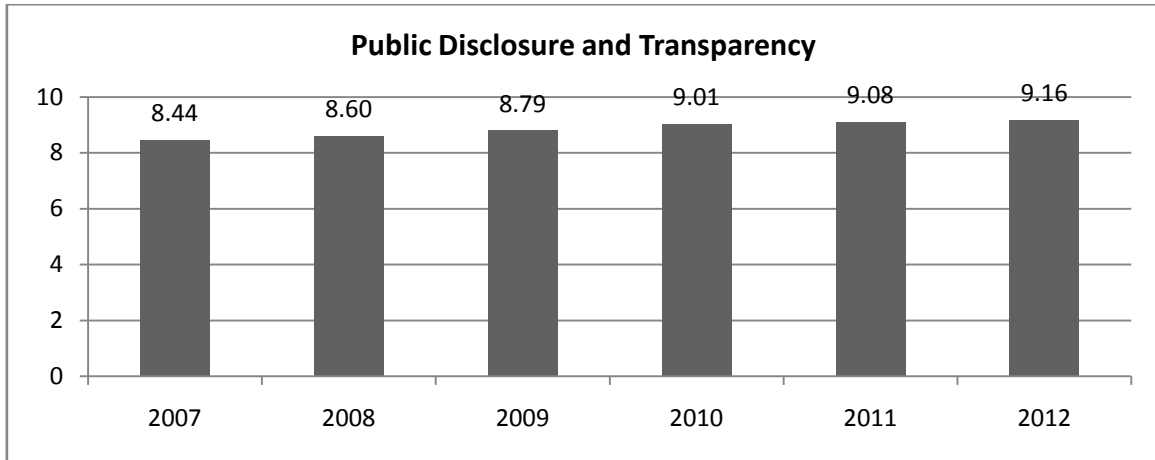
Even years have passed after the issuance of corporate governance principles, there is no improvement regarding right to request appointment of special auditors and cumulative voting procedures. A vast number of companies do not have provision in the articles of association which allow shareholders to have the right to request appointment of special auditors from the general shareholder meeting. Additionally, it is examined that almost none of the companies apply cumulative voting procedure.

3.2.Public Disclosure and Transparency

The principle of public disclosure and transparency is aimed at presentation of timely, accurate, comprehensible, analyzable, highly accessible and available information to shareholders and stakeholders. Under this section, companies should establish information policy and disclose it to the public. Two executives should be assigned to sign official documents related to public disclosures. All information related to company should be disclosed accurate, complete, comprehensible and easily accessible. According to principles, key areas that should be disclosed to public are: any developments that may affect the value of the company's capital market instruments, the dividend policy of companies, ethical rules of companies, and projected financial statements. Additionally, a company which is listed on foreign securities exchange should simultaneously disclose the information in Turkey that is disclosed abroad. Whenever shareholding or voting right percentage of an individual or group reaches, exceeds or fall below the thresholds of 5%, 10%, 25%, 33%, 50%, and 66,67% of total share capital or voting rights, a company should disclose such information. Moreover, the company's ultimate controlling individual shareholder or shareholders should be disclosed to the public, as identified after being released from indirect or cross ownership relations between co-owners. The company's capital structure should be presented in a table format that would include the names of the ultimate controlling individual shareholders' amount and proportion of their shares. Board members, executives and shareholders who directly or indirectly own 5% of the company's capital should disclose all transactions performed on the company's capital market instruments and all information about the purchase and sales of capital market instruments of other group companies or any other company with whom the company maintains a material commercial relationship. Furthermore, commercial and non-commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding are disclosed to public. Annual reports should cover all kinds of information regarding company's activities. Periodical financial statements and footnotes, all forms of incentives that is designed to grant shares to employees, information about the sector in which company operates, board of directors' and audit firm's opinion about the internal control system should be disclosed to public in an annual report. Board of directors can appoint an audit firm for a maximum period of 5 years. Only after two accounting periods following the audit firm rotation, the company can appoint the same audit firm. Audit firms and auditors are prohibited to provide consultancy services to the companies to which they provide external audit services within the same period. A consultancy firm, which has a parent audit firm, cannot provide consultancy services to the company that the parent audit firms provides external audit services to within the same period. Lastly, list of names that may possess price sensitive

information should be disclosed to public. Public Disclosure and Transparency Sections' average ratings are shown in Figure 2.

Figure 2 Average Ratings for Public Disclosure and Transparency Section



3.2.1. Strengthnesses and Weaknesses of Companies until 2009

As a result of examining Public Disclosure and Transparency sections of rating reports, following comments concluded for ISE Corporate Governance Index companies.

Companies utilize a website as an effective tool in public disclosure. All companies listed on Corporate Governance Index have an easily accessible websites and it is observed that increasing number of companies is in effort to improve the content of their websites. While Turkish versions of websites are comprehensive enough, English versions are generally in improvement progress in terms of content and disclosure for foreign investors. Another developing area is information policy. It is observed that before 2009, many companies did not have any written information policy, on the other hand according to 2009 rating reports; almost all companies have established a collective set of written principles and an information policy to be used in public disclosure. The information or disclosure policy aim at providing shareholders, stakeholders and the public timely, complete and accurate information in line with the CMB corporate governance principles. The disclosure policy covers scope, forms, frequency and methods of disclosure, informs about the company's authorized persons regarding public disclosure, and outlines how the company deals with investors. English and Turkish version of comprehensive annual reports are disclosed on website of companies. Periodical financial statements and annual reports are signed by the responsible board members and executives indicating that the current periodical financial statements completely reflect the true financial status of the company. Periodical financial statements and footnotes are prepared in line with CMB legislation and international accounting standards and applied accounting policies are included in the footnotes of the financial statements. On the other hand, forward looking information such as projected financial statements is very rare in annual reports. Overall, annual reports are comprehensive in terms of content and information relevant to investors. Nevertheless, there are still some areas that need further improvement. The Corporate Governance Compliance Reports regarding the implementation of the principles are included in the annual reports. However, most of the companies don't explain the reasons of lacking implementation in their Corporate Governance Compliance Reports. Most of the

companies have established ethical rules and they are disclosed in the form of a Code of Ethics.

A list of the names of insiders is disclosed in annual reports. However, in order to prevent insider trading, companies should try to enforce necessary measures and establish policy for insider trading that provides some information on the matter like definitions, implementation, responsibilities and penalties for violators.

All of the companies that are examined in this study are publicly held companies. By CMB legislation, companies have to notify ISE about every kind of developments which will considerably influence the company. All of the companies comply with CMB and ISE legislations in disclosure process regarding important events and developments. All companies duly disclose any significant changes in the management and capital structure of the company, change in core operations of the company, and any kind of information that would affect the profitability of company in the “disclosure of special events” published by the Istanbul Stock Exchange (ISE).

Major deficiencies regarding this section are the facts that; most of the companies’ ultimate controlling individual shareholders are not disclosed to public and remuneration of executives generally do not exist in annual reports. Moreover, most of the companies’ capital structure is not presented in a table format that would include the names of the ultimate controlling individual shareholders names, amount and proportion of their share. Under principles, in case shareholding or voting right percentage of an individual reaches, exceeds or falls below the thresholds of total share capital or voting rights, companies should disclose information to public. However, according to investigation of rating institutions, almost all companies’ officials have declared that there is no transaction in this respect.

As a result of rating institutions’ examining the auditor contract and having interview with corporate officials and responsible independent auditor, they have reached a conclusion on auditors’ independence. The independent auditors’ reports confirm that the financial statements present fairly the financial position and annual performance of the company in accordance with the financial reporting standards issued by the CMB.

Table 3 Public Disclosure and Transparency

Successful Implementation
Comprehensive and easily accessible websites
Written information policy
Comprehensive annual reports
Periodical financial statements comply with rules and regulations
Insider lists are published
Disclosure about developments that may affect the value of the company
Code of ethics
The Issues Should Be Improved
English version of websites
Deficiencies
Corporate Governance Compliance Report does not include reasons of lacking implementation
Forward looking information in annual reports
Remuneration of executives are not disclosed to public
List of ultimate controlling individual shareholders
Measures and precautions to prevent insider trading.

3.2.2. Improvements and Ongoing Weaknesses after 2009

There is a considerable improvement in establishing an English version of web sites. Almost all companies has established an English version of websites that contain all relevant information in English. Moreover, some companies have restructured corporate web site to provide richer content for investors.

Whereas there is an improvement in respect to declaration of reasons for non application of some of the Corporate Governance Principles, there are still some companies that insist on not to disclose the reasons of noncompliance.

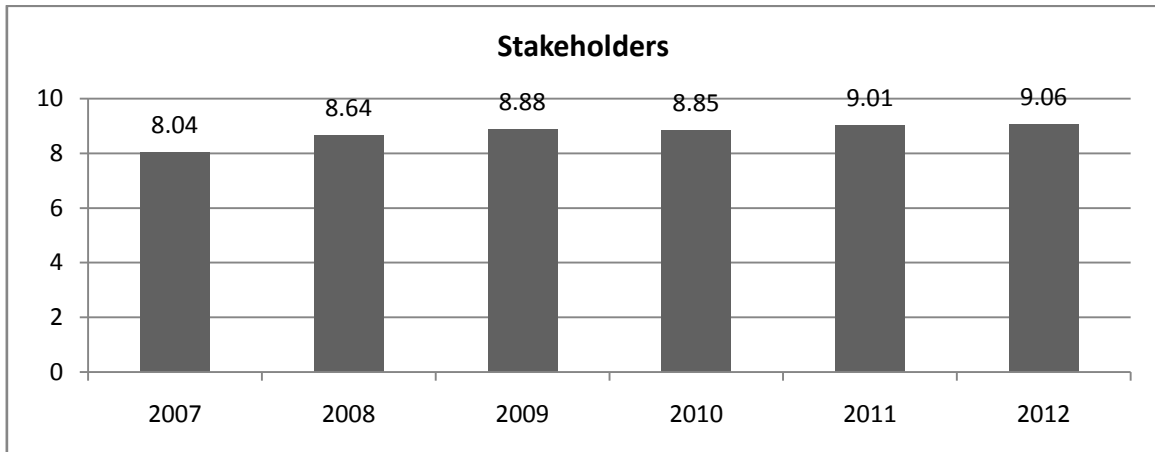
A visible improvement can be observed in presentation of ultimate controlling individuals. Majority of the companies has begun to disclose ultimate controlling individual shareholders. However such area still needs improvement because the list of ultimate controlling individual shareholders are still not included in some companies' annual reports. Similarly, in comparison to 2009 there is an improvement in disclosing remuneration of executives, however this is another area that needs more improvement.

Some companies' annual reports involve the management's evaluation of forward looking information that includes estimates, expectations and strategic priorities of the company. Nonetheless, most of the companies still do not disclose future forecasts of financial information. All of the companies disclose the list of insider traders however by 2012 very few of them has taken measures to prevent insiders.

3.3.Stakeholders

This section of CMB Corporate Governance Principles covers the company's basic policies towards stakeholders. Under this section, the corporate governance framework of the company should recognize the rights of stakeholders established by laws or through any other mutual agreement. In case of the rights of the stakeholders are not regulated by a legislation, the company should preserve the interest of stakeholders. Stakeholders should be informed about company's policies and procedures, which aim to protect stakeholders' rights. Company should overcome any conflicts between the company and its stakeholders. Stakeholders should be able to freely communicate their concerns about any illegal or unethical practices to the board. The company should establish mechanisms to encourage participation of the stakeholders in the management of the company. Board of directors and executives should not take actions that would cause the company assets lose value. The company should adopt written employment policies that would provide equal opportunities to individuals who have similar specifications. The company should conduct regular informative meetings with employees and employees should be informed any significant development or decision taken by the company that clearly affects them. The opinions of the trade union regarding the rights of the employees should be taken into account. The company should adhere to quality standards in production. Ethical rules should be established, submitted to the general shareholders' meeting and disclosed to the public. The company should encourage social responsibility projects that cover subjects such as education, health and environment. Average ratings for stakeholders section for the years 2007, 2008 and 2009 are shown in Figure 4.

Figure 3 Average Ratings for Stakeholders Section



3.3.1. Strengthnesses and Weaknesses of Companies until 2009

As a result of overviewing Stakeholders sections of rating reports, comments are summarized as follows. With regard to relations between companies and stakeholders, none of the companies have experienced infringements regarding the stakeholders' rights that are protected by legislation and contracts. Protection of stakeholders' rights is facilitated by all companies. However, majority of the companies do not have any provisions in the articles of associations for the company promoting the participation of stakeholders in the management of the company. Thus, stakeholders do not take part in management. Stakeholders are informed of the company policies and procedures most commonly via web sites. For many companies, the communication between the company and the suppliers is kept through annual communication meetings. Companies also take into consideration customer satisfaction and Customer Communications Centers are responsible for dealing with customers' problems. Most of the companies have strict quality standards for production systems. TS_EN ISO 9001 certificates prove that quality management systems have been implementing within companies. In production processes, companies are sensitive to use less polluting materials, reduce waste and recycle. They also generally make considerable contribution to the other areas of social responsibility such as education and social health. Companies provide information on their social responsibility activities within their annual reports as well as on their web sites.

While almost all companies have written code of ethics that was approved by board, some of them still have not submitted to general shareholders' meeting. Companies have written Human Resources' Policy which regulates staff training, performance evaluation and other relevant subjects. Companies provide equal opportunities and treatment to individuals who have similar specifications. On the other side, employees' participation to management is an area that should be improved for many companies. Trade unions take active part in many companies.

Table 4 Stakeholders

Successful Implementation
No infringements regarding the stakeholders' rights
Effective human resources policy
Wide range of social responsibility projects
Comprehensive codes of ethics
Quality standards in company products and services
Relations with customers and suppliers
The Issues Should Be Improved
Employees participation to management
Deficiencies
No provision in the articles of associations regarding the participation of stakeholders in the management

3.3.2. Improvements and Ongoing Weaknesses after 2009

During the examination of stakeholders sections of corporate governance reports, it is observed that employees and stakeholders participation to management still needs a significant improvement. Most of the companies do not have provision in the articles of association regarding the participation of stakeholders in the management of the company. However some of the companies declared that there are certain implementations or some actions in place.

The reason of the increase in the average rating of stakeholders section is mainly because of the improvements in other areas such as social responsibility projects, codes of ethics or relations with customers and suppliers.

3.4. Board of Directors

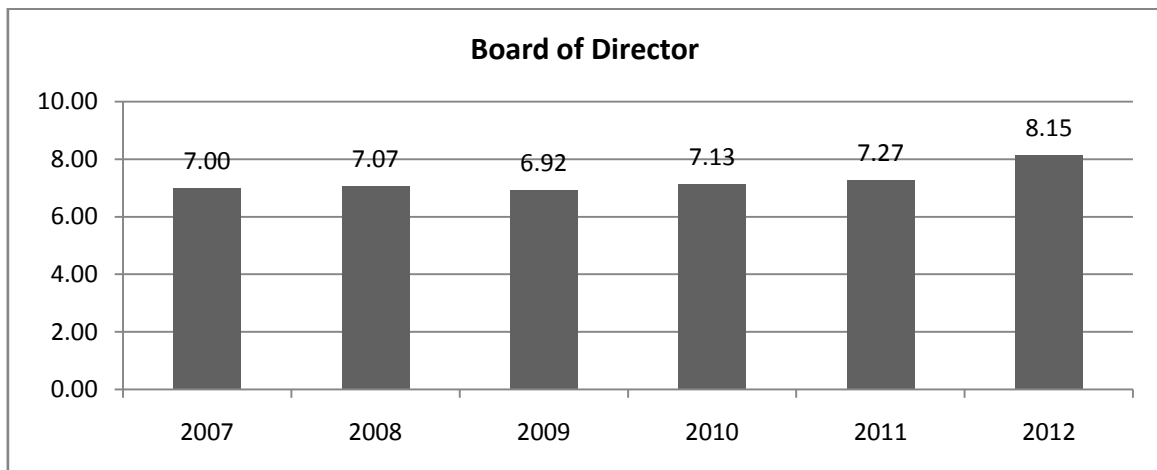
Under the fourth section of CMB Principles, the mission and vision of the company should be established and disclosed to public. With respect to the company's mission and vision, the board of the directors acts as the main responsible body for the company's goals. The board of the directors' responsibilities and duties should be defined in the articles of association and annual reports of the companies. Board members should be qualified and proficient about the management of the company. They should be eligible in terms of background and work history.

Board of the directors comprises of both executive and non-executive members. Board chairman and chief executive officer should not be the same person and majority of the board of directors should consist of non-executive members. The board also should comprise independent members. At least one third of the board of directors and in any case two members of the board should be independent. A person who has been a member of the company's board of directors for seven years cannot be appointed as an independent member to the board of directors. With respect to election of the board of directors, cumulative voting procedure should be adopted. Compensation of board members should be determined at general shareholders' meeting. Incentive remunerations of board of directors should be based on performance of both board members and company. Audit committee and corporate governance committee along with other necessary committees should be formed. Chairman for each committee should be elected among independent members of board. Each committee should comprise of at least two members and if there

are two members, both of them should be non-executive members. If there are more than two members, the majority of committee members should be non-executive members. Additionally, board members cannot be assigned to more than two committees. An audit committee oversees the financial and operational activities of the company and should convene at least once in three months. Corporate governance committee should be in charge of monitoring corporate governance practices compliance with Principles. The majority of the corporate governance committee should comprise of independent members and the chief executive officer/general director should not be a member of this committee.

Board members should devote sufficient time for company's business and they should be jointly liable for the damage caused by their insufficient performance on their duties assigned to them by legislation, the articles of association and the general shareholders' meeting. Board members are responsible for preparing financial statements and establishing internal control and risk management mechanisms within the company. The chief executive officer/general manager, the managing director or the head of the relevant department responsible for the preparation of financial statements should sign a written official declaration that covers items such as; carefully examination of financial statements and annual reports, no misleading statements or lack of information in financial statements and reflecting the truth about the company's financial situation and operations in financial statements. Some of the other duties of board of directors are; approving annual budgets, business plans of company and remuneration of executives, determining ethical rules, information policies, policies of shareholders and stakeholders and controlling the company's expenditures that exceed 10% of total assets. In case of opposition of an independent board member in a particular issue at the board meeting, dissenting vote should be disclosed to public. Board of director section's average ratings for Corporate Governance Index Companies is graphed below.

Figure 4 Average Ratings for Board of Director Section



3.4.1. Strengthnesses and Weaknesses of Companies until 2009

Boards of directors have the highest level power to take decisions, to designate strategies and to represent the company. Within this framework, the mission, vision and strategic targets of ISE Corporate Governance Index companies have been established by boards of directors and are disclosed to public. Overall, the boards of directors fulfill their duties with due diligence and meets their responsibilities. Board meetings are conducted in an efficient and sound manner. In case of dissenting votes the dissenting board members are

urged to indicate the reasons in the minutes. Executives are to attend meetings whenever necessary and requested. However, some companies' board of the directors still does not have sufficient independent members. Nonetheless, companies that have independent member in board generally do not comply with the one-third proportion of independent directors recommended by the CMB principles. Duties of board members are clearly described in articles of association and annual reports. Boards are staffed by highly qualified and managerially skillful members. However, before commencing work, board members' written declarations that they will comply with the legislation, articles of associations and in house regulations are not practicing in companies. Furthermore, there is also no declaration regarding the fact that in case of non-compliance members of board would be jointly liable to compensate the losses.

Within Corporate Governance Index companies generally two committees have been set up to support the work of the board; Audit Committee and Corporate Governance Committee. Almost all companies have audit committee that oversees all internal and external audit activities. However, there is still considerable number of companies need to form Corporate Governance Committee. Additionally, since independent member of board is a prominent deficiency of companies, chairmen of committees are another subject that needs to be improved. The work of existing committees is closely related to the board. Committee meeting minutes and special reports are reported to the boards.

The remuneration policy could be further improved in order to comply with the CMB principles. Compensation is determined by general shareholders meeting and it is solely composed of a fixed salary. Generally, there are no additional attendance or committee membership fees.

Table 5 Board of Directors

Successful Implementation
Vision, mission and strategic goals are clearly defined
The board is staffed with effective and highly qualified members
Executives are qualified and experienced
The Issues Should Be Improved
Separate the Board Chairman and the General Manager/CEO positions
Corporate Governance Committee
Independent member in the Board of Directors
Deficiencies
The cumulative voting system is not applied
No written declaration regarding executives' joint liability for company's losses caused by a violation of their duties
The stakeholders do not have the right to call for a meeting of Board of Directors
No performance based incentive remunerations

3.4.2. Improvements and Ongoing Weaknesses after 2009

After 2009 tremendous improvement was observed regarding increasing number of independent board members and establishment of new committees. During the examination of corporate governance rating reports it is observed that almost all companies have established corporate governance committees. Further, almost all corporate governance committees has chaired by independent members. Almost all companies has an audit committee that is formed entirely by independent board members. Generally, all

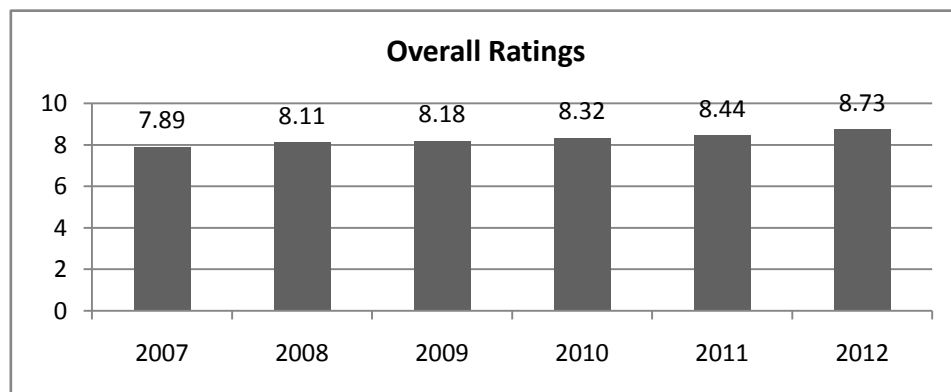
members of the audit committee and the majority of the members of the corporate governance committee are non-executive board members. Along with corporate governance and audit committee majority of companies have established risk management committee.

While there is a considerable increase in the compliance degree of committee and independent member requirements, there is slight improvement concerning other weaknesses. It is generally observed that cumulative voting system still is not being applied by companies. Moreover, generally companies do not have written declaration regarding executives' joint liability for company's losses caused by a violation of their duties. Additionally, for majority of companies stakeholders do not have right to call for a meeting of Board of Directors. Also, it is observed that only some of the companies utilize performance based incentive remunerations. To sum up, such areas still need improvements for the companies listed in ISE Corporate Governance Index.

CONCLUDING REMARKS

Istanbul Stock Exchange (ISE) Corporate Governance Index has been active since August 31, 2007. Year by year, number of companies in this index has been increasing drastically. A review of corporate governance rating reports demonstrates that the average of overall corporate governance ratings is well above 7 which is the threshold for ISE Corporate Governance Index. It is observed that overall corporate governance ratings have been gradually increasing year by year. In order to summarize the improvement of corporate governance practices in Turkey, average overall grades for the years between 2007 and 2012 are shown in Figure 5.

Figure 5 ISE Corporate Governance Index Companies' Average Overall Ratings



Further examination of each section reveals the weaknesses and strengths of companies. According to this examination it is observed that while shareholders, public disclosure and transparency and stakeholders sections' grades have increased gradually, there were slight improvement in board of directors' section until 2011. The sharp increase in the average ratings of board of directors section might be due to the enforcement of Communiqué Serial : IV, No:56. Because, under this Communiqué all members of audit committee and the chairmen of other committee's must be selected from independent board members.

Figure 6 Ratings for the Years Between 2007 and 2012

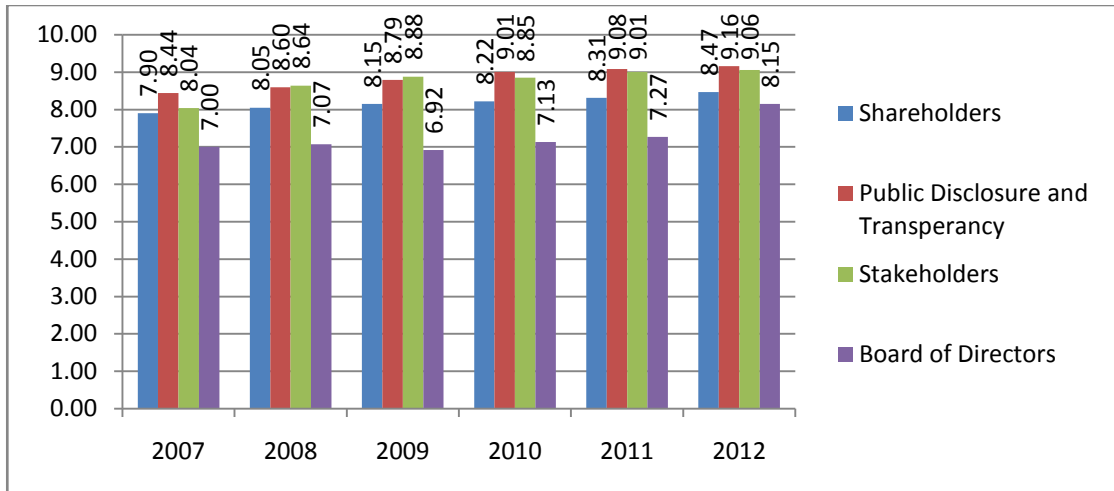


Figure 6 depicts the developments in each section from 2007 to 2012. In summary, board of directors is the weakest part with the average 7,00, 7,07, 6,92, 7,13, 7,27, and 8,15 in years 2007, 2008, 2009,2010, 2011, and 2012 respectively.

This study includes the analysis of corporate governance practices of Istanbul Stock Exchange Corporate Governance Index Companies. In the future, this study can be expanded by analyzing Istanbul Stock Exchange National 100 Index Companies. Since most of the ISE National 100 Index Companies do not publish corporate governance rating reports, or authors may conduct analysis through developing a corporate governance scorecard.

APPENDIX I: Corporate Governance Ratings

	Company	Overall Corporate Governance Ratings					
		2007	2008	2009	2010	2011	2012
1	DOGAN YA YIN HOLDING A.S.	8,59	8,76	8,76	8,78	8,88	9,01
2	HURRIYET GAZETECILIK VE MATBAACILIK A.S.	7,97	8,32	8,43	8,47	8,55	9,01
3	TOFAS TURK OTOMOBIL FABRIKASI A.S.	7,74	8,16	8,24	8,42	8,58	9,03
4	TURK TRAKTOR VE ZIRAAT MAKINELERI A.S.	7,52	7,83	8,12	8,30	8,50	8,90
5	TURKIYE PETROL RAFINERILERI A.S.	7,91	8,34	8,34	8,56	8,62	9,10
6	VESTEL ELEKTRONIK SANAYI VE TICARET A.S.	7,59	8,26	8,34	8,40	8,59	8,83
7	Y VE Y GA YRIMENKUL YATIRIM ORTAKLIGI A.S.	7,88	8,16	8,16	8,27	8,56	8,66
8	ANADOLU EFES BIRACILIK VE MALT SANAYII A.S.		8,10	8,27	8,40	8,55	8,94
9	ASYA KATILIM BANKASI A.S.		7,56	7,82	8,17	8,26	8,61
10	DENTAS AMBALAJ VE KAGIT SANAYI A.S.		7,82	7,82	8,03	8,06	8,69
11	OTOKAR OTOMOTIV VE SAVUNMA SANAYI A.S.		7,94	8,12	8,32	8,47	8,68
12	YAPI VE KREDI BANKASI A.S.		8,02	8,44	8,79	8,80	8,81
13	ARCELIK ANONIM SIRKETI			8,21	8,55	8,59	9,11
14	COCA-COLA ICECEK A.S.			8,30	8,43	8,50	8,88
15	DOGAN SIRKETLER GRUBU HOLDING A.S.			8,26	8,42	8,59	9,03
16	IS FINANSAL KIRALAMA A.S.			8,02	8,38	8,58	9,03
17	LOGO YAZILIM SANAYI VE TICARET A.S..			8,05	8,17	8,26	8,60
18	PETKIM PETROKIMYA HOLDING A.S.			7,71	8,19	8,52	8,72
19	TURK PRYSMIAN KABLO VE SISTEMLERI A.S.			7,76	8,08	8,15	8,44
20	SEKERBANK TURK ANONIM SIRKETI			8,14	8,66	8,76	8,82
21	TAV HAVALIMANLARI HOLDING A.S.			8,33	9,04	9,10	9,20
22	TURKIYE SINAI KALKINMA BANKASI A.S.			8,77	8,92	9,10	9,11
23	TURK TELEKOMUNIKASYON A.S.			8,01	8,27	8,87	8,80
24	VAKIF MENKUL KIYMETLER YATIRIM ORT. A.S.			7,81	8,23	8,41	8,73
25	TURCAS PETROL A.S.				7,52	8,12	8,40
26	PARK ELEKTRIK URETIM MAD. SAN. VE TIC. A.S.				8,65	8,67	8,82
27	AYGAZ A.S.				8,46	8,50	8,96
28	ALBARAKA TURK KATILIM BANKASI A.S.				8,14	8,28	8,22
29	YAZICILAR HOLDING A.S.				8,04	8,30	8,78
30	IHLAS HOLDING A.S.				7,71	7,91	8,09
31	IHLAS EV ALETLERI IMALAT SAN. VE TIC. A.S.				7,12	7,39	7,68
32	DOGUS OTOMOTIV SERVIS VE TIC. A.S.					7,71	8,63
33	MENSA SINAI TICARI VE MALI YATIRIMLAR A.S.					7,59	7,75
34	PINAR SUT MAMULLERI SAN. A.S.					8,34	8,87
35	EGELI & CO YATIRIM HOLDING A.S.					8,20	8,60
36	TURKIYE HALK BANKASI A.S.					8,74	8,77
37	IS YATIRIM MENKUL DEGERLER A.S.					8,63	8,87
38	GLOBAL YATIRIM HOLDING A.S.					8,36	8,80
39	GARANTI FACTORING HIZMETLERI A.S.						8,36
40	ENKA INSAAT VE SAN. A.S.						9,16
41	PINAR ENTEGRE ET VE UN SANAYII A.S.						8,77
42	BOYNER BUYUK MAGAZACILIK A.S.						8,64
43	ASEL SAN ELEKTRONIK SANAYI VE TIC. A.S.						8,77
44	IS GA YRIMENKUL YATIRIM ORTAKLIGI A.S.						8,53
	AVERAGE	7,89	8,11	8,18	8,32	8,44	8,73

	Company	Shareholders					
		2007	2008	2009	2010	2011	2012
1	DOGAN YA YIN HOLDING A.S.	8,53	8,88	8,88	8,88	9,04	8,92
2	HURRIYET GAZETECILIK VE MATBAACILIK A.S.	7,89	8,32	8,32	8,51	8,69	9,16
3	TOFAS TURK OTOMOBIL FABRIKASI A.S.	7,52	7,76	7,73	8,00	8,05	8,11
4	TURK TRAKTOR VE ZIRAAT MAKINELERI A.S.	7,57	7,76	7,98	8,00	8,05	8,09
5	TURKIYE PETROL RAFINERILERI A.S.	7,73	8,31	8,30	8,48	8,50	8,77
6	VESTEL ELEKTRONIK SANAYI VE TICARET A.S.	8,01	8,43	8,47	8,51	8,51	8,84
7	Y VE Y GAYRIMENKUL YATIRIM ORTAKLIGI A.S.	8,03	8,27	8,53	8,67	8,75	8,75
8	ANADOLU EFES BIRACILIK VE MALT SANAYII A.S.		8,61	8,70	8,80	8,82	8,85
9	ASYA KATILIM BANKASI A.S.		7,02	7,24	7,29	7,35	7,36
10	DENTAS AMBALAJ VE KAGIT SANAYI A.S.		6,16	8,16	8,40	8,40	8,65
11	OTOKAR OTOMOTIV VE SAVUNMA SANAYI A.S.		8,74	8,81	8,77	8,91	8,95
12	YAPI VE KREDI BANKASI A.S.		8,29	8,56	8,72	8,71	8,72
13	ARCELIK ANONIM SIRKETI			8,55	8,87	8,87	8,95
14	COCA-COLA ICECEK A.S.			7,95	8,00	8,03	8,11
15	DOGAN SIRKETLER GRUBU HOLDING A.S.			8,55	8,55	8,71	8,71
16	IS FINANSAL KIRALAMA A.S.			8,20	8,22	8,15	8,30
17	LOGO YAZILIM SANAYI VE TICARET A.S.			7,99	8,16	8,21	8,49
18	PETKIM PETROKIMYA HOLDING A.S.			7,21	8,00	8,40	8,61
19	TURK PRYSMIAN KABLO VE SISTEMLERI A.S.			8,67	8,88	8,71	8,85
20	SEKERBANK TURK ANONIM SIRKETI			7,40	8,51	8,54	8,63
21	TAV HAVALIMANLARI HOLDING A.S.			8,10	9,05	9,06	9,10
22	TURKIYE SINAI KALKINMA BANKASI A.S.			8,55	8,77	8,78	8,79
23	TURK TELEKOMUNIKASYON A.S.			7,69	7,94	8,07	8,07
24	VAKIF MENKUL KIYMETLER YATIRIM ORT. A.S.			7,03	7,86	8,20	8,40
25	TURCAS PETROL A.S.				7,29	8,30	8,40
26	PARK ELEKTRIK URETIM MAD. SAN. VE TIC. A.S.				8,68	8,68	8,76
27	AYGAZ A.S.				8,81	8,91	8,96
28	ALBARAKA TURK KATILIM BANKASI A.S.				7,46	7,71	7,73
29	YAZICILAR HOLDING A.S.				7,98	7,99	8,02
30	IHLAS HOLDING A.S.				7,11	7,89	8,01
31	IHLAS EV ALETLERI IMALAT SAN. VE TIC. A.S.				5,77	6,81	7,27
32	DOGUS OTOMOTIV SERVIS VE TIC. A.S.					6,86	8,33
33	MENSA SINAI TICARI VE MALI YATIRIMLAR A.S.					7,87	7,97
34	PINAR SUT MAMULLERI SAN. A.Ş.					8,33	8,45
35	EGELI & CO YATIRIM HOLDING A.S.					7,94	8,09
36	TURKIYE HALK BANKASI A.S.					8,62	8,75
37	IS YATIRIM MENKUL DEGERLER A.S.					8,13	8,61
38	GLOBAL YATIRIM HOLDING A.S.					8,23	8,35
39	GARANTI FACTORING HIZMETLERI A.S.						8,19
40	ENKA INSAAT VE SAN. A.S.						8,91
41	PINAR ENTEGRE ET VE UN SANAYII A.S.						8,14
42	BOYNER BUYUK MAGAZACILIK A.S.						8,77
43	ASELSAN ELEKTRONIK SANAYI VE TIC. A.S.						8,00
44	IS GAYRIMENKUL YATIRIM ORTAKLIGI A.S.						8,66
45	AVERAGE	7,90	8,05	8,15	8,22	8,31	8,47

		Public Disclosure and Transparency					
Company	2007	2008	2009	2010	2011	2012	
1	DOGAN YA YIN HOLDING A.S.	9,60	9,68	9,68	9,73	9,82	9,82
2	HURRIYET GAZETECILIK VE MATBAACILIK A.S.	8,71	9,11	9,13	9,16	9,19	9,39
3	TOFAS TURK OTOMOBIL FABRIKASI A.S.	8,27	9,05	9,26	9,21	9,22	9,15
4	TURK TRAKTOR VE ZIRAAT MAKINELERI A.S.	7,91	8,56	8,84	9,02	9,09	9,08
5	TURKIYE PETROL RAFINERILERI A.S.	8,83	8,98	8,98	9,12	9,22	9,22
6	VESTEL ELEKTRONIK SANAYI VE TICARET A.S.	7,56	8,16	8,33	8,37	8,53	8,80
7	Y VE Y GA YRIMENKUL YATIRIM ORTAKLIGI A.S.	8,18	8,74	8,76	8,98	9,48	9,40
8	ANADOLU EFES BIRACILIK VE MALT SANAYII A.S.		8,47	8,70	8,96	9,27	9,36
9	ASYA KATILIM BANKASI A.S.		7,33	7,94	8,72	8,91	9,61
10	DENTAS AMBALAJ VE KAGIT SANAYI A.S.		8,72	8,71	8,93	8,94	9,04
11	OTOKAR OTOMOTIV VE SAVUNMA SANAYI A.S.		8,27	8,48	8,95	8,95	8,95
12	YAPI VE KREDI BANKASI A.S.		8,11	8,83	9,17	9,25	9,26
13	ARCELIK ANONIM SIRKETI			8,71	9,22	9,30	9,34
14	COCA-COLA ICECEK A.S.			9,21	9,35	9,53	9,54
15	DOGAN SIRKETLER GRUBU HOLDING A.S.			9,21	9,47	9,41	9,41
16	IS FINANSAL KIRALAMA A.S.			8,51	9,23	9,50	9,54
17	LOGO YAZILIM SANAYI VE TICARET A.S..			8,54	8,62	8,70	8,81
18	PETKIM PETROKIMYA HOLDING A.S.			8,81	9,04	9,36	9,33
19	TURK PRYSMIAN KABLO VE SISTEMLERI A.S.			7,87	8,61	8,73	8,59
20	SEKERBANK TURK ANONIM SIRKETI			8,70	8,90	8,94	8,95
21	TAV HAVALIMANLARI HOLDING A.S.			8,69	9,26	9,34	9,63
22	TURKIYE SINAI KALKINMA BANKASI A.S.			9,31	9,36	9,79	9,79
23	TURK TELEKOMUNIKASYON A.S.			8,98	9,22	9,31	9,33
24	VAKIF MENKUL KIYMETLER YATIRIM ORT. A.S.			8,86	8,78	8,83	9,04
25	TURCAS PETROL A.S.				8,78	8,83	9,04
26	PARK ELEKTRIK URETIM MAD. SAN. VE TIC. A.S.				9,44	9,47	9,48
27	AYGAZ A.S.				9,05	9,07	9,13
28	ALBARAKA TURK KATILIM BANKASI A.S.				9,04	9,04	9,01
29	YAZICILAR HOLDING A.S.				8,79	9,30	9,31
30	IHLAS HOLDING A.S.				8,59	8,75	8,80
31	IHLAS EV ALETLERI IMALAT SAN. VE TIC. A.S.				8,11	8,04	8,05
32	DOGUS OTOMOTIV SERVIS VE TIC. A.S.					8,82	8,83
33	MENSA SINAI TICARI VE MALI YATIRIMLAR A.S.					8,28	8,51
34	PINAR SUT MAMULLERI SAN. A.Ş.					9,06	9,05
35	EGELI & CO YATIRIM HOLDING A.S.					8,31	8,85
36	TURKIYE HALK BANKASI A.S.					9,54	9,53
37	IS YATIRIM MENKUL DEGERLER A.S.					9,12	9,28
38	GLOBAL YATIRIM HOLDING A.S.					8,81	9,31
39	GARANTI FACTORING HIZMETLERI A.S.						8,67
40	ENKA INSAAT VE SAN. A.S.						9,60
41	PINAR ENTEGRE ET VE UN SANAYII A.S.						9,00
42	BOYNER BUYUK MAGAZACILIK A.S.						9,19
43	ASELSAN ELEKTRONIK SANAYI VE TIC. A.S.						9,35
44	IS GA YRIMENKUL YATIRIM ORTAKLIGI A.S.						8,89
	AVERAGE	8,44	8,60	8,79	9,01	9,08	9,16

		Stakeholders					
	Company	2007	2008	2009	2010	2011	2012
1	DOGAN YA YIN HOLDING A.S.	7,63	7,82	7,82	7,82	7,92	7,95
2	HURRIYET GAZETECILIK VE MATBAACILIK A.S.	7,40	7,63	8,32	8,32	8,32	9,11
3	TOFAS TURK OTOMOBIL FABRIKASI A.S.	9,24	9,40	9,40	9,52	9,52	9,68
4	TURK TRAKTOR VE ZIRAAT MAKINELERI A.S.	8,87	9,15	9,40	9,52	9,76	9,76
5	TURKIYE PETROL RAFINERILERI A.S.	8,81	9,60	9,60	9,82	9,72	9,72
6	VESTEL ELEKTRONIK SANAYI VE TICARET A.S.	7,49	9,13	9,13	9,40	9,40	9,04
7	Y VE Y GA YRIMENKUL YATIRIM ORTAKLIGI A.S.	6,86	7,18	7,18	7,18	7,91	8,52
8	ANADOLU EFES BIRACILIK VE MALT SANAYII A.S.		8,80	9,13	9,21	9,39	9,39
9	ASYA KATILIM BANKASI A.S.		9,15	9,15	9,51	9,56	9,73
10	DENTAS AMBALAJ VE KAGIT SANAYI A.S.		7,70	7,69	7,99	8,17	8,55
11	OTOKAR OTOMOTIV VE SAVUNMA SANAYI A.S.		8,63	9,17	9,24	9,76	9,76
12	YAPI VE KREDI BANKASI A.S.		9,50	9,50	9,67	9,54	9,54
13	ARCELİK ANONİM SİRKETİ			9,52	9,52	9,52	9,52
14	COCA-COLA İÇECEK A.S.			9,21	9,64	9,64	9,64
15	DOGAN SİRKETLER GRUBU HOLDING A.S.			8,90	8,90	8,90	8,90
16	İS FİNANSAL KİRALAMA A.S.			8,87	8,87	9,30	9,53
17	LOGO YAZILIM SANAYI VE TICARET A.S.			8,51	8,92	9,21	9,31
18	PETKİM PETROKİMYA HOLDING A.S.			8,83	9,27	9,51	9,23
19	TURK PRYSMIAN KABLO VE SİSTEMLERİ A.S.			8,71	8,81	9,29	9,29
20	SEKERBANK TURK ANONİM SİRKETİ			9,23	9,79	9,79	9,91
21	TAV HAVALİMANLARI HOLDING A.S.			8,88	9,54	9,68	9,45
22	TURKIYE SINAI KALKINMA BANKASI A.S.			9,57	9,57	9,73	9,73
23	TURK TELEKOMÜNİKASYON A.S.			8,72	9,15	9,33	9,33
24	VAKIF MENKUL KIYMETLER YATIRIM ORT. A.S.			8,74	8,33	8,54	9,02
25	TURCAS PETROL A.S.				7,33	8,78	9,27
26	PARK ELEKTRİK ÜRETİM MAD. SAN. VE TIC. A.S.				8,99	8,99	8,99
27	AYGAZ A.S.				9,05	9,05	9,05
28	ALBARAKA TURK KATILIM BANKASI A.S.				8,04	8,10	8,21
29	YAZICILAR HOLDING A.S.				9,17	9,64	9,64
30	İHLAS HOLDING A.S.				7,54	6,82	6,90
31	İHLAS EV ALETLERİ İMALAT SAN. VE TIC. A.S.				6,63	6,83	7,07
32	DOĞUS OTOMOTİV SERVİS VE TIC. A.S.					8,67	8,97
33	MENSA SINAI TİCARİ VE MALİ YATIRIMLAR A.S.					8,68	8,68
34	PINAR SUT MAMULLERİ SAN. A.Ş.					9,17	9,31
35	EGELİ & CO YATIRIM HOLDING A.S.					9,05	9,05
36	TURKIYE HALK BANKASI A.S.					9,66	9,66
37	İS YATIRIM MENKUL DEĞERLER A.S.					8,24	8,43
38	GLOBAL YATIRIM HOLDING A.S.					9,16	9,29
39	GARANTİ FACTORİNG HİZMETLERİ A.S.						8,46
40	ENKA İNŞAAT VE SAN. A.S.						8,94
41	PINAR ENTEGRE ET VE UN SANAYİİ A.S.						9,23
42	BOYNER BÜYÜK MAGAZACILIK A.S.						8,86
43	A SELSAN ELEKTRONİK SANAYİ VE TIC. A.S.						8,94
44	İS GA YRIMENKUL YATIRIM ORTAKLIGI A.S.						7,91
	AVERAGE	8,04	8,64	8,88	8,85	9,01	9,06

		Board of Directors					
	Company	2007	2008	2009	2010	2011	2012
1	DOGAN YA YIN HOLDING A.S.	7,80	7,93	7,93	7,93	7,96	8,59
2	HURRIYET GAZETECILIK VE MATBAACILIK A.S.	7,34	7,63	7,63	7,56	7,68	8,59
3	TOFAS TURK OTOMOBIL FABRIKASI A.S.	6,30	6,57	6,62	7,05	7,67	9,38
4	TURK TRAKTOR VE ZIRAAT MAKINELERI A.S.	6,10	6,10	6,51	6,87	7,38	8,95
5	TURKIYE PETROL RAFINERILERI A.S.	6,27	7,73	6,73	7,10	7,24	8,89
6	VESTEL ELEKTRONIK SANAYI VE TICARET A.S.	7,28	7,69	7,74	7,74	8,27	8,74
7	Y VE Y GA YRIMENKUL YATIRIM ORTAKLIGI A.S.	7,94	7,81	7,53	7,52	7,46	7,61
8	ANADOLU EFES BIRACILIK VE MALT SANAYI A.S.		6,64	6,71	6,72	6,75	8,17
9	ASYA KATILIM BANKASI A.S.		7,45	7,47	7,46	7,47	7,81
10	DENTAS AMBALAJ VE KAGIT SANAYI A.S.		6,30	6,30	6,43	6,43	8,34
11	OTOKAR OTOMOTIV VE SAVUNMA SANAYI A.S.		6,28	6,31	6,42	6,58	7,38
12	YAPI VE KREDI BANKASI A.S.		6,74	7,13	7,74	7,82	7,83
13	ARCELİK ANONİM ŞİRKETİ			6,37	6,73	6,76	8,69
14	COCA-COLA İÇECEK A.S.			6,85	6,85	6,83	8,27
15	DOGAN ŞİRKETLER GRUBU HOLDING A.S.			6,28	6,53	7,13	7,13
16	İS FİNANSAL KİRALAMA A.S.			6,66	7,03	7,28	8,76
17	LOGO YAZILIM SANAYI VE TICARET A.S.			7,16	7,11	7,13	7,98
18	PETKİM PETROKİMYA HOLDING A.S.			6,01	6,54	6,86	7,66
19	TURK PRYSMIAN KABLO VE SİSTEMLERİ A.S.			6,12	6,09	6,10	7,32
20	SEKERBANK TURK ANONİM ŞİRKETİ			7,42	7,82	8,10	8,18
21	TAV HAVALİMANLARI HOLDING A.S.			7,77	8,40	8,44	8,73
22	TURKIYE SINAI KALKINMA BANKASI A.S.			7,76	8,05	8,09	8,10
23	TURK TELEKOMÜNİKASYON A.S.			6,56	6,73	6,79	8,47
24	VAKIF MENKUL KIYMETLER YATIRIM ORT. A.S.			6,58	7,79	7,97	8,43
25	TURCAS PETROL A.S.				6,11	6,54	6,99
26	PARK ELEKTRİK ÜRETİM MAD. SAN. VE TIC. A.S.				7,29	7,34	7,88
27	AYGAZ A.S.				6,93	6,94	8,66
28	ALBARAKA TURK KATILIM BANKASI A.S.				7,62	7,95	7,62
29	YAZICILAR HOLDING A.S.				6,39	6,42	8,27
30	İHLAS HOLDING A.S.				7,17	7,42	7,92
31	İHLAS EV ALETLERİ İMALAT SAN. VE TIC. A.S.				7,36	7,40	7,92
32	DOĞUS OTOMOTİV SERVİS VE TIC. A.S.					6,62	7,44
33	MENSA SINAI TİCARİ VE MALİ YATIRIMLAR A.S.					5,71	5,89
34	PINAR SUT MAMULLERİ SAN. A.Ş.					6,86	8,76
35	EGELİ & CO YATIRIM HOLDING A.S.					7,79	8,51
36	TURKIYE HALK BANKASI A.S.					7,17	7,20
37	İS YATIRIM MENKUL DEĞERLER A.S.					8,68	8,84
38	GLOBAL YATIRIM HOLDING A.S.					7,39	8,26
39	GARANTİ FACTORİNG HİZMETLERİ A.S.						8,03
40	ENKA İNŞAAT VE SAN. A.S.						8,92
41	PINAR ENTEGRE ET VE UN SANAYİ A.S.						8,82
42	BOYNER BÜYÜK MAĞAZACILIK A.S.						7,60
43	ASELSAN ELEKTRONİK SANAYİ VE TIC. A.S.						8,64
44	İS GA YRIMENKUL YATIRIM ORTAKLIGI A.S.						8,26
	AVERAGE	7,00	7,07	6,92	7,13	7,27	8,15

APPENDIX II: Corporate Governance Rating Scale

Rating	Explanation
9-10	The company performs very good in terms of Capital Markets Board's corporate governance principles and has qualified to be included in the ISE's (Istanbul Stock Exchange) Corporate Governance Index. It has identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7-8	The company performs good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4-5	The company performs weakly as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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