

NORTEL NETWORKS NETAŞ TELEKOMÜNİKASYON A.Ş.

ACTIVITIES REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2008

NORTEL NETWORKS NETAŞ TELEKOMÜNİKASYON A.Ş. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT 2008

1. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

In the conduct of its business activities our company exerts utmost care to the requirements of Turkish Commercial Code, the Articles of Association of the Company, the Capital Markets Law, the Communiqués of the Capital Markets Board (CMB) and other relevant legislation. Activities concerning compliance with corporate governance principles are covered within this context. Aiming to create the highest level of value to its customers, shareholders, employees, business partners and the society with innovative and creative communication solutions, the Company gives great importance to transparency. In this regard, the Company has adopted “Corporate Governance Principles” promulgated by the Capital Markets Board in July 2003 and since 2004 has issued its Corporate Governance Principles Compliance Report together with its Annual Activity Reports.

The core values, code of conduct, vision, mission and business objectives of the Company form the basis of its corporate governance understanding and practice.

SECTION I - SHAREHOLDERS

2. Shareholders Relations Unit

In order to facilitate the relations with the shareholders, a Shareholders Relations Unit is established headed by Ahmet Orel, V.P. and Corporate Secretary (Tel: 216 522 2312, e-mail: aorel@netas.com.tr), M. İlker Çalışkan, V.P. Finance, Control and Business Systems (Tel: 216 522 2463, e-mail: caliskan@netas.com.tr), Şeniz Tarımcıan Schmiede, Finance and Control Director (Tel: 216 522 2331, e-mail: senizt@netas.com.tr) and Ahmet Büyükcoşkun, Financial Reporting Manager (Tel: 216 522 2456, e-mail: abcokun@netas.com.tr). During the year, in addition to the follow up of legislation, the implementation of the requirements of CMB Communiqués, the disclosure of information to the shareholders, 10 written and over 100 verbal requests for information were received from shareholders or their representatives and these requests were replied, to the extent permitted by law.

3. Shareholders Right to Obtain Information

The majority of the requests for information received were related to fluctuations in share prices, capital movements, investments and dividend distribution policy of the company. The requests were mostly received through telephone and electronic mail and were replied, to the extent permitted by legislation.

Requests received through electronic mail were responded to through electronic mail. Information related to the company’s activities and developments, which could be of interest to the shareholders, were disclosed to the public through timely notifications made to the CMB and İSE (İstanbul Stock Exchange) in accordance with Communiqué of the CMB on the Disclosure of Special Circumstances to the Public. Additionally, the public media was informed through press bulletins. These bulletins and disclosures of special circumstances were also placed on the website of the company at www.netas.com.tr.

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3. Shareholders Right to Obtain Information (cont'd)

The Articles of Association of the company does not contain a provision for the appointment of a Special Auditor, however the shareholders have a right to request the appointment of a Special Auditor in accordance with Article 348 of Turkish Commercial Code. During the period no request were made for the appointment of a Special Auditor.

4. Information Concerning the General Assembly

During the year an Ordinary Annual Meeting of Shareholders was held. The required majority of shareholders under the Articles of Association of the company and the Law were present at the meeting. Shareholders and their representatives were present at the meeting. The invitation to the meeting was made in conformity with Article 14 of the Articles of Association of the company and Article 368 of the Turkish Commercial Code and the provisions of the Capital Markets Law. Additionally, invitations were published in Turkish Commercial Registry Gazette, holders of registered shares were invited by registered mail and invitation notices were published in Referans and Radikal daily newspapers distributed throughout the country.

In order to facilitate the attendance of shareholders to the meeting; in the notice of invitation, shareholders whose shares are kept in custody of and tracked through investor accounts maintained by the Central Registry Agency were requested to obtain entrance cards from the company in exchange of Annual General Meeting Blockage Forms received from the Agency. Shareholders physically holding their shares were requested to obtain an entrance card from the company in exchange of the delivery of their shares to the company, a week prior to the meeting. The Balance Sheet, Profit and Loss Statements, Reports of the Board of Directors and Auditors were made available for the review of the shareholders fifteen days prior to the General Meeting. Shareholders were allowed to raise questions at the meeting. Proposals were made by shareholders and put to vote at the General Assembly by the Chairman. The Articles of Association does not contain a provision requiring the General Assembly of the Shareholders to resolve on mergers, disposition, acquisition and rental of assets of significant value. The authority for such decisions is granted to the Board of Directors by virtue of Articles 4 and 17 of the Articles of Association.

In order to accommodate wider attendance, the meeting was organized at the head office of the company in its social facilities. The minutes of the Shareholders Meeting were submitted to CMB, İMKB and the regional office of the Ministry of Industry and Commerce, registered with the Commercial Registry, published in the Commercial Registry Gazette and copies were sent to shareholders upon request and additional copies are made available to the shareholders at the head office and the web site of the company for review.

5. Voting Rights and Minority Rights

According to the Articles of Association of the company every share has a right to one vote at meetings of shareholders. The ordinary and extraordinary meetings of shareholders are held in accordance with the Turkish Commercial Code. Minority rights are subject to the provisions of the Turkish Commercial Code. The shares of the company are divided into two groups, where (A) group shares are registered and (B) group shares are bearer shares. (A) group shares are owned by the foreign shareholder of the company Nortel Networks International Finance and Holding B.V. and Turkish Armed Forces Foundation. The differentiation of the shares between (A) and (B) groups, does not give the owners any rights nor privileges, except as provided in Articles 9, 15 and 19 of the Articles of Association.

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5. Voting Rights and Minority Rights (cont'd)

According to Article 9 of the Articles of Association; the required quorum for meetings and the required majority for resolutions of the shareholders shall be subject to the provisions of the Turkish Commercial Code (T.C.C.). However, resolution of the shareholders concerning matters stipulated in Article 388 of T.C.C. shall require the affirmative votes of the shareholders representing at least one half of the total number of shares within Group A.

According to Article 15 of the Articles of Association; The Board of Directors of the company shall be composed of 7 (seven) members elected by the general assembly of shareholders, for a period of 3 (three) years. Four of the seven members shall be elected from among the candidates nominated by Group A shareholders, provided that two of the seven shall be elected from among the candidates nominated by Nortel Networks International Finance and Holding B.V. and one member shall be elected from among the nominees of Turkish Armed Forces Foundation, and three members shall be elected from among the nominees of the Group B shareholders.

Nominations by the Group B shareholders will be subject to their representation at the shareholders meeting and the number of nominees to be elected will be dependent upon the ratio of representation; In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 30 percent of the capital of the company, all three members shall be elected from among the nominees of the Group B shareholders,

In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 20 percent of the capital of the company, two members shall be elected from among the nominees of the Group B shareholders and one member shall be elected from among the nominees of the Group A shareholders,

In case of the Group B shareholders are represented at the shareholders meeting by a ratio of at least 10 percent of the capital of the company, one member shall be elected from among the nominees of the Group B shareholders and two members shall be elected from among the nominees of the Group A shareholders.

In case the Group B shareholders are represented at the shareholders meeting by a ratio lower than 10 percent of the capital of the company, all three members shall be elected from among the nominees of the Group A shareholders.

According to Article 19 of the Articles of Association; the Board of Auditors composed of five members shall be elected by the General Assembly of shareholders for a period of three years. Three auditors shall be elected from among the nominees of the Group A, two auditors shall be elected from among the nominees of the Group B shareholders.

Nominations by the Group B shareholders will be subject to their representation at the shareholders meeting and the number of nominees to be elected will be dependent upon the ratio of representation;

In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 20 percent of the capital of the company, two members shall be elected from among the nominees of the Group B shareholders,

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5. Voting Rights and Minority Rights (cont'd)

In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 10 percent of the capital of the company, one member shall be elected from among the nominees of the Group B and one member from among the nominees of the Group A shareholders,

In case the Group B Shareholders are represented at the shareholders meeting by a ratio lower than 10 percent of the capital of the company, two members shall be elected from among the nominees of the Group A Shareholders,

There is no cross shareholding relationship between the company and its shareholders. Cumulative voting procedure is not stipulated in the Articles of Association and thus not implemented.

6. Dividend Distribution Policy and Timing for Dividend Distribution

The dividend distribution policy of the company is; to generate a fair return on investment to our shareholders within the framework of CMB regulations, taking into account the working capital requirements of the company. There are no privileges concerning dividend distribution. The procedure for dividend distribution is stipulated in Article 22 of the Articles of Association. Furthermore, announcements for dividend distribution are made to our shareholders through disclosures to CMB, İSE and notices published in daily newspapers. The dividend distribution proposal of the Board of Directors was submitted to the shareholders at the General Meeting and approved by the majority of those present. Accordingly, dividends were distributed within the rules and timeframe determined by the CMB.

7. Transfer of Shares

The transfer of shares is stipulated in Article 6 subparagraph (B) of the Articles of Association of the company. Accordingly, bearer shares can be transferred without being subject to any limitation or condition. However, concerning the transfer of registered Group A shares the existing shareholders in Group A are entitled to preemptive rights which are required to be exercised within 30 days from the date of the offer for sale. Therefore, a shareholder wishing to transfer its shares, in full or in part, must first offer, in writing, to transfer its shares to the other shareholders in Group A in proportion to their respective shares, stating the price and other conditions for sale. If any shareholder, to whom the offer was made, declines to purchase the offered shares, such shares shall be offered to the other shareholders in proportion to their share ownership and this method will be pursued in the same manner until all shares are sold or rejected. Following the application of the above procedures, the transferor will be free to offer any rejected shares to third parties without restrictions, provided that the price and other conditions of sale are no more favorable to the third party than the price and other conditions contained in the initial offer. According to the Articles of Association, the transfer of registered shares can only become effective with respect to the company after they are entered into the records of shares. However, due to the undertaking submitted to the İSE during the public offer of the shares, the Board of Directors can not decline from recording the transfer of shares.

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SECTION II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Information Disclosure Policy

The information disclosure policy of the company is; to inform the general public in a timely, reliable, complete and comprehensible manner. Disclosure of information is made to the CMB and İSE within the scope of relevant legislation and the Public Disclosure Project of CMB by way of the most efficient means, media institutions are informed through the press bulletins and such disclosures are placed on the website of the company.

9. Disclosure of Special Circumstances

In line with the regulations of the CMB, disclosure of 17 special circumstances was made during the year. Disclosure statements were submitted to the İSE and posted on the website of the company. The shares of the company are not listed in any foreign stock exchange. All disclosures were made in a timely manner.

10. Corporate Website and Content

The corporate website is at www.netas.com.tr address. The majority of the information enumerated in Section II Article 1.11.5 of the Corporate Governance Principles of CMB, can be found at the website.

11. Disclosure of Real Person/Persons Having Controlling Interest

There are no real persons having controlling interest in the company.

Capital Structure of the Company as at 31 December 2008 and 31 December 2007

	Share %	Number of shares	Nominal value	31 December 2008	31 December 2007
Nortel*	53,13	3.445.940	3.445.940	3.445.940	3.445.940
TAFF**	15,00	972.972	972.972	972.972	972.972
Public	31,87	2.067.568	2.067.568	2.067.568	2.067.568
Total	100,00	6.486.480	6.486.480	6.486.480	6.486.480

* Nortel Networks International Finance and Holding B.V.

**Turkish Armed Forces Foundation

The Company's issued capital denominated into 6.486.480 shares with nominal value of 1 TRY each.

The foreign shareholder of the company Nortel Networks International Finance and Holding B.V. is a company incorporated in The Netherlands and wholly owned by Nortel Networks UK Ltd., which is wholly owned by Nortel Networks Limited incorporated in Canada. Nortel Networks Limited is wholly owned by Nortel Networks Corporation of Canada whose shares are traded in the Toronto and New York Stock Exchanges.

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12. Disclosure of Insiders

Disclosures of insiders are made through the prospectus and disclosures made to the CMB and İSE within the framework of Capital Markets legislation. Persons considered as insiders are the members of the Board of Directors, Board of Auditors and the senior managers of the company. A list of the Board of Directors is given in Section IV, Article 18 below.

List of Board of Auditors is as follows;

A.Aydın İnağ
Bilge Taşkiran
M. Üntay Kozak
Tuncay Ayber
Gerrard J. Staunton

Managers considered as insiders are;

C. Müjdat Altay, President
M. İlker Çalışkan, V.P. Finance, Control and Information Systems
Ahmet Orel, V.P. Corporate Secretary, Legal Counsel
Şeniz Tarımcıan Schmiede, Director - Accounting and Control
Ahmet Büyükcoşkun, Manager - Financial Reporting

SECTION III - STAKEHOLDERS

13. Informing Stakeholders

Third parties having a direct relationship with the company are informed through various meetings. Special meetings are arranged for the employees, suppliers and the distribution channels. Additionally, electronic periodical containing information on corporate activities is distributed to customers, suppliers and employees. Furthermore, detailed information is provided at the website of the company. The public is comprehensively informed through press bulletins and interviews to the extent permitted by the regulations of CMB.

14. Stakeholders Participation in the Management of the Company

The corporate policy concerning stakeholders such as employees, customers and suppliers are stated in the mission statement. Relevant groups have continued access to the management of the company. The company seeks the views and opinions of its stakeholders through employee satisfaction, supplier satisfaction, customer satisfaction surveys conducted periodically by itself or independent survey companies and develops strategies based on the feedback received from these surveys.

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15. Human Resources Policy

The fundamental aspects of the company's human resources policy can be outlined as follows;

The success and the continuous improvement of Nortel Networks Netaş in the market and in the dynamic and rapidly changing telecom sector are dependent upon the contributions and development of its employees. The company aims to maximize the potential, motivation and innovation of its employees in order to achieve corporate objectives. To this end, the company provides equal opportunities for employment, rewards performance, promotes the development of individuals and teams, fosters environmental protection, and meets the requirements of health and safety regulations. Competitive compensation and social benefit programs are prepared, the knowledge and the competencies of the employees are assessed through the attributes defined in Core Competencies. Within the performance management process and throughout the career development process, the employees are given opportunities to assess and develop their core competencies.

The human resources policy of the company is available at the website of the company. Related policies and procedures are accessible by all employees. Managers and Human Resources department are responsible to maintain relations with employees in line with the human resources policy. During the period, no discrimination complaint was received from the employees.

16. Information Concerning Customer and Supplier Relations

The primary objective of the company is to achieve customer satisfaction and loyalty. Accordingly, every employee is responsible to show utmost care to customers, beginning with the identification of customer needs, securing the quality of products and services, and provision of training and after sales services. Periodic customer satisfaction surveys provide feedback for the company to promptly implement measures for improvement.

17. Social Responsibility

Nortel Networks Netaş has been implementing Environment, Health and Safety Program since 1997. Within the scope of this program ISO14001 Environmental Management System and OHSAS 18001 Employee Health and Safety Management System are implemented. No claims were raised against the company for environmental pollution.

Activities related to the social responsibility of the company include maintenance of relations with universities and the granting of scholarship to successful students in need. Through cooperation with neighboring high schools, talented young students are identified and encouraged to engage in sports activities at the facilities provided by the company. Furthermore, through memberships in foundations and associations, contributions are made to the society, and to scientific and technological development.

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SECTION IV - BOARD OF DIRECTORS

18. The structure and Composition of the Board of Directors, Independent Members

Members of the Board of Directors are as follows;

Chairperson:	Sharon L. Rolston
Vice-Chairman:	Özer Karabulut
Member:	Peter Newcombe
Member:	Sorin Lupu
Member:	Ali Tigrel (independent)
Member:	Yavuz Canevi (independent)
President:	C. Müjdat Altay

There are no restrictions imposed on the Board of Directors concerning other duties and occupations they can assume other than the restrictions concerning conflict of interest and competition with the company. Such restrictions are submitted to the approval of the shareholders each year at the General Meeting. The Board of Directors is elected by the General Assembly of Shareholders for a term of three years. Directors can be reelected at the end of three-year period. Two members of the board are elected as the representatives of the foreign shareholder Nortel Networks International Finance and Holding B.V., while one of the members of the Board is elected to represent the Turkish Armed Forces Foundation, the other members are elected from among the nominees of the A and B group shareholders by the General Assembly of Shareholders.

19. Qualifications of the Members of the Board

The qualifications required for eligibility for membership in the Board of Directors are in conformity with the qualifications specified in Articles: 3.1.1, 3.1.2 and 3.1.5 of Section 4 of the Corporate Governance Principles of CMB. These qualifications are not specified in the Articles of Association of the company, and all members of the Board of Directors meet these qualifications.

20. The Mission, Vision and Strategic Objectives of the Company

The mission and vision statements of the company given below are disclosed to the public through the web site and printed materials.

Vision Statement:

To create the highest level of value for our customers, shareholders, employees, business partners and society with innovative and creative communication solutions, and to become a leader in the market.

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20. The Mission, Vision and Strategic Objectives of the Company (cont'd)

Mission Statement:

To be a preferred business partner as a company which;

- Renders consultancy service with its knowledge, abilities and talents
- Sets market standards with respect to solution development and presentation,
- Creates work opportunities and orients them,
- Has a principle to create value for its shareholders and gives priority to profitability,
- Investigates the potential future developments and applies the necessary changes rapidly by determining them in advance,
- Believes in direct and open communication, personal abilities and importance of empowerment and creates a work environment accordingly,
- Does not compromise from business ethics, honesty and quality in respect of its core values.

The Board of Directors approves the strategic objectives prepared by the management. These objectives are presented to the Board by the President. Activities in line with approved strategies are presented to the Board at each meeting by the President. The Board of Directors periodically reviews performance and makes an overall evaluation at the end of each year.

21. Risk Management and Internal Control Mechanism

The Board of Directors has formed an Audit Committee composed of three of its members to establish an internal control mechanism for the company.

22. The Authority and Responsibility of the Members of the Board of Directors and Managers

The authority and responsibility of the members of the Board of Directors are stipulated in the Articles of Association of the company and the Turkish Commercial Code. The managers of the company perform their duties in line with the objectives and under the instructions of the Board of Directors.

23. The Conduct of the Board of Directors' Activities

The agenda for the meeting of the Board of Directors is determined by consultation between the Chairman, the members of the Board and the President. The Board of Directors has held five meetings during the period with the attendance of the required majority. Invitations to meetings were made at least three days in advance of the meeting together with the notification of the agenda. In order to facilitate communication with the Board Members and to provide related services a Corporate Secretarial Services function exists within the company. In the event that differences of opinion are expressed in the Board Meetings, these are reflected in the minutes of the meeting. As the members of the Board of Auditors attend the meetings of the Board of Directors, separate written notifications concerning such matters are not reported to the Auditors. Concerning issues specified in Article 2.17.4 of Section IV of Corporate Governance Principles of CMB, personal attendance to the meeting is insured. Questions and comments raised at the meetings of the Board and related responses are recorded in the minutes of the meeting. Members of the Board of Directors are not granted with weighted voting rights or veto rights.

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24. Prohibitions Concerning Transactions and Competition with the Company

The restrictions imposed on the Members of the Board of Directors have been waived by the resolution of the General Assembly of the Shareholders. Nevertheless, none of the members has engaged in transactions and activities in competition with the company.

25. Ethical Standards

Corporate ethics standards were adopted by the Board of Directors and communicated to the employees. No disclosures were made to the public concerning this matter.

26. The Number, Structure and Independence of the Committees of the Board

The Board of Directors has established an Executive Committee, and an Audit Committee each composed of three Members of the Board. A separate Corporate Governance Committee was not established as it was deemed more appropriate to oversee Corporate Governance Principles by the entire Board of Directors.

27. Remuneration of the Board of Directors

Compensation for the Members of the Board of Directors is determined by the General Assembly of the Shareholders each year, in accordance with Article 15 of the Articles of Association. Accordingly, Board Members receive a monthly fee payable at the end of each month. There are no incentives available to Board Members based on performance in connection with the performance of the company.

The company did not lend any money, extend any credit, extend a personal credit through a third party, nor provided any guarantees to or in favor of any Member of the Board of Directors or any Manager of the Company.