



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

Otokar

March 19, 2013

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Rating and Executive Summary

OTOKAR OTOMOTİV ve SAVUNMA SANAYİ A.Ş.

 SAHA
Corporate Governance Rating:

9.10



MAIN SECTIONS: **Avg. 91.03**

Shareholders: 89.58



Public Disclosure & Transparency: 92.79



Stakeholders: 97.97



Board of Directors: 85.83



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

This report on rating of Otokar Otomotiv ve Savunma Sanayi A.Ş.'s (Otokar) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 6) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Otokar is rated with **9.10** as a result of the Corporate Governance study done by SAHA. Details of this study are presented in the following chapters as main sections and sub-sections. We observe that Otokar took the necessary steps to determine and manage its governance risks. There is still room, on the other hand, for improvements in order to fully comply with the CMB's Corporate Governance Principles.

Additionally, in accordance with the World Corporate Governance Index (WCGI) published by SAHA on January 30, 2013, Otokar takes place in Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com/SpotsDetail.aspx?SpotsId=5>

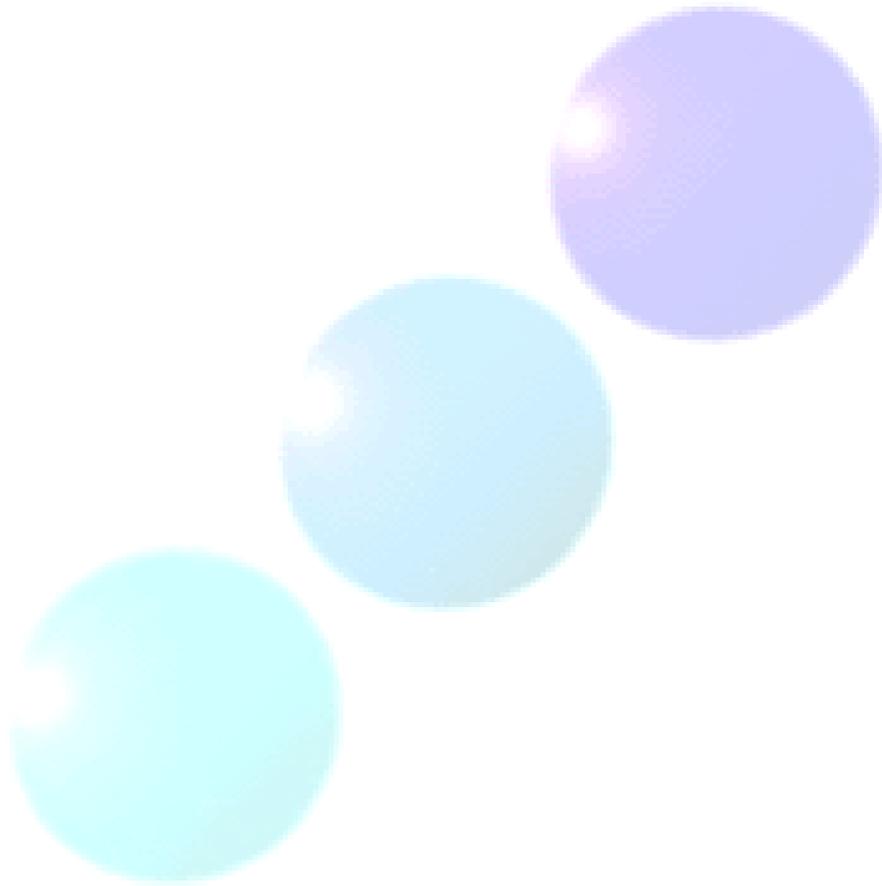
Otokar is rated with **8.96** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Otokar carries out the investor relations obligations through Shareholder Relations Unit. There is no upper limit or privileges on voting rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a consistent dividend policy of the company and it is disclosed to the public. There are no restrictions on transfer of shares. On the other hand, there are areas for improvement like inexistence of shareholders' right to appoint an independent auditor and adoption as it is, of the rate of minority rights in the company's articles of association as prescribed for public joint stock companies (%5).

Otokar attained **9.28** under the **Public Disclosure and Transparency** chapter. There is a comprehensive website that includes all information listed in the "Corporate Governance Principles" pertinent to public disclosure. Public announcements are made via all communications channels and are in accordance with the Capital Markets Board (CMB) and Istanbul Stock Exchange (ISE) rules and regulations. There are, however, areas in need of further refinement. There is no written compensation policy for the employees. The trade register gazette showing any amendments are not disclosed to the public through the website of the company. The names of the company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are not disclosed to the public.

On the topic of **Stakeholders**, Otokar scored **9.80**. Otokar guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. However, a written compensation policy is not effectuated and disclosed to the public on the corporate web site. Models have been developed to support the participation of stakeholders in the management of the company, but not mentioned in the articles of association. The company has a written and advanced human resources policy. A process of reconciliation continues between the parties for a new collective bargaining agreement. Otokar is taking measures to ensure customer satisfaction in marketing and sales of goods and services, and conducting research and studies to increase the efficiency. Code of ethics is publicly available through the company's web site. During the rating period, the company was not held liable by any public authorities for any sanctions, and was not subject to any adverse notice for any damage to the environment.

From the perspective of the principles regarding the **Board of Directors**, Otokar's tally is **8.58**. There is a well communicated company mission and vision, and the board fulfills all duties regarding company needs. Chairman of the board of directors and the chief executive officer is not the same person. The board of directors consists of 8 members, 2 of whom hold executive duties and another 2 are independent. CMB criteria are complied with in designation of the independent members and they have signed a declaration of independence. There are no female members on the board of directors. Necessary changes on the articles of association were made to comply with the CMB regulations on related party transactions of a significant nature. An Executive Committee, a Corporate Governance Committee, an Audit Committee, and a Risk Management Committee are established within the board of directors. The working principles of the committees are disclosed to the public. Our observations will continue in order to have a more precise view of the

activities of the committees. Principles of remuneration of board members and senior executives are available on the company's website. The company does not provide any loans or extend any credit to the board members or senior executives.



Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on July 2003, as revised on December 31, 2011.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of these Principles is advisory and its application is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in

future should be mentioned in the annual report and disclosed to the public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and board of directors. Based on these Principles, SAHA Corporate Governance Rating methodology features over 400 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination. SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.23).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

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

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

Company Overview

Otokar Otomotiv ve Savunma Sanayi A.Ş	
Otokar	CHAIRMAN Kudret ÖNEN GENERAL MANAGER A. Serdar GÖRGÜÇ
Headquarters: Aydınevler Mah., Dumlupınar Cad., No:58, A Blok 34855 Küçükyalı, İstanbul Factory: Atatürk Cad., No:9, 54580 Arifiye, Sakarya www.otokar.com.tr	Managers Responsible for Investor Relations Hüseyin ODABAŞ and İrfan ÖZCAN Tel:(0264) 229 22 44/6200, Fax:(0264) 229 22 42 arf@otokar.com.tr

As a member of Koç Group of Companies, Otokar Otomotiv ve Savunma Sanayi A.Ş. initiated Turkey's first actual intercity bus manufacturing investment under the license of Magirus Deutz at its Bahçelievler plant in Istanbul in 1963. In 1970s and 80s Otokar began inner city bus production and manufactured the first Turkish armored vehicle as a cash-carrier. To cater for the requirement of the Turkish Armed Forces, in 1987, Otokar developed a new strategy to start manufacturing military vehicles and signed an agreement with Land Rover, UK to manufacture 4x4 Land Rover Defenders in Turkey. With nearly 40 different Land Rover Defender models designed, Otokar became one of the leading manufacturers of Land Rover Defender in Europe.

In 1990's, Otokar combined its armor technology with its experience in military vehicles by developing Turkey's first 4x4 light-armored tactical wheeled vehicles, "Armored Patrol Vehicle", "Akrep", and "Cobra" respectively. In 1997, Otokar moved to its new plant in Arifiye, Sakarya. In 2002, Otokar acquired Istanbul Fruehauf Inc. and added the trailer and semi-trailer production to its activities. Otokar carries out the production of 4x4 Off-Road Vehicles, Armored Vehicles, Trailers and Semi-trailers, Minibus and Midi-bus vehicles at its production facilities reaching 169,000 square meters.

To strengthen its position in the international markets, make new contacts and receive new orders, Otokar participated in various local and international commercial and industrial fairs such as Izmir International Fair, IDEF, EUROSATORY, IDEX, DSEI, BUSWORLD, and DUBAI fairs.

In 29 July 2008, Otokar was awarded as the prime contractor in "Turkish National Main Battle Tank Project" (Altay Project) contracted by the Under-Secretariat of Defense Industry for the Turkish Armed Forces and signed the Phase I of Turkish Main Battle Tank Design and Prototype Production Agreement. Following the concept design completed in 2010, the scope of the Altay Project consists of studies on detailed designs of the ALTAY tank. A 1/1 ratio model of the ALTAY tank was presented to the public in May at IDEF 2011 fair.

In addition, on 29 March 2012, Turkey's first tank test center was opened. Introduction of a special representation of the prototype of the ALTAY tank was carried out on 15 November 2012.

As of 31 December 2012, the company had a total of 2,281 employees (2011: 1,519). 595 of them (2011: 535) were directors and officers, and 1,686 (2011: 984) were blue collar employees.

The company shares are traded under "OTKAR" code at the Istanbul Stock Exchange (ISE) and Otokar is a constituent of ISE All Shares (XUTUM), ISE Corporate Governance (XKURY), ISE Metal Products & Machinery (XMESY), ISE Industrials (XUSIN), ISE Dividend (XTMTU), ISE Dividend 25 (XTM25), ISE National (XULUS), ISE 100 (XU100), and ISE 100-30 (XYUZO) indices.

It was unanimously decided at the general shareholders' meeting held on March 14, 2012, that a total cash dividend of TL 48,000,000 to be distributed starting on 21 March 2012 among the shareholders of the full liability corporations and non-resident institutions which obtained dividends through a permanent establishment or a permanent representative in Turkey. The ratio of this distribution was decided as 200% (TL 1.70 for each TL 1.00 share).

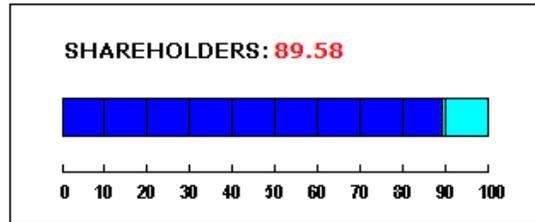
Otokar Capital Structure		
Shareholders	Share Amt. (TL)	Share %
Koç Holding A.Ş.	10,722,750	44.68
Ünver Holding A.Ş.	5,954,944	24.81
Other Shareholders	7,322,306	30.51
	24,000,000	100.00

According to the latest information received from the Central Registry Agency Inc., a balance of TL 7,322,306 representing 30.51% of the capital is distributed among about 4,900 shareholders.

As of the general shareholders' meeting held on 14 March 2012, the board of directors is composed as follows:

OTOKAR BOARD OF DIRECTORS	
Name	Title
Kudret ÖNEN	Chairman Executive Member Executive Committee Chairman Risk Management Committee Member
Halil İbrahim ÜNVER	Vice Chairman Non-executive Member
Ahmet Serdar GÖRGÜÇ	General Manager Executive Member Executive Committee
Osman Turgay DURAK	Non-executive Member
Ali Tarık UZUN	Non-executive Member Corporate Governance Committee Member
Tuğrul KUDATGOBİLİK	Non-executive Member
İsmet BÖCÜGÖZ	Independent Member Audit and Corporate Governance Committees Chairman
Abdulkadir ÖNCÜL	Independent Member Audit Committee Member Risk Management Committee Chairman

SECTION 1: SHAREHOLDERS



SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	No upper limits or privileges on voting rights
+	Voting rights are facilitated
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	General shareholders' meetings are conducted in compliance with the legislation
+	Consistent dividend policy, disclosed to the public
+	No restrictions on transfer of shares
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Shareholders do not have the right to request appointment of special auditors

In order to facilitate the exercise of shareholders' rights a Shareholder Relations Unit has been established and all shareholders are treated equally.

Shareholders' right to obtain and review information is not limited by the articles of association and all information required to exercise shareholders' rights in a sound manner is made available on time. However, the articles of association do not

include a provision for each shareholder to have a right to request appointment of special auditors at the general shareholders' meeting for the examination of certain events.

There is no any upper limit on the shareholders' right to vote and each share is entitled to one vote. However, minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital.

General shareholders' meetings are held in accordance with the legislation and conducted in a manner where shareholders' rights are not violated.

At Otokar, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately. There are no voting privileges and the company avoids applications that make it difficult to exercise voting rights.

Company has a clearly defined and consistent dividend policy and it is disclosed to the public in the annual report and on the corporate web site.

There are no restrictions on the transfer of company shares.

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The company carries out the investor relations obligations through Shareholder Relations Unit managed by Mr. Hüseyin Odabaş and Mr. İrfan Özcan and all shareholders are treated equally. In order to protect and facilitate the exercise of shareholders' rights and in particular the right to obtain and review information, this

unit makes sure that shareholder records are kept up-to-date, secure, and properly; shareholders' written queries for information (excluding the information that is confidential and classified as trade secret) are replied to promptly; appropriate preparation is done to ensure that the general shareholders' meeting is conducted in accordance with the legislation, the corporate statute and other in-house regulations; documents to be used by the shareholders at the meeting are prepared; records of voting results are kept and all reports related to the resolutions of the general shareholders' meeting are sent to the shareholders.

All information and statements which may affect shareholders' rights are made available to the shareholders on time on the company's web site.

1.2. Shareholders' Right to Obtain and Evaluate Information:

The shareholders' right to receive and review information is not removed or restricted by the articles of association or any corporate body. However, provided that the right to obtain and review information has been used before, the articles of association do not include a provision for each shareholder to have a right to request appointment of special auditors at the general shareholders' meeting (even if not in the agenda) for the examination of certain events. Correspondingly, all kinds of information about the company is provided in a complete, timely, honest, and diligent manner.

1.3 Minority Rights:

Maximum care is given to the usage of minority rights. There is no upper limit on the shareholders' right to vote and each share is entitled to one vote. However, minority rights are not recognized for shareholders who hold

an amount less than one-twentieth of the share capital.

1.4. The Right to Attend the General Shareholders' Meetings:

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting is performed through all means of communication available to the company three weeks in advance.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting together with all necessary informative documents; the old and new versions of the related provisions of the articles of association as approved by the relevant authorities; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Commencing from the date of announcement of invitation for the general shareholders' meeting, financial statements and reports including the annual report; dividend distribution proposal and all other related documents pertaining to the agenda items were made available to all shareholders for examination purposes in the most convenient locations including the headquarters or branches of the company and also in electronic media.

Shareholders were informed via the corporate web site on proclamation of the general shareholders' meeting along with all declaration and statements required by the legislation of the company, the total number of shares and voting rights reflecting the company's shareholding structure as

of the date of disclosure, and information on nominees to the board of directors.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Proxy forms were posted on the web site promptly and appropriately for those who would appoint a proxy for the general shareholders' meeting, and all items presented to the Shareholder Relations Unit to be included on the agenda are taken into account by the board of directors.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

Agenda of the general shareholders' meeting of 27 March 2013 included the proposal for the permission to be granted pursuant to the articles 395 and 396 of the Turkish Commercial Code and within the frame work of the CMB regulations, to shareholders who have control of the management, members of the board of directors, top executives, their spouses and up to second degree blood relatives to execute transactions and compete with the company or its affiliates in such nature that may cause conflict of interest and informing the shareholders on transactions carried out on 2012 in this regard in accordance with the Corporate Governance Principles.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting of the previous year which is evaluated as of the date of this rating report. At this meeting shareholders had the opportunity to discuss the annual report and the company's performance indicators.

The articles of association included CMB provisions on significant transactions. Since the company's policy on donations and grants was previously determined it was not included in the agenda of the general shareholders' meeting to be held on 27 March 2013. At each meeting shareholders are informed of all donations effectuated during the period and the amount of benefits and beneficiaries and policy changes.

The general shareholders' meetings are conducted open to public including stakeholders and the media without right of voting. Articles of association contain no provisions on this matter, but "CMB provisions shall be complied with" clause is included.

The minutes of the general shareholders' meetings are made available to the shareholders in writing and in electronic media at all times.

Principles of remuneration of board members and senior executives were documented in writing and submitted to the shareholders in the general shareholders' meeting as a separate item.

1.5. Voting Rights:

At Otokar, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting

rights conveniently and appropriately. There are no voting privileges and the company avoids applications that make it difficult to exercise voting rights.

1.6. Dividend Rights:

Otokar's dividend policy is clearly defined and disclosed to the public on the company's web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

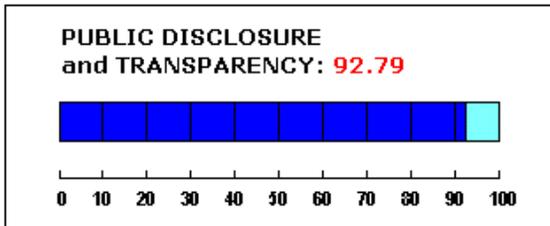
The company's dividend policy contains minimum information clear enough for investors to predict any future dividend procedures and principles. Concerning the company's dividend distribution, a balanced policy is followed between the interests of the shareholders and that of the company.

The dividend distribution proposal to be submitted to the upcoming general shareholders' meeting specifies the source and amount of the profit to be distributed for the period, dividends per share by specifying the group distinctions, and timing and terms of dividend payments.

1.7. Transfer of Shares:

Neither the articles of association of the company nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares which are publicly traded.

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS	
+	There is a Shareholder Relations Unit
+	Comprehensive disclosure policy
+	Comprehensive web site, actively used for public disclosure, English version exists
+	Annual report complies with the legislation, comprehensive and informative
+	List of insiders defined
+	Important events and developments disclosed in accordance with the legislation
-	Compensation policy not established and not announced to the public through the web site
-	List of ultimate controlling individual shareholders are not disclosed to the public
-	Dates and serial numbers of trade registry gazettes not mentioned on the web site

Otokar's task of public disclosure and shareholder relations are carried out by the Shareholder Relations Unit. The disclosure policy of the company is comprehensive and covers which information to be disclosed and means of disclosure. List of insiders is defined and disclosed to the public. Principles not complied with are disclosed to the public via the Corporate Governance Compliance Report along with pertinent justifications.

Company's web site is very comprehensive and user friendly. Public announcements are made in accordance with the CMB and the ISE rules and regulations.

The dates and serial numbers of the trade registry gazettes that published changes in the articles of association and the employee compensation policy are not disclosed to public on the corporate web site.

Non-disclosure to the public of the company's ultimate controlling individual shareholder or shareholders, as identified after being released from indirect or cross shareholding relationships between co-owners, is an area for improvement.

Annual report of Otokar is highly comprehensive and informative.

There has been no legal conflict between the company and the selected external audit firm. Besides, there has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion.

2.1. Principles and Means for Public Disclosure:

Otokar's task of public disclosure and shareholder relations is carried out by the Shareholder Relations Unit. Investors, financial analysts, journalists and other interested parties referred to this unit for information.

The disclosure policy covers the type of information to be disclosed (excluding those within the scope of

the legislation), form, frequency, and methods of disclosure.

The public disclosure of Otokar is conducted in a timely manner, is accurate, complete, understandable, interpretable, allowing easy access with low cost, and available on equal basis to help the interested parties and organizations to come to a decision. This disclosures are disseminated through the "Public Disclosure Platform" (www.kap.gov.tr) and the corporate web site.

In the event of disclosure of forward looking information, the company, endeavors to describe the assumptions and the data which assumptions are based on. Company officials declared that the information disclosed is not without basis, do not contain exaggerated predictions, and in case the predictions on forward looking information are not realized, the reasons will be disclosed to the public immediately. The principles for disclosure of forward looking information to the public are described in the disclosure policy.

Within the scope of the communique on disclosure of important events and developments, the company did not receive any fines or warnings from the CMB, the Banking Regulation and Supervision Agency (BRSA) or the ISE.

The company has prepared a list of natural or legal persons acting on behalf or account of partnership, employees either under contract with the company or otherwise affiliated with the company with regular access to inside information, and it is updated when there are changes.

In accordance with the CMB communique, principles not complied with are disclosed to the public via the Corporate Governance Compliance Report along with the justifications.

2.2. Web Site:

Company's website is actively used for disclosure purposes and the information contained herein is continuously updated. In addition, the company's letterhead includes the website address.

Along with the information required to be disclosed pursuant to the legislation, the company's website includes; trade register information, information about latest shareholder and management structure, information that there are no privileged shares, the final version of the company's articles of association, publicly disclosed material information, annual reports, periodical financial statements, prospectuses and circulars, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, dividend distribution policy, disclosure policy, information on transactions with related parties, ethical rules, frequently asked questions including requests for information, and responses thereof, the working principles of the committees, and the remuneration policy.

In addition to these, the dates and serial numbers of the trade registry gazettes that published changes in the articles of association and the employee compensation policy must be included on the web site.

The information contained on the website exists also in English for the benefit of international investors.

Shareholding structure of the company, the names, amount and the proportion of the shares held by ultimate controlling individual shareholder or shareholders, as identified after being released from

indirect or cross shareholding relationships between co-owners is not disclosed to the public.

2.3. Annual Report:

Annual report prepared by the board of directors covers information such as; the period covered by the report, the title of the company, the names of the chairman and members involved in the management and supervisory boards during the covered period, their biographies, limits of authority, tenure of office, duties carried out outside the company, declaration of independence of independent board members, committees and their working principles, the main factors affecting the performance of the company, changes in the operational environment of the company, company's policies applied to these changes, investment and dividend policy applied to strengthen the performance of the company, sources of financing and risk management policies of the company, Corporate Governance Principles Compliance Report, changes and reasons on the articles of association, the company's production, sales and financial data, related party transactions, and the dividend distribution proposal.

On the other hand, the annual report does not contain information on; major events which took place between the closing of the books and the date of the general shareholders' meeting, research and development activities, number of board meetings held during the year and the participation rate of the board members, vocational training of employees, and other company activities that give rise to social and environmental results.

2.4. External Audit:

The external audit of the company is conducted by Güney Bağımsız Denetim

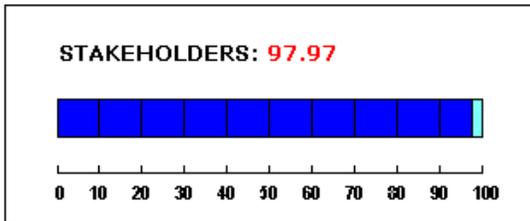
ve Serbest Muhasebeci Mali Müşavirlik A.Ş..

The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the audit committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion.

Company officials declared that there are no legal disputes between the external auditors and Otokar.

SECTION 3: STAKEHOLDERS



SYNOPSIS

+	Measures to safeguard stakeholders' rights are facilitated
+	Efficient human resources policy
+	Strict quality standards for goods and services
+	Stakeholders' views are taken on important decisions that give rise to the results which considers them
+	Code of ethics disclosed to the public
+	Measures are taken to ensure customer satisfaction on sale of goods / services
+	Socially and environmentally sensitive and respectful
=	Collective bargaining agreement is still in process
=	No provision in the articles of association regarding the participation of stakeholders in the management of the company despite the existence of certain incentive models
-	A written employee compensation policy is not disclosed to the public on the web site

Otokar recognizes the rights of stakeholders established by law or through any other mutual agreement. Effective and expeditious compensation is enabled in case of violation of rights. However, a written compensation policy for the employees of the company is not constituted and

disclosed to the public on the corporate web site.

Models have been developed to support the participation of stakeholders in the management of the company and they are described in the company's Corporate Governance Compliance Report, however, these mechanisms are not included in the articles of association.

Otokar have a documented and advanced human resources policy. Objectives of the company are disseminated on a platform open to all employees and performance towards the achievement of these objectives is evaluated.

The validity of the collective bargaining agreement signed between Otokar, Turkish Metal Union, and Turkish Employers' Association of Metal Industries (MESS) on September 1st, 2010 has expired on 8 August 2012. Completion of the process of reconciliation between the Metal Union and MESS is awaited for a new contract.

Otokar is taking the necessary measures to ensure customer satisfaction on sale of goods / services and conducts research and studies to increase the efficiency.

Ethical rules are disclosed to the public through the company's web site.

During the rating period, the company was not held responsible by the public administration nor received any indictment due to damage to the environment.

3.1. Company Policy Regarding Stakeholders:

Otokar's ownership is dominated by one of the leading enterprises of Turkey; the Koç Group of Companies. Due to its prominent corporate identity, Otokar has in place consistent and advanced policies regarding the rights of its stakeholders as well as relations with the private sector.

Otokar recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the company protects the interest of stakeholders under good faith principles and within the capabilities of the company. Effective and expeditious compensation is provided in case of violation of the rights. However, a written compensation policy for the employees of the company is not constituted and disclosed to the public on the corporate web site.

The web site of the company (www.otokar.com.tr) is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

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

3.2. Stakeholders' Participation in the Company Management:

Otokar has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the company, and they are described in the Corporate Governance Compliance

Report. However, these models and mechanisms are not included in the articles of association.

3.3. Company Policy on Human Resources:

Otokar have a documented human resources policy. The principles of this policy are; correct person for the correct job, equal pay for equal work, differentiation according to the performance, recognition and appreciation of success, and equal opportunity for all.

Issues such as recruitment policies, career planning, improvement and training policies for the employees established within this framework are dealt with under the Personnel Regulation. While there are various committees established to carry out the relations with the employees, no representative has yet been selected and appointed. In harmony with the Human Resources policies introduced by Koç Group of Companies, studies are being carried out, and the rights and working conditions of both white collar and blue collar employees have been guaranteed so as to ensure that no employee is subject to any discrimination or ill treatment. No complaint has been received in this regard during the period.

Job descriptions of employees are documented and shared with them. Performance and reward oriented applications are provided via an electronic platform (*Koç@İnsan*). Objectives of the company are disseminated through this platform which is open to all employees and performance towards the achievement of these objectives is evaluated.

The validity of the collective bargaining agreement signed between Otokar, Turkish Metal Union, and Turkish Employers' Association of Metal Industries (MESS) on September 1st,

2010 has expired on 8 August 2012. Completion of the process of reconciliation between the Metal Union and MESS is awaited.

3.4. Relations with Customers and Suppliers:

Otokar is taking all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services. Among them are systematic meetings and training programs where suppliers and customers can reflect the demands, and studies such as "working life assessment survey".

Dealer network meetings and shareholders' factory visits are organized to raise the level of interaction with the social environment. Such a system is supplied where on a sales and dealer network. Customer demands are monitored in the sales and dealer network, conveyed to the management, and following necessary actions feedback is provided.

Demand for goods and services purchased by the customer are met promptly and customers are informed about the delays before the deadline.

Quality standards for goods and services are complied with and care is taken to protect those standards. Certain guarantees relating to quality are provided for this purpose.

Care is taken on the confidentiality of all trade secret data and information on customers and suppliers.

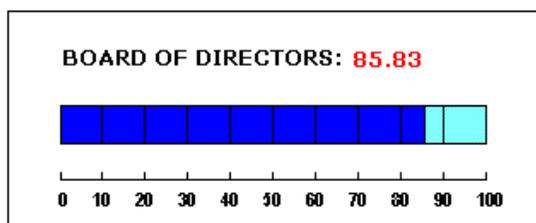
3.5. Ethical Rules & Social Responsibility:

Ethical codes of Otokar are disclosed to the public via company's web site.

The company has not been subject to any sanctions during the course of last year by the public administrations. Relations with non-governmental organizations and social institutions are at a good level.

Within the scope of social initiatives targeting both the region where the factory is located and the general public, activities are organized according to the set criteria of corporate social responsibility and influence on the society. Necessary detailed information about the works carried out in this context during the period is given in the annual report. No adverse notice was received during the period on account of damage caused to the environment.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	The company's vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each member has 1 vote
+	2 executive and 2 independent members on the board
+	Executive, Audit, and Corporate Governance, and Risk Management Committees established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
=	Chairman of the board and chief executive officer's executive powers are clearly separated, but not documented in the articles of association
=	The level of functionality of the committees will be monitored further
-	No female members on the board

The board of directors has defined the vision and mission of the company and is overseeing that company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

Distribution of tasks between the members of the board of directors is described in the annual report. Powers of the chairman of the board of directors and the chief executive officer / general manager is clearly separated but this separation is not documented in the articles of association.

The company's board of directors is composed of 8 members. 2 of the members are executive and another 2 are independent. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria. There are no female members on the board.

The board of directors fulfills its tasks and meetings take place with sufficient intervals. Each member has a right to one vote. The procedure of the board meetings is documented in writing in internal regulations. Board of directors meeting and decision quorum took place in the articles of association.

Necessary amendments were made in the articles of association to comply with the CMB regulations on related party transactions of important nature.

An Executive Committee, a Corporate Governance Committee, an Audit Committee, and a Risk Management Committees are established from within the board of directors. The working procedures of the committees are disclosed to the public. All members of the Audit Committee and the chairmen of the Corporate Governance and Risk Management Committees are elected among the

independent board members. The chief executive officer / general manager is not on the committees. There is no executive member on the Corporate Governance Committee. We will continue our observations on the activities of the committees to have a more precise opinion about their efficiency and functionality.

Principles of remuneration of board members and senior executives are described on the corporate web site. The company does not provide any loan or extend any credit to the board members or senior executives.

4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aims to manage the company's risk, growth, and return balance at an appropriate level, and with a view to the long-term interests of the company, conduct a rational and cautious risk management approach. The board administers and represents the company within these parameters.

The board of directors has defined the company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

The board is overseeing that company activities are managed in compliance with the legislation, articles of association, internal procedures, and established policies.

4.2. Principles of Activity of the Board of Directors:

Board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit, is explained in the annual report.

Chairman of the board and chief executive officer's executive powers are clearly separated, but this separation is not documented in the articles of association.

The board of directors plays a leading role in maintaining effective communication between the company and the shareholders and settling any disputes which may arise. Our observations will continue on the nature and level of the cooperation between the board and the Corporate Governance Committee and Shareholder Relations Unit.

4.3. Structure of the Board of Directors:

The company's board of directors is composed of 8 members. Majority of these members elected are non-executive. Among the non-executive board members there are two independent members who have the ability to execute their duties without being influenced under any circumstances. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of

independence within the framework of the legislation, articles of association, and the CMB criteria.

There are no female members on the board.

4.4. Conduct of the Meetings of the Board of Directors:

The board of directors fulfills its tasks and meetings take place with sufficient intervals (20 in 2012).

Chairman of the board of directors sets the agenda for board meetings in consultation with the chief executive officer / general manager and all members participate in all of the meetings as much as possible.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member of the board has a right to one vote.

The procedure of the board of directors meetings is defined in the articles of association of the company. Similarly, the board of directors meeting and decision quorum are included in the articles of association.

The articles of association of the company contains a clause where board decisions on significant related party transactions and guarantees, pledges and mortgages given to third parties, requires the approval of a majority of independent members.

Board members allocate necessary time for the company's business and there are no limitations taking on additional duties outside the company. Such a limitation is not deemed necessary due to the important contribution of the independent members to the board with their professional and sector experience.

Curriculum vitae of the board members, along with the tasks carried out outside the company are presented to the shareholders prior to the general shareholders' meeting.

4.5. Committees Established Within the Board of Directors:

An Executive Committee, a Corporate Governance Committee, an Audit Committee, and a Risk Management Committees are established from within the board of directors in order to fulfill its duties and responsibilities.

The functions of the committees, working conditions, and its members are designated by the board of directors and disclosed to the public on the company' web site.

All members of the Audit Committee and the chairman of the Corporate Governance and Risk Management Committees are elected among the independent board members. The chief executive officer / general manager is not on the committees. Since there are 2 independent members among 8 members of the board of directors, one of the independent members of the Audit Committee is chairing the Corporate Governance Committee and the other is chairing the Risk Management Committee. There are no executive members on the Corporate Governance Committee.

Necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

We will continue our observations to have a more precise opinion about the level of functionality and efficiency of the committees and the frequency of the meetings held.

4.6. Remuneration of the Board of Directors and Senior Management:

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting. A remuneration policy prepared for this purpose can be found on company's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

The company does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

The executives have the required professional qualifications in order to perform the assigned duties. The person appointed as chief executive officer / general manager has an adequate management experience. The chief executive officer / general manager does not undertake any tasks outside the company.

The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the company's affairs, and provided unfair advantage. There is a regulation on compensation for losses incurred by the company, and third parties, as a result of not performing the executives' duties duly.

Remuneration of the executives is based on market conditions and

determined according to their qualifications, and proportional to their contributions to the success of the company.

Rating Definitions

Rating	Definition
9 - 10	The company performs very good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The company performs 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. Deserved to be included in the ISE Corporate Governance Index on the highest level.
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. Deserved to be included in the ISE Corporate Governance Index and 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.

DISCLAIMER

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

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