



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

**Otokar**

20 March 2008

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## Rating and Executive Summary

### OTOKAR OTOBÜS KAROSERİ SANAYİ A.Ş.

**SAHA**  
Corporate Governance Rating:

**7.94**

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**MAIN SECTIONS: Avg. 79.40**

**Shareholders: 87.38**



**Public Disclosure & Transparency: 82.65**



**Stakeholders: 86.27**



**Board of Directors: 62.77**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

OTOKAR is rated with **7.94** 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. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" (the Principles). Ratings of main sections and sub-sections are disclosed separately.

With a view to country specific conditions, we observed that OTOKAR took the necessary steps to determine its Corporate Governance risks and improved in setting up sound internal controls and management systems. However, there is still room for improvements in order to fully comply with the CMB's Corporate Governance Principles.

Under the **Shareholders** heading, OTOKAR scored **8.74**. Having no limitations for voting rights, conducting general shareholder meetings in compliance with the country's rules and regulations and implementing a well established dividend payment policy are positive aspects, whereas, the lack of cumulative voting procedures and the fact that the minority shareholders lack the right to request the appointment of a special auditor from the general shareholder meeting are areas that need further improvement. The proactive approach of the company in terms of investor relations is a sign of corporate sensitivity in this area and further improvements to come in the near future.

OTOKAR attained **8.27** under the **Public Disclosure and Transparency** caption. There is a well organized, informative, and 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 CMB and ISE's rules and regulations. As apposed to these positive features, the fact that the company's ultimate controlling individual shareholders are not disclosed to public, as identified after being released from indirect or cross shareholding relationships between co-owners stands out as an area of further progress.

On the topic of **Stakeholders**, OTOKAR has broadly complied with the CMB Principles apropos company policy regarding stakeholders, protection of company assets, human resources policy, social responsibility, and relations with the customers and suppliers and scored a well deserved **8.63**. The company has the AQAP certificate which is a pre-requisite for Ministry of Defense tenders. AQAP certifies that OTOKAR has the ISO 9001:2000 Quality Management Systems infrastructure and complies with NATO Quality Standards. This, along with mandatory compliance to Ministry of Defense's regulations and controls, is a positive aspect in terms of Stakeholders rights. Specifically, the existence of a methodically working law department, the appropriate content and coverage of contracts, the organization of human resources department and its working papers have positively influenced our deductions.

From the perspective of the Principles regarding the **Board of Directors**, OTOKAR's tally is **6.28**. There is a well communicated company mission and vision; a board that consists of broadly experienced, competent, suitably educated individuals of high ethical standards; and mostly non-executives in the board. However, lack of independent members in the board and therefore in committees, lack of Corporate Governance committee, and the lack of cumulative voting system procedures remain to be potential risk factors for investors.

#### DISCLAIMER

This Corporate Governance Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) based on information made available by OTOKAR Otobüs Karoseri Sanayi A.Ş. and according to the Corporate Governance Principles by the Turkish Capital Markets Board as amended on 2005.

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.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

SAHA A.Ş. has embraced and published on its web site ([www.saharating.com](http://www.saharating.com)) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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## Corporate Governance in Turkey

From the Turkish Republic's establishment until relatively recently, the state played a dominant role in Turkey's economic development. Although a pro-market philosophy started to develop in the mid-twentieth century, significant state involvement in the economy continued through the 1970s with the state often acting as a significant producer and/or subsidizing private enterprises. Beginning in the 1980s, a trend toward liberalization started to expose Turkish companies to global competition while providing some of them with opportunities to attract foreign investment. Following the establishment of a regulatory framework for the capital markets in the early 1980s, the ISE (Istanbul Stock Exchange) opened in 1985.

Responding to the economic crisis of 2000-01, the Turkish authorities implemented measures to address the causes of financial and fiscal instability, facilitate a quick recovery and establish the conditions for further integration with the EU. After contracting by almost 7.5% in 2001, real GDP has increased every year at an average rate of 7.1%. Consumer price inflation rate fell from 54% in 2001 to approximately 10% in 2006.

From the mid-1980s until after the economic crisis of 2000-01, economic conditions were difficult for companies. Thin markets, relatively few active institutional investors and an unpredictable macro-economic environment limited incentives for companies to adopt good corporate governance practices. More recently, however, the return of foreign investors, greater opportunities for Turkish companies to do business abroad and an increasing competition for foreign capital appear to be encouraging more companies to make good corporate governance practices a competitive advantage.

Turkey is a civil law country. The principal sources of general mandatory corporate governance standards are the joint stock companies' provisions in the TCC (Turkish Commercial Code), the CML (Capital Markets Law) and subordinate instruments published under the CML, generally in the form of CMB communiqués. The term "Capital Markets Law" is used to refer collectively to the CML and all of the compulsory subordinate instruments relating to the CML, including communiqués, regulations and CMB decisions of general application.

In late 2005, draft legislation based on a comprehensive package of reforms to the TCC developed by an expert Commission was tabled in Parliament. The parliament is considering the reforms and the amendments could come into force by mid 2008.

The corporate governance framework rests primarily upon a "public enforcement" model, with the Capital Markets Board (CMB) playing a leading role in setting corporate governance standards for publicly held companies, enforcing the applicable standards and fostering market integrity.

The ambitious, state-of-the-art and comprehensive CMB principles, adopted in 2003, are the principal source of non-binding corporate governance standards for publicly held companies. They were revised in 2005 to take into account revisions made to the OECD Principles in 2004. Listed companies must publish an annual Corporate

Governance Compliance statement, disclosing which CMB principles have not been adopted and the reasons for not doing so.

The corporate governance landscape in Turkey is characterized by concentrated ownership, often in the form of family-controlled, complex financial-industrial company groups such as holding structures and conglomerates, usually comprising both publicly held and privately held companies. State ownership has declined drastically thanks to the unwavering execution of a privatization policy.

Free floats are often low, pyramidal structures are common and there is a high degree of cross-ownership within the groups. Due to the limited free float, takeovers are rare. This obviously weakens the extent of corporate control over the market. Foreign institutional investors, however, are increasingly seen in the market, seeking to increase their share holdings in Turkish companies. Approximately 30% of ISE-listed companies have "floatation ratios" of less than 25% as of the end of 2006. This floatation ratio represents the percentage of a company's stock held by the Central Securities Depository (CSD) in Turkey.

Controlling shareholders often hold shares with nomination privileges and/or multiple voting rights. Family members often serve on the board and play a leading role in the daily management and strategic direction of publicly held companies. Preserving family control is the norm. A small number of families control a large number of the listed companies.

Turkish companies issue ordinary shares, preference shares, and non-voting shares. Golden shares only exist in few state-owned companies. Most of the shares traded at the ISE are bearer shares.

Shareholders who own at least 5% of the company's capital are granted minority rights. They can call an extraordinary General Meetings or propose agenda items. Shareholders must personally attend the General Meeting or they can be represented by a proxy.

The corporate environment in Turkey, however, is better positioned than many European countries to tackle corporate governance challenges ahead, because:

- the authorities have already adopted, or are introducing, high quality corporate governance standards (including audit standards);
- transparency has improved significantly, particularly in the area of financial reporting (listed companies are urged to adopt accounting standards which are almost identical to IFRS);
- a positive trend toward widespread implementation of a number of key corporate governance standards can be observed; and
- the authorities are now focusing their attention on monitoring implementation, identifying the remaining gaps and risk areas, focusing their resources on these risk areas and implementing institutional reforms as needed to strengthen supervisory, enforcement and remedial processes. \* Parts of this text uses the Pilot Study (Corporate Governance in Turkey) prepared and published by the OECD on 17 October 2006 as a resource. The full text of the study can be found at <http://www.sourceoecd.org/governance/9264028633>.

## 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 February 2005.

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 the Principles 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 the future should all be included in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders and board of directors:

On the foundation of these Principles, SAHA Corporate Governance Rating methodology features over 350 code 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.19).

In compliance with the CMB's directive and to reach an overall Corporate Governance Rating, SAHA allocates the following weights to the four main sections of the Principles:

Shareholders: **%25**  
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 Otobüs Karoseri Sanayi A.Ş.	
<b>Otokar</b>	<b>CHAIRMAN</b> Kudret Önen <b>GENERAL MANAGER</b> A. Serdar Görgüç
<b>Headquarters:</b> Aydınevler Mah. Dumlupınar Cad. No:24, A Blok 34855 Küçükyalı/İstanbul <b>Factory:</b> Atatürk Cad. No:9, 54580 Arifiye/Sakarya <a href="http://www.otokar.com.tr">www.otokar.com.tr</a>	<b>Manager Responsible for Investor Relations</b>  İrfan ÖZCAN Tel:(0264) 229 22 44/411, Fax:(0264) 229 2242 <a href="mailto:arf@otokar.com.tr">arf@otokar.com.tr</a>

The Capital of OTOKAR as of 31.12.2007 is YTL 24 Million fully paid up and Registered Capital ceiling is YTL 25 Million. No change has occurred in the capital during 2007 in cash or non-cash.

OTOKAR shares have been trading at the Istanbul Stock Exchange (ISE) since 1995 (code: **OTKAR**). OTOKAR is a constituent of ISE National 100 (XU100), ISE National Industrials (XUSIN) and ISE Basic Metal (XMANA) indices.

The majority shareholder in OTOKAR is Koç Holding, a leading industrial holding group in Turkey. The capital structure of the company is as follows:

Capital Structure and Shareholding		
Shareholder	Amount (YTL)	Percentage %
Koç Holding A.Ş.	10,722,750	% 44.68
Ünver Holding A.Ş.	5,954,944	% 24.81
Public Shares	7,181,688	% 29.92
Ford Otosan San. A.Ş.	140,599	% 0.59
Temel Ticaret A.Ş.	19	% 0.00
	<b>24,000,000</b>	<b>% 100</b>

The Board of Directors as of the General Assembly of 5.4.2007 has formed as follows:

OTOKAR BOARD OF DIRECTORS	
Name	Title
Kudret ÖNEN	Chairman
Halil İbrahim ÜNVER	Vice Chairman
A.Serdar GÖRGÜÇ	Member-CEO
Bülent BULGURLU	Member
Alpay BAĞRIÇIK	Member
Ali Tarık UZUN	Member
Taylan BİLGİN	Member



OTOKAR started producing the nation's first intercity passenger buses under the license "Magirus Deutz" at the İstanbul Bahçelievler factory in 1963. Various models of inner-city minibuses and buses, and again, the nation's first armored vehicles used to transport money and valuable documentation were manufactured during the 1970's and 80's. As a response to the demand initiating from the Turkish Armed Forces, OTOKAR entered the military vehicle manufacturing business and signed a license agreement with Land Rover to manufacture tactical armored 4x4 defenders in 1987. With the production of more than 40 different variations of Land Rover Defender 90, 110 and 130 types, Otokar is probably the most experienced CKD outlet of all Land Rover Defender operations throughout the world.

In early 1990's, OTOKAR combined its armor technology with its experience in military vehicles by developing Turkey's first 4x4 light-armored tactical wheeled vehicles, "Otokar Armored Personnel Carrier", "Akrep", and "Cobra" respectively. In 1997, OTOKAR moved to its new plant in Sakarya, Arifiye. In 2002, OTOKAR acquired another Koç Group Company, İstanbul Fruehauf A.S., increased the production area to 169,000 m<sup>2</sup> and strengthened its position in the sector by adding the trailer and semi-trailer production to its activities. In late 2002, with the experience accumulated in the public transportation sector, OTOKAR developed the small bus called the "Navigo" which is marketed in Turkey with the "Sultan" brand. In 2003, OTOKAR started cooperating with Singapore Technologies Kinetics (STK) for the production of a new 8x8 tactical armored vehicle "Otokar-Yavuz". By designing its "Armored Internal Security Vehicle", OTOKAR widened its armored product family in 2005. In 2006, OTOKAR continued to grow both in semi-trailers and public transport vehicles segments with the production of new models.

In order to sustain growth and protect its competitive position in national and international commercial and military vehicles market, OTOKAR continues its presence in trade fairs and exhibitions such as the IAA (International Motor Show for Commercial Vehicles, Hanover-Germany), the FIAA (International Bus and Coach Trade Fair, Madrid-Spain), and the IDEX (Defense Exhibition, Abu Dhabi-UAE).

Targeting to expand the product range in the European commercial vehicle market, OTOKAR introduced the new medium size bus series "Vectio" in September 2007 in Turkey. "Doruk-Vectio", with its 35 passenger capacity and facilities for disabled passengers, is designed entirely by OTOKAR.

Otokar has extensive export coverage throughout the world with its military and commercial product range. The successful export performance of the military vehicles since 1990's made Otokar one of the main exporters of the Turkish Defense Industry. On the other hand, since the small buses, trailers and semi-trailers are added into Otokar's product range the Company has successfully started to establish its international dealer network including European Union countries. Besides its own designs, Otokar also designs and manufactures armored vehicles for other brands on demand. Today, OTOKAR is one of the main manufacturers representing Turkish automotive technology both in commercial and military range.

Small and medium passenger buses as well trailers of OTOKAR are sold through a nationwide network of 32 distributors in Turkey. A comparison of the last three years' sales and production numbers of OTOKAR are as follows:

<b>Sales and Production</b>						
	<b>2005</b>		<b>2006</b>		<b>2007</b>	
	<b>Production</b>	<b>Sales</b>	<b>Production</b>	<b>Sales</b>	<b>Production</b>	<b>Sales</b>
Minibus	569	569	455	464	353	368
4x4 Off-Road	1,028	1,101	838	678	623	782
Armored	174	178	547	529	346	358
Small Bus	793	747	935	769	1,106	1,188
Bus	-	-	-	-	106	50
Trailer	1,148	1,155	1,350	1,340	1,399	1,375
<b>TOTAL</b>	<b>3,712</b>	<b>3,750</b>	<b>4,125</b>	<b>3,780</b>	<b>3,933</b>	<b>4,121</b>

With net sales of US\$ 357 million in 2007, OTOKAR achieved a 50% increase over 2006 sales. 28% of these sales are realized by exports of US\$ 100.55 million. In terms of sales units, OTOKAR increased the number of vehicles sold to 4,121 in 2007 from 3,780 in 2006. Number of small buses sold in 2007 has also increased 54% in comparison to 2006 figures. A total of 1,188 small busses were sold in 2007, whereas 2006 number was 769. Trailer sales, on the other hand, reached 1,375 in 2007. The net profit of 2007 is US\$ 32.26 million and the net profit margin is 8.79%. The performance of 2007 produced an EBITDA of US\$ 41.4 million. Accordingly, the EBITDA margin was 11.2%. The 2007 EBITDA is 24% above the 2006 figure. OTOKAR has been the nation's leading military vehicle exporter for the last three years.

<b>OTOKAR Sales Performance Comparison (thousand \$)</b>			
	<b>2007</b>	<b>2006</b>	<b>Change %</b>
Domestic Sales	256,408	126,248	103.10
Exports	100,552	111,835	-10.09
<b>Total</b>	<b>356,959</b>	<b>238,083</b>	<b>49.93</b>

Selected items of the 2007 income sheet are as follows:

<b>OTOKAR Income Sheet – Selected Items (thousand \$)</b>			
	<b>2007</b>	<b>2006</b>	<b>Change %</b>
Net Sales	367,142	240,193	52.85
Cost of Goods Sold	-268,458	-164,622	63.08
Gross Profit	98,685	75,571	30.59
Operating Expenses	-60,807	-45,806	32.75
Operating Profit	37,878	29,766	27.25
Minority Rights & Profit Before Taxes	39,706	36,486	8.83
Taxes	-7,446	-7,023	6.03
Net Profit	32,260	29,463	9.49
<b>EBITDA</b>	<b>41,388</b>	<b>33,304</b>	<b>24.27</b>

Selected items of the 2007 balance sheet are as follows:

<b>OTOKAR Balance Sheet – Selected Items (thousand \$)</b>		
	<b>2007</b>	<b>2006</b>
Current Assets	181,303	128,845
Short Term Liabilities	123,216	82,705
Working Capital	58,087	46,140
Tangible Fixed Assets	35,523	28,550
Total Assets	250,881	183,546
Total Liabilities	128,527	87,549
Shareholders' Equity	122,354	95,997

Three main targets of OTOKAR are growing in the military vehicles market, increasing export income, and advancing via developing new models. The military orders in 2007 only, totaled approximately US\$ 250 million. US\$ 120 million worth of these orders have been delivered in 2007 and the remainder will be completed in 2008.

The number of OTOKAR personnel amounted to 1,224 of whom 891 are blue collar and 333 are white collar employees. Collective labor agreements with an employer trade union (MESS) and an employee trade union (Turkish Metal Union) are in force. Three blue-collar employees (chief and two assistants) are representing the employers' trade union. Number of personnel evolved over the last three years as follows:

<b>OTOKAR Number of Personnel</b>			
	<b>White-Collar</b>	<b>Blue-Collar</b>	<b>Total</b>
2007	333	891	1,224
2006	287	671	958
2005	269	719	988

Dividends for the account periods 2001 and 2002 were fully paid to the shareholders in cash. In 2003, no dividends were paid as the profit was set off against the losses in the previous years resulting from the first time implementation of the International Financial reporting Standards (IFRS). Dividends for the periods 2004 and 2005 were fully paid to the shareholders in cash.

According to the 2006 financial statements prepared in accordance with the generally accepted accounting principles issued by the CMB (Capital Markets Board), OTOKAR closed the year with a pre-tax profit of YTL 51,284,114. Setting aside a tax reserve of YTL 9,871,605, the company earned a net profit of YTL 41,412,509 in 2006. Deducting statutory reserves and the previous year's loss resulting from the application of "IAS 39", OTOKAR paid cash dividends amounting to YTL 30,000,000. This figure is 125% of the issued capital. The amount of donations made during the year 2006 amounted to YTL 865,395.

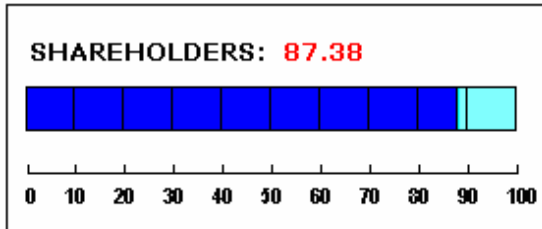
Selected items of the 2007 cash flow statement are as follows:

<b>OTOKAR Cash Flow Statement (thousand \$)</b>	
	<b>2007</b>
Cash and Cash Equivalents at the Beginning of the Year	547
Net Cash Flow from Operating Activities	48,028
Net Cash Flow from Investing Activities	-8,573
Net Cash Flow before Financing Activities	39,455
Net Cash Flow from Financing Activities	-36,909
Net Increase in Cash and Cash Equivalents	2,546
Cash and Cash Equivalents at the End of the Year	3,093

Selected financial ratios of 2007 are as follows:

<b>OTOKAR Financial Ratios</b>	
	<b>2007</b>
Current Ratio	1.47
Liquidity Ratio	0.77
Current Assets / Total Assets	0.72
Short Term Liabilities / Total Liabilities	0.96
Total Liabilities / Total Assets	0.51

## SECTION 1: SHAREHOLDERS



SYNOPSIS	
+	No voting privileges in the Articles of Association
+	General shareholder meetings are conducted in compliance with the CMB's rules and regulations
+	Dividend policy is defined
+	Equal treatment of shareholders
+	Preparation and disclosure prior to general shareholder meetings are satisfactory
+	Voting rights are facilitated
=	Investor Relations unit placed within the Accounting Department
=	The old and new versions of the related provisions of the Articles of Association are announced, but reasons are not listed
=	Advanced dividend payment policy is included in the Articles of Association; however, there has been no execution up to date.
-	Shareholders do not have the right to request appointment of special auditors from the general shareholder meeting
-	Minority rights are not defined
-	Lack of cumulative voting procedures

Although there is no separate shareholder relations unit within the company, relations with shareholders, as well as domestic and international investors are handled by the

Finance/Accounting department. This unit duly fulfills its responsibilities in conducting relations with shareholders; records of shareholders are well kept and all demand for information is satisfied. There are no ceilings applied to the number of votes that a shareholder may exercise during the general shareholder meeting and there are no privileges regarding voting rights. The conduct of general shareholder meetings poses no risk upon the rights of shareholders and complies with the relevant rules and regulations.

Prior to the meeting, proxy forms are announced for those who will appoint a proxy for the meeting and made available to shareholders in compliance with regulations. The minutes of General Meetings show that the conduct and execution have been appropriate, fair, and efficient. Each agenda item is voted separately, the votes are counted and results are announced before the end of the meeting.

There are no provisions either in the Articles of Association or in company procedures to impede the transfer of shares.

It is a positive aspect that the two major shareholder groups, namely KOÇ Holding and ÜNVER Holding, have no privileges in the Articles of Association. On the other hand, the facts that the minority shareholders lack the right to request the appointment of a special auditor from the general shareholder meeting for the examination and clarification of a specific material situation; and the lack of cumulative voting procedures are all risky areas with respect to the protection of shareholders' rights.

### **1.1. Facilitating the Exercise of Shareholders' Statutory Rights:**

There is no Corporate Governance committee within the Board. Nonetheless, all governance issues are handled by the "Finance/Accounting" department. Mr. İrfan Özcan, assisted by a staff reporting to him, is in charge of this unit. Mr. Hüseyin Odabaş and Mr. İrfan Özcan are authorized to send statements to the KAP (Public Disclosure Platform). The unit appears to be sufficient in terms of qualification, experience and number of delegated staff and as a whole, displays a proactive approach, genuine willingness to improve the implementation of the Principles, and employ an ongoing procedure to improve upon them.

Shareholder records are kept appropriately; inquiries and requests are answered promptly; and The General Shareholder Meeting follows principles set out by the Articles of Association and relevant laws. Information on agenda items and other relevant details are well posted on the web site and at the headquarters of the company prior to the General Meeting. Voting results and minutes are well documented, duly disclosed and published on the company web site. All participants of the general meeting have access to this documentation upon request.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

With regard to facilitating shareholder rights, all necessary information and documentation are available for and easily accessible by the shareholders. All channels of communications, such as the comprehensive corporate web site ([www.otokar.com.tr](http://www.otokar.com.tr)), telephone, e-mail and personal visits are open to shareholders and investors. Procedures of investor relations and shareholders' right to obtain and

evaluate information are well documented in the company's *information policy* document.

In the Articles of Association, there is no provision that allows individual 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.

### **1.3. Minority Rights:**

On the positive front, there are no provisions to apply certain ceilings on the number of votes a shareholder might exercise and no obstacles to the implementation of voting rights of foreign investors are present. Proxy forms are announced for those who will appoint a proxy for the meeting and these forms are also made available for use to shareholders on electronic media.

There are no provisions restricting the voting rights in the Articles of Association. All the members of the Board of Directors are nominated by shareholders. In addition, the Articles of Association of the company do not allow the execution of cumulative voting procedures.

### **1.4. The Right to Participate in the General Shareholder Meeting:**

The General Meeting announcement is published within the legal time limit and in two high circulation and nation wide newspapers. The Finance/Accounting Department accepts requests for participation in the General Shareholders Meeting in accordance with the existing rules and regulations.

The purpose and content of the information released prior to the General Meeting are clear, informative of and pertinent to the agenda items

so as not to lead to any potential misinterpretations.

Prior to the meeting, proxy forms are announced for those who will appoint a proxy for the meeting and made available to the use of shareholders in compliance with regulations. The board values shareholder views and opinions, endeavors to consider all requests about items to be placed on the agenda, and strives to achieve the highest level of attendance.

The minutes of General Meetings show that the conduct and execution have been appropriate, fair, and efficient. The Chairman and other board members have attended in person. The amount of verbal and written information about the candidates for board membership given to the shareholders during the General Meeting was not adequate. Moreover, minimum requirements for disclosure of information about candidates are not stated in the Articles of Association.

The company is subject to external audit by the Capital Markets Law and the external audit firm has made the necessary presentation to the General Meeting. Although the Articles of Association of the company do not include a provision to maintain that decisions regarding the division and allocation of shares which change the capital and management structure of the company and the composition of the company's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favor of a third person are adopted in general shareholder meeting, such information was duly provided for the evaluation of shareholders during the general meeting and included in the agenda and minutes.

General Meetings are conducted on time and in compliance with rules and regulations and shareholders are provided with sufficient time and information to make informed decisions. The flow of information before and after the General Meeting is seamless. Annual Reports, financial statements and dividend proposals are at the disposal of shareholders before the General Meeting. Invitation to the General Meeting is done well in advance and the meeting venue (Divan Hotel) is easily accessible, comfortable and suitable for maximum attendance.

The General Shareholder Meetings are executed according to the procedures and the chairman conducts the meeting efficiently on fair grounds. Each agenda item is voted separately, the votes are counted and results of voting are announced before the end of the meeting.

The company has no financial assets to consolidate. A link to the web site of KOÇ Group, the controlling shareholder, is provided on the company's web site.

### **1.5. Voting Rights:**

There are no ceilings applied on the number of votes that a shareholder may exercise during the General Shareholder Meeting. Each shareholder is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient way. The right to vote is automatically granted once the share is acquired. There are no obstacles on the voting of institutional and legal representatives. Procedures of voting are announced to shareholders prior to the General Shareholder Meeting. Voting was conducted through open ballot and by raising hands during the general shareholder meeting.

However, procedures of voting are not stated in the Articles of Association.

#### **1.6. Dividend Rights:**

OTOKAR has a clearly defined and consistent dividend policy which is in compliance with the Turkish Commercial Code. This policy is announced to the shareholders at the general shareholder meeting and also included in the company's annual report. There are no privileges imposed on dividend rights. OTOKAR's dividend policy prescribes that, to the extent permitted by relevant legislation and the company's investment requirements and financial resources, the Board of Directors shall propose the distribution of the entire distributable profit of the company, subject to approval by the General Shareholder Meeting. The annual profit, amount and sources of distributable profit dividend policy; the criteria according to which the board prepares the dividend distribution proposal; dividend to be paid to each share, while indicating different groups of shares; location, time and terms of payment for dividends; and all other relevant information are announced to the shareholders at the general shareholder meeting and also included in the company's Articles of

Association, annual report, prospectus and circulars. Interim and advanced payment policy is included in the Articles of Association; however, there has been no execution up to date. On the other hand, the amount of dividends to be paid to real persons who own a significant portion of distributable profit, by taking into consideration any indirect shareholder relationship, are not included in these documents.

#### **1.7. Transfer of Shares:**

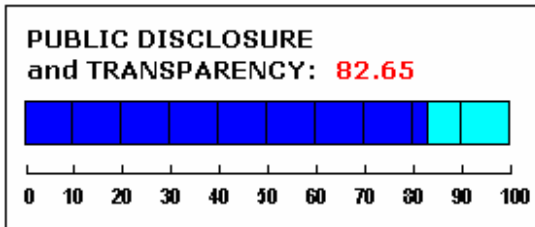
The public shares of the company (29.91%) float freely and without any limits, and transfer of shares of the controlling shareholders have no limitations dictated by the Articles of Association of the company.

#### **1.8. Equal Treatment of Shareholders:**

As a result of our examinations of the conduct, execution and minutes of the General Meetings, the Articles of Association, pending litigations, and interviews with company officials, we have no reason to doubt the equitable treatment of shareholders.



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive web site, actively used for public disclosure
+	The concept of trade secret is defined in detail in the personnel code of the company.
+	Dividend policy disclosed in the annual report
+	Agendas and minutes of the general shareholder meeting are present in the company website
+	List of insiders published
+	Disclosure about developments that may affect the value of the company complies with the legislation
=	Information policy established, but not yet presented to the shareholders at the general shareholder meeting
=	Ethical rules exist but not yet presented to the General Meeting
-	Corporate Governance Compliance Report does not include reasons of lacking implementation
-	List of ultimate controlling individual shareholders after being released from indirect or cross shareholding relationships between co-owners undisclosed
-	Information policy document does not include principles of disclosure about direct and indirect relationships

OTOKAR is performing well above the country averages in terms of public disclosure and transparency. Performance of the company in terms of "Relations with Shareholders and Investors" are satisfactory, comprehensive and informative. The company has recently published its information policy and ethical rules documents and confirmed its commitment to the issue. Furthermore, the company has a well arranged, easy to access and informative web site and tries to inform the public by any means available. The scope and content of the information disclosed are in compliance with the rules and regulations of the CMB and the ISE.

Both the annual report and the periodical financial statements 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 and that the company acts in accordance with the related legislation. The external audit firm chosen by the company is an independent and international audit company accredited by the CMB. There has been no legal conflict between the company and the external audit firm and the company does not receive consultancy services from the audit firm in any form.

The Annual Report and the Corporate Governance Compliance Report do include the acknowledgement by the Board of Directors that internal financial control and auditing functions are fulfilled by the audit committee.

However, the list of ultimate controlling individual shareholders

after being released from indirect or cross shareholding relationships between co-owners and payments affected including payments in cash such as salary, bonuses, other regular and irregular payments, etc. are not included in the annual report.

### **2.1. Principles and Means for Public Disclosure:**

The task of public disclosure is executed by the "Finance/Accounting" department. The manager of the unit is bestowed with the authority to sign official documentation. For KAP disclosures, 2 managers are designated as authorized users and signatories. Periodic presentations are performed for investors, financial analysts, the press, and other interested parties and these presentations are well documented and posted on the company's web site. In 2007, the company has organized an "Investors Meeting" addressing to the analysts of brokerage houses, in which the CEO and other top managers have participated. The Finance department has conducted 41 one-to-one meetings with the analysts.

OTOKAR has a collective set of written Principles to be used in the public disclosure and information policy of the company, presented these to the shareholders at the general shareholder meeting and disclosed the same to the public. Disclosure is normally done in the general shareholder meeting and via the press and the internet. Additional information is provided to the CMB and the ISE as required. Any developments that may affect the value of the company's capital market instruments are disclosed to the public via the "disclosure of special events" within the time period required by the current legislation and via the above mentioned media. Overall, in terms of public disclosure, we can conclude that

OTOKAR fully complies with the current legislation and strives to be as accurate, comprehensive, and factual as possible.

The information policy of the company incorporates the type of information to be disclosed to the public in addition to the requirements of the relevant legislation and other relevant issues.

Moreover, the company has taken up social and environmental initiatives and these projects are well documented in the annual report.

The Corporate Governance Compliance Report that lists the principles and implementations that are embraced and omitted by the company is incorporated in the annual report. However, the report does not include reasons of lacking implementation. Dividend policy, on the other hand, is included in the annual report of the company.

Save for the provisions of the legislation, the preparation or revision of pro forma financial statements are subject to a compliance audit by the external auditor. The audit and public disclosure thereof, and the method to be adopted for disclosing forward looking information are in compliance with the international standards. However, the Principles applicable to disclose forward looking information are not included in the information policy of the company.

The company's website is actively used for disclosure purposes. Also, the website is all-inclusive, secure and easily accessible. Detailed amount of information on company products and operations; vision and strategy; management's comments; publicly disclosed material information; annual reports, periodical financial statements, prospectuses and circulars; external audit reports; investor relations bulletins, e-bulletins;

link to the share performance; access to OTOKAR; press releases; frequently asked questions including requests for information, queries and notifications and responses thereof are suitably included. The announcement of the planned general shareholder meeting, agenda items and informative documents thereof, documents and reports on the agenda items, trade register information, detailed information about the shareholder and management structure, the final version of the company's Articles of Association, Corporate Governance compliance reports, agendas and minutes of the general shareholder meetings, form for proxy voting at the general shareholder meeting are appropriately placed under the Corporate Governance section of the website.

The English version of the web site is equally comprehensive. The letterhead includes the address of the web site of the company.

## **2.2. Public Disclosure of Relations between the Company and Its Shareholders, the Board of Directors and Executives:**

No transactions that involved 5% or more of the total number of shares have been in effect, however company officials formally declare that they will disclose such information immediately upon being informed thereof, except otherwise required under relevant legislation. The company's public disclosure policy is in accordance with current CMB and ISE legislations.

The company's ultimate controlling individual shareholder or shareholders are not disclosed to the public, as identified after being released from indirect or cross shareholding relationships between co-owners. The company's capital structure is not presented in a table format that would include the names of the ultimate

controlling individual shareholder/s (names of the real personalities), amount and proportion of their shares and such a table is not incorporated into the annual report and notes to the financial statements.

On the other hand, 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 or having the control of the latter are disclosed to public as per the CMB legislation.

## **2.3. Periodical Financial Statement and Reports in Public Disclosure:**

As part of its listing requirements in the ISE, OTOKAR duly discloses information that is not included in the periodical financial statements or notes to the financial statements, such as significant investment decisions, in the "disclosure of special events" published by the ISE.

Both the annual report and the periodical financial statements and reports of the company 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 and that the company acts in accordance with the related legislation. The annual report, periodical financial statements and their notes are prepared in accordance with the existing legislation and international accounting standards. The annual report incorporates the scope of activities of the company and information about the sector in which the company operates and the company's status within this sector; however, it does not include the audit firm's opinion about the internal control system.

The fact that financial statements present fairly the financial position of OTOKAR, as of 31.12.2006 and its financial performance for the year ended in accordance with Financial Reporting Standards published by the CMB, is clearly confirmed in the independent auditor report. Periodical financial statements and footnotes are prepared in accordance with the current CMB legislation and international accounting standards. The organization, capital, ownership and management structure of the company as well as its dividend distribution policy are clearly incorporated in the company's annual report.

#### **2.4. Functions of External Audit:**

The external audit firm chosen by the company (Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a PricewaterhouseCoopers member company) is an independent and international audit company accredited by the CMB. The operations of the audit firm and the contents of the contract signed with them are in compliance with the legislation. There has been no legal conflict between the company and the external audit firm.

The nomination and election process of the audit firm is normally influenced by the decisions taken at the group companies. The audit firm is proposed by the executives, and the final decision is made by the Board.

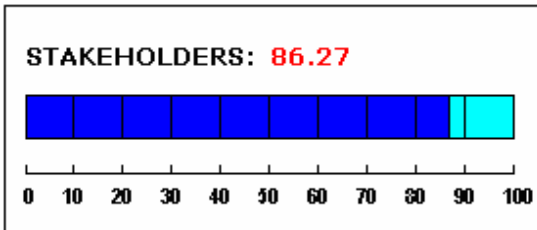
#### **2.5. The Concept of Trade Secret and Insider Trading:**

OTOKAR acts in accordance with the rules of accuracy, reliability and good faith and attains a good balance between the protection of trade secrets of the company and the stakeholders' right to obtain information. A list of the names of executives and other persons/institutions who provide services to the company, and who can potentially possess price-sensitive information is prepared and disclosed to public. The concept of trade secret is defined in detail in the personnel code of the company. In terms of security and control; assigning passwords to enter the system and backing up all electronic communication as well as equipping all systems with antivirus software are applied with written procedures.

#### **2.6. Significant Events and Developments That Must Be Disclosed to the Public:**

OTOKAR shows first-rate care and sensitivity in the timely and comprehensive disclosure to public of changes in the organization, capital, ownership, management structure and core activities of the company; all important development and events and their possible implications on the financial status and operational results of the company; any changes that may take place thereafter. Our analysis shows that OTOKAR complies with the rules and regulations of the CMB (also listed in article II.6 of the Principles) and the ISE.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights have been facilitated
+	Active trade union
+	Effective human resources policy
+	Strict quality standards in products and services
=	Ethical rules specified and declared to the public but not yet brought to the shareholders' meeting for approval
-	No provision in the Articles of Association regarding the participation of stakeholders in the management of the company

With regard to the relations between the company and all related public and private stakeholders (excluding the shareholders and the board of directors), over 40 sub-sections have been analyzed under the following headings:

- Company policy,
- Participation in the company management,
- Protection of company assets,
- Human resources policy,
- Relations with customers and suppliers,
- Ethical rules and
- Social responsibility.

Our conclusions are particularly positive with respect to company policy about stakeholders, protection

of company assets, human resources policy, ethical rules and relations with customers and suppliers.

The dominant factor that led us reach our conclusions was our observation that the company acted in goodwill and within the capabilities of the company in cases that are related to the protection of stakeholders' rights when these rights are either regulated or not regulated by the legislation.

We encountered no evidence as to any negligence or wrong doing either by the Board or the top management that has caused the company assets loose value or that has resulted in a deliberate loss for stakeholders.

### 3.1. Company Policy Regarding Stakeholders:

OTOKAR's management is dominated by the KOÇ group of Turkey. Due to its substantial size and prominent corporate identity, KOÇ group possesses consistent and advanced policies to safeguard the rights of public as well as private stakeholders.

Sales activities and after-sale services of OTOKAR are carried out by a network of nation-wide distributors.

OTOKAR's operations, regarding the defense sector, are regulated and controlled by the Ministry of National Defense. 80% of OTOKAR's total sales is generated by manufactured products based on proprietary technologies developed by the company's own research and development activities. Company officials stated that new products are designed and tested in the R&D department's computers, and that this laboratory's infrastructure is at a world

standards level. The company makes sure to attain levels of high quality, reliability and robustness for their products. In accordance with the emphasis on R&D, the amount of investment on human resources has increased during the past year.

Company officials stated that all customer feedback records are tracked and evaluated in-house. Customer demands channeled through distributors are evaluated by management and necessary steps are taken systematically, based on these results.

The web site of the company ([www.otokar.com.tr](http://www.otokar.com.tr)) is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights; the intranet portal, accessed through appropriate staff authorization provides reach to announcements and documentation.

In addition, the Corporate Communications Department feeds the web site with company related material published by the printed, visual and electronic media in order to maintain the flow of information to public throughout the year. The general manager of OTOKAR, as the spokesman of the company, makes presentations in press conferences and answers questions personally.

Information requests about the company and its operations by the media are answered in written form. For this purpose, a Corporate Communications department has been established to provide adequate information by means of e-mail and telephone.

A systematically updated website and its contents enable shareholders, stakeholders and analysts to follow the developments regarding OTOKAR.

### **3.2. Stakeholders' Participation in the Company Management:**

Even though there are no provisions in the Articles of Association of the company promoting the participation of stakeholders in the management of the company, OTOKAR has implemented the "OTOKAR Proposal and Management System" which covers all the employees in order to encourage and reward staff contributions and efforts towards company goals and values, to improve the standards of products and services by increasing productivity and to increase the level of participation, motivation and loyalty. Company officials stated that "Total Quality Management", as a modern management philosophy, is put in practice. To this end, the EFQM perfection model has been implemented as a means to achieve continuous improvement in company management. . Within the framework of this model which aims to increase productivity at all levels with a total quality philosophy,, self-evaluation meetings, open-door meetings and seminars are conducted alongside with workplace evaluation surveys undertaken by the Human Resources department.

There is an employer trade union (MESS) and an employee trade union (TÜRKMETAL - Turkish Metal Workers Union) organized within OTOKAR. Three blue-collar employees (chief and two assistants) are representing the employers' trade union and TÜRKMETAL has an office in Sakarya.

Turkish Labor Code (Nr.4857) and collective labor agreements are effective in OTOKAR. Committees like Discipline Committee, Paid-leave Committee, Job Security and Health Committee convene at least once a month. The latest collective labor agreement covers the period from 01/09/2006 to 31/08/2008.

Training courses are conducted for union-member employees in accordance with their year-end goals. MESS and TÜRKMETAL organize seminars, sports events, picnics and concerts.

### **3.3. Protection of Company Assets:**

The company pays due attention to the protection of company assets as its ISE (Istanbul Stock Exchange) membership and shareholder structure dictate stringent care and adherence to rules and regulations. We have detected no signs of risks related to board members and executives taking part in actions that would decrease the value of company assets or cause loss for stakeholders.

### **3.4. Company Policy on Human Resources:**

As we have mentioned before, the controlling group, namely KOÇ Holding, has an eminent corporate culture. With respect to country specific standards, the company has a well established Human Resources policy that ensures equal opportunities, social rights and sound career planning. On the job training and personnel promotion schemes as well as relations with the trade union are of high standards.

The company applies performance and reward criteria parallel to the KOÇ group's Job Evaluation System. There are, at least once a year, "Performance Evaluation" and "Performance Surveillance" meetings with each employee. Goal realizations are tracked monthly, quarterly and annually, and employees are informed of their goal realizations in written form. This assessment constitutes the basis of each employee's salary raise, promotion and contract duration.

There is a detailed recruitment procedure of OTOKAR and recruitment

requirements include not only interviews but language tests and case-studies. Last year 266 new personnel have been recruited.

### **3.5. Relations with Customers and Suppliers:**

OTOKAR keeps records of customers and suppliers meticulously and within the scope of trade-secrecy, confidentiality of information is duly respected. Ethical rules strictly indicate that employees who have the authority to reach confidential and classified information cannot and should not leak this information (especially financial and technical information) outside the company. No unauthorized staff member is allowed to deliver interviews, declarations or comments to the media.

OTOKAR evaluates and selects its suppliers according to their quality and capability to supply. Evaluation, selection and re-evaluation are based on well defined criteria. Records of evaluation and necessary steps to be taken thereof are being well kept.

OTOKAR gathers annual demand estimates from the distributors and plans its production accordingly. Customer demand through sales network and distributors is closely followed by management, which is a positive indication in terms of the emphasis given to stakeholders by the company.

### **3.6. Ethical Rules:**

A written document of Ethical Rules can be found both on the internet site and in the Corporate Governance Compliance report of OTOKAR. The same document is part of the Personnel Code of the company. However, this document has not yet been presented by the Board of Directors to the General Shareholder Meeting for approval.

### **3.7. Social Responsibility:**

Company officials confirmed that there were no major conflicts with the tax office in recent years and no case of serious sanctions being imposed. OTOKAR employs 4 in-house lawyers.

OTOKAR's exports in 2006 totaled over \$100 million. This represents 52% increase over the previous year in YTL terms. OTOKAR is the largest exporter of defense industry products, realizing biggest export sales figure in 2006 as it was in 2005. Parallel to this, OTOKAR received "Outstanding Export Performance Award" from Adapazari Chamber of Commerce and Industry. Likewise, the same chamber granted OTOKAR "Outstanding Corporate Tax Payment Award" and "Top 500 Corporations Prize".

OTOKAR and its employees conduct various activities for the protection and development of the environment. In 2007, activities such as enlargement of disposal area and improvement of painting facilities were undertaken. OTOKAR has ISO 14001 certificate in environmental issues and has conducted meetings with supplier industries to increase environmental consciousness, organized trainings for ISO 14001, supervised supplier industries' environmental controls. Along with these activities; employees of OTOKAR founded "EKO-KAR Environmental Club" and several courses had been given to neighboring schools about "Energy Saving in Homes" and "Environmental Consciousness".

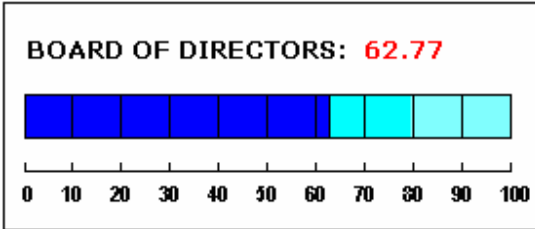
The company donated a total of YTL 850,000 to foundations and societies as social aid in 2006, which breaks down as YTL 350,000 to American Hospital Foundation and YTL 500,000 to Vehbi Koç foundation. In 2007, YTL 800,000 has been donated to Rahmi M. Koç Museums and Culture Foundation.

Again in 2007; Hızırtape Girls' Dormitory in Sakarya, which accommodates 37 girls, was supported financially and its sports facilities were renovated. This activity has been conducted with the participation of employees, within the scope of KOÇ Group's project that aims to facilitate the needs of a certain region in Turkey each year.

Moreover, SAKARYA Charity Organization's dormitory was renovated and financially supported, OTOKAR employees made organized blood donations to KIZILAY. The Middle East Technical University's and Sakarya University's projects of hydrogen-car were sponsored and supported technically in accordance with the emphasis given to R&D and cooperation with the universities.



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The Company's vision, mission and strategic goals are clearly defined
+	The board is staffed with effective and highly qualified members
+	The Board of Directors meeting and decision quorum included in the Articles of Association
+	CEO and Chairman positions are separately chaired
=	Only Audit Committee present within the Board
-	No independent members
-	No Corporate Governance Committee
-	Cumulative voting rights not in effect
-	No signed compliance and liability statement by board members
-	No provisions in the Articles of Association defining procedures for shareholders or stakeholders to invite the board to convene
-	No regulation for compensation of company or stakeholder loss in case of negligence by executives

It is our observation that the Board of Directors has clearly defined the vision and mission of the company and is staffed by highly qualified, experienced members maintaining high moral standards. It has been stated that none of the board members is indulged in any transaction or is

engaged in any form of competition with the company.

Notwithstanding, the lack of independent members, non-existence of corporate governance committee, unavailability of cumulative voting rights reflect important areas for improvement under this topic.

Similarly, upon commencing work, a written compliance and joint liability declaration by the board members endorsing losses incurred to shareholders and stakeholders due to deliberate incompliance and misconduct is not in effect.

The remuneration of the board of directors is observed to be fair, adequate and in par with general standards.

#### 4.1. Fundamental Functions of the Board of Directors:

The Board of Directors of OTOKAR has stated and publicly declared that the vision of the company is to preserve domestic and national identity of its products by developing proprietary technology and aims to attain the continuity of its customer's, employee's and shareholder's satisfaction based on a total perfection philosophy. It's publicly declared mission is to design, produce and sell internationally competitive commercial and various defense industry vehicles and products in line with customers' expectations. The Board is overseeing that the company activities comply with legislation, Articles of Association, internal procedures and established policies and monitors company financials to assure their validity. The report presented to the Shareholder's Meeting by the Board of

Directors includes duties and responsibilities of the board, presentation of the internal auditors, information about the shareholder structure, distributed dividends, information about the industry, OTOKAR's position within the industry along with its production and sales.

Even though corporate governance and risk committees are not yet established within the Board, relations and potential problems with shareholders are managed and settled through the "Finance/Accounting" department.

The Board of Directors is ensuring that executive positions are staffed by appropriately qualified personnel, taking measures to support their long term commitment, is promptly dismissing unqualified personnel when necessary and duly replacing positions with qualified and competent staff.

#### **4.2. Principles of Activity and Duties and Responsibilities of the Board of Directors:**

The Board of Directors approves annual business plans and budgets, inspects and approves periodic financial reports, prepares annual reports and declares them to the public. In addition, it facilitates and ensures shareholders' meetings to be held in compliance with regulations and Articles of Association, approves career plans and incentive policies for executives. The Board of Directors has also approved and publicly declared company ethical rules and information policy documents.

The Articles of Association clearly identifies the rights and responsibilities of the board as distinguished from the legally defined rights of the general shareholder meeting. No evidence has been encountered as to any misuse of confidential and undisclosed information to the illegal benefit of

board members or other parties. Board meetings have been observed to be held at appropriate intervals and each member has an equal vote in the board.

The Ethical Rules document lacks a clause stating that members of the board cannot disclose confidential information and trade secrets to the public. Similarly, a statement that members of the board should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains is also missing. A written declaration by members of the board before commencing work, stating that they will comply with the legislation, Articles of Association, in-house regulations and policies, and in case of incompliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders, is not in practice.

Although a well established and efficient mechanism exists, written internal procedures regarding communication and circulation of meeting documentation to board members are missing. Provisions regarding the procedures for inviting the members of the board for a meeting by shareholders and stakeholders are not incorporated in the Articles of Association.

Although a secretarial body under the responsibility of the chairman, whose function would be to serve the board of directors and to keep documents related to the board meetings is not established, the tasks of preparing the agenda, the necessary documentation and presentations for the board members, recording and following up the minutes and decisions, are endorsed by the Accounting Manager.

#### **4.3. Formation and Election of the Board of Directors:**

None of the Board members have been convicted or sentenced of non-conformity with the capital markets legislation or the Turkish penal code. All members are qualified and experienced persons maintaining high moral standards and fully capable of endorsing the required tasks to direct the company.

Most of the board members are non-executive members. As a result, the chairman and the CEO positions are not occupied by the same person.

Nevertheless, the required qualifications of the board members have not been specified in the Articles of Association. It has been observed that there are as yet no steps taken towards incorporating independent members capable of impartially performing their duty, into the board. In addition, cumulative voting rights are not practiced. The lack of independent members in the board and hence at the head of present and future committees, and the lack of cumulative voting rights are important shortcomings with respect to full compliance to the "Corporate Governance Principles" of the Capital Markets Board.

#### **4.4. Remuneration of the Board of Directors:**

It has been stated that there is no debit on board members and no credits or loans have been extended to any board member. The remuneration of board members is fair and adequate and has been specified by the shareholder's assembly.

Nevertheless, there exists no incentive policy for board members and no written performance criteria.

#### **4.5. Number, Structure and Independence of Committees Established by the Board of Directors:**

The Board of Directors incorporates solely the Audit Committee. As yet, corporate governance committee is not established. In lack of independent members, the head of the Audit Committee is not chaired by an independent member. Still, the fact that the committee members are non-executive has been noted as a positive aspect. The Audit Committee has taken all necessary measures to make sure that internal audit mechanisms are carried out adequately and transparently. The Audit Committee is also supervising the activities of the external auditors and the compliance with accounting standards. The Audit Committee's activities are well documented and hence also used as committee meeting reports.

However, it is observed that the appointment of the external auditors and the services to be provided thereby is not subject to a preliminary approval of the Audit Committee. Likely, prior to the appointment of the external auditor, the Committee did not issue a report to evaluate potential issues that may jeopardize the independence of the audit company.

#### **4.6. Executives:**

It has been observed that the company executives are operating in accordance with the company's vision, mission and strategic goals and in compliance with the financial and operational plans approved by the board. It is also our observation that company executives are delegated with adequate authority and equipped with the professional qualifications required. None of the executives have been reported to have gained illegitimate or dishonest benefits at the expense of the company. There are

no executives that had ever been sentenced for crimes against the capital markets legislation or the Turkish penal code. However, in the employment agreements with the executives; there is no clause that protects the interests of the company and describes the sanctions to be implemented in case of a violation. Similarly, there exists no clause prohibiting an executive to work for a competitor for a certain period of time in case they leave their position in the company..

On the other hand, it has been stated that the executives are issuing periodic reports to the Board of Directors regarding the conformity of their operations to the Articles of Association and internal procedures. However, the human resources procedures do not include provisions for the executives to compensate the losses incurred to the company and to third parties as a result of their negligence and misconduct.

## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> 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 <b>good</b> 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 <b>fair</b> 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 <b>weakly</b> 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 <b>very weakly</b> 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.