

# OTOKAR OTOMOTIV VE SAVUNMA SANAYİ A.Ş. CORPORATE GOVERNANCE COMPLIANCE REPORT

## 1. STATEMENT ON OBSERVANCE OF CORPORATE MANAGEMENT PRINCIPLES

Our Company has adopted the principles, revealing the corporate management quality, most of which are currently being applied. It is aimed to inform the public, to ensure transparency and to perform required studies regarding the decisions and transactions pertaining to the shareholders and beneficiaries and the Board of Directors, in compliance with the Corporate Management Principles.

Pursuant to the Capital Market Board's (CMB) resolution number 48/1588 dated 10.12.2004, it is deemed appropriate that the companies, being listed on the Istanbul Stock Exchange (ISE), will include their statement on the observance of the aforesaid Corporate Management Principles in their annual report and on Internet sites, if any, as from the annual report for 2004. Accordingly, Otokar Otomotiv ve Savunma Sanayi A.Ş. has included in the Annual Report 2010 the information on the observance of the following principles. The OBSERVANCE REPORT is submitted hereinbelow, and it can be further scrutinised at our Internet site ([www.otokar.com.tr](http://www.otokar.com.tr))

## PART I - SHAREHOLDERS

### 2. Unit of Relations with Shareholders

At Otokar Otomotiv ve Savunma Sanayi A.Ş.' the relations with shareholders are executed by the Financial Affairs/Accounting Unit. Some of the Unit's activities are the following:

- Introduction of our Company to individual and corporate investors both in and out of the country; informing the potential investors and shareholders,

Hüseyin Odabaş and Yasemin Orhon are charged with this issue and they can be reached by e-mail at [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or by phone at (0264) 229 22 44/ext. 6210.

- Issuance of reports for the Board of Directors,
- Making necessary arrangements before the General Assembly meeting, issuance

of required documentation, obtaining prior authorization for amendments in the Articles of Association and submission thereof to the General Assembly,

- Organisation of the General Assembly meeting, issuance of documents to be used by shareholders, provision of minutes of meeting to demanding parties,
- Informing the shareholders,
- Submission of necessary Special Case Comments to the ISE and the CMB, considering the provisions of the CMB's Communiqué under serial number VIII and number 39,
- Follow up of the changes made in the legislation related with the Capital Market Act and providing information for the relevant departments of the Company,
- Ensuring the payment of dividends to the shareholders,
- Issuance of financial statements and reports on quarterly basis.

For the aforesaid duties, Hüseyin Odabaş and İrfan Özcan are charged with this issue and they can be reached by e-mail at [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or by phone at (0264) 229 22 44/ext. 410.

### **3. Exercise of shareholders' right to get informed**

15 shareholders, who appear on the list of attendants for the latest General Assembly, have been furnished with information on the financial and administrative subjects. During the year an Investor Meeting oriented on Brokerage Analysts was organised with the participation of the General Manager and members of Upper Management Team. Additionally, the Financial Affairs Unit organised 20 vis-à-vis meetings with the Brokerage Analysts.

The Company's web site contains the section "Relations with Investors" and related links, further to the information through which they can access to the "ISE" data.

With the Company's Articles of Association, the demand for appointment of an auditor has not been arranged as a personal right, and we have not received such a demand from our shareholders. The Company's activities are regularly examined by the Independent External Auditor determined by the General Assembly and by Auditors appointed by the General Assembly.

#### **4. Information of the General Assembly**

In 2010 only an Ordinary General Assembly was held with the participation of the majority. Furthermore, the opportunity for participation has been provided for representatives of printed and visual media, executives of various establishments and institutions and others who intended to participate only as followers.

Invitation for General Assembly meeting is made by the Board of Directors in accordance with the applicable provisions of the Turkish Commercial Code (TCC), the Capital Market Act and the Articles of Association. The public is informed on the meeting as soon as the Board of Directors takes the resolution on General Assembly meeting through making declaration to the ISE and CMB.

Additionally, place of meeting, the agenda of the meeting, draft amendments to the Articles of Association, if any, and sample for the power of attorney shall be published in two daily newspapers, distributed throughout Türkiye, at least 21 days prior the meeting day. Such announcements indicate the places where the audited financial statements can be examined.

At General Assembly meetings, held under the supervision of the government commissioner, it is the most natural right of shareholders to ask questions and to express their opinions. Thus, our shareholders exercise their right to ask question at the General Assembly meeting, present their proposal regarding the agenda items and speak on the proposals they present, in line with the procedures as required by the Council of Meeting.

Minutes of the General Assembly meetings are announced in our website. Further, these are provided at the head office for scrutiny by the shareholders and are delivered, when requested.

The activities to be involved in are given under Article 4 "Aim and Subject" of the Articles of Association, and the Company is not allowed to make business it would like, unless the General Assembly adopts a resolution by amending this article. For matters like merger, acquisition or split of the Company, the subject is submitted to the general for its approval and decision, upon the Board of Directors' proposal. As it is stated in the said Article of the Articles of Association, approved by the General Assembly, the Company may buy, sell, let be build, lease, accepts or put on mortgage any real property and impose any real right thereon. Latest version of the Articles of Association, containing the said and other articles, is available in our website ([www.otokar.com.tr](http://www.otokar.com.tr)).

All Minutes of General Assembly Meetings and lists of attendants, by years, can be obtained from the Company head office, while the minutes of the General Assembly meetings held in last three years can be seen in our website.

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## **5. Voting Rights and Minority Rights**

According to the Articles of Association, there is no privilege with regard to the exercise of voting rights.

At the General Assembly, voting is made in accordance with the regulations on the representation and way of voting (Article 18 of the Articles of Association). The regulations by the Capital Market Board on voting by Proxy shall be complied with.

The Articles of Association does not contain any regulation on the representation of minority shares at the management and method of cumulative voting.

## **6. Profit Distribution Policy and Time for Profit Distribution**

Profit distribution by our Company is made within the framework of the applicable provisions of the Turkish Commercial Code, Capital Market Legislation, Tax Legislation and other related legislation and of the articles of the Articles of Association related with the profit distribution.

When determining the profit distribution, we take into consideration long term Group strategy, capital requirements of our Company, participations and affiliates, the investment and financing policies, profitability and cash level.

As principle, net profit for the term stated in the financial statements which are prepared within the scope of the Capital Market Legislation and are subject to independent auditing, shall be taken as basis and at least 50% of the "distributable profit for the period" calculated in accordance with the Capital Market Legislation and other applicable legislation shall be distributed in cash or as free shares.

If the calculated profit to be distributed is less than 5% of the issued capital, profit distribution shall not take place.

Dividends to be distributed in line with the General Assembly's resolution can be paid completely in cash or as free shares or be paid partially in cash or as free shares.

Dividends to be paid in cash shall be fully paid latest at the end of fifth month after the relevant accounting year and dividends as free shares shall be fully distributed latest at the end of six month.

Within the framework of profit distribution policy, the dividend shall be distributed equally among all existing shares.

The distribution shall be made according to the provisions of Article 24 of the Articles

of Association.

Dividends distributed in last years as percentage of the issued capital are given in the following table.

YEARS	ISSUED CAPITAL (NTL)	DIVIDEND AS % OF THE ISSUED CAPITAL	AMOUNT OF DIVIDEND DISTRIBUTED (NTL)
FROM YEAR 2003 PROFIT	24.000.000	<b>Dividend distribution was not realized due to set-off of loss of previous years due to UFRS by the profit of the current period.</b>	
FROM YEAR 2004 PROFIT	24.000.000	%60,00	14.400.000
FROM YEAR 2005 PROFIT	24.000.000	%40,00	9.600.000
FROM YEAR 2006 PROFIT	24.000.000	%125,00	30.000.000
FROM YEAR 2007 PROFIT	24.000.000	%125,00	30.000.000
FROM YEAR 2008 PROFIT	24.000.000	%30,00	7.200.000
FROM YEAR 2009 PROFIT	24.000.000	%85,00	20.400.000

## **7. Assignment of Shares**

The Articles of Association does not contain any provision on procedures to complicate free assignment of shares by respective shareholders and restriction of assignment of shares.

## **PART II – ENLIGHTENMENT OF THE PUBLIC & TRANSPARENCY**

### **8. Company's Information Policy**

Otokar applies an information policy aiming the provision of accurate, complete and comprehensible information in order to enlighten the public in effective, transparent and lasting manner. Except commercial secrets, the Company aims to share its vision and targets, past performance and its expectations with the public and relevant establishments, existing and potential investors and shareholders in equal manner and to establish an effective and open communication stage by announcing its financial data within the scope of the generally accepted accounting principles and the Capital Market Provisions.

It complies with the Capital Market Legislation and the regulations by the Istanbul Stock Exchange for all practices of enlightenment and aims to implement the most effective communication policy within the framework of the CMB's Corporate

Management Principles.

Relations with the media are executed by the Corporate Communication Unit and additional information can be obtained from Beril Aksoy Gönüllü via e-mail to [kyl@otokar.com.tr](mailto:kyl@otokar.com.tr) or by phone (0216) 489 29 50/ext. 268.

The Financial Affairs/Accounting Unit is responsible for disclosure affairs (Hüseyin Odabaş and İrfan Özcan at [arf@otokar.com.tr](mailto:arf@otokar.com.tr) or (0264) 229 22 44/ext. 410) by announcing necessary information and documents.

## **9. Material Disclosures**

In 2010, the Company made 19 material disclosures. For no case, the CMB and the ISE required additional comments. The Company is not listed on international stock exchanges, thus no material disclosure is required for any establishment except for the CMB and the ISE. Material disclosures were made within the time period set by law; therefore the Company was not subject to any sanction by the CMB.

## **10. Company's Internet Site and its Contents**

The Company holds an active and updated Internet site. The web site covers various information on the Company in a comprehensive manner. Being updated in line with developments, the site has also an "investor relations" section, covering minimum subjects as set by the CMB: Company's annual report is available as hard copy as well as examined at the website at [www.otokar.com.tr](http://www.otokar.com.tr).

## **11. Disclosure of Real Person Ultimate Controlling Shareholder/Shareholders**

There are no shareholders with participation rate over 5%, except Koç Holding Inc., and Ünver Holding Inc., both being major shareholders of the Company.

Members of the Board of Directors, upper management and shareholders controlling 5% of the capital, directly or indirectly, shall disclose to the public the transactions made on the capital market instruments and stocks and the results thereof, there is no material disclosures to affect the investors.

## **12. Disclosure of the Insiders to the Public**

Persons who may access to information which would affect the value of the Company's capital market instruments are the members of the Board of Directors and the Company's upper management team. Accordingly, the persons on list of the aforesaid positions can be stated as Mr Kudret Önen, Mr Halil İbrahim Ünver, Mr Osman Turgay Durak, Mr Alpay Bağrıaçık, Mr Ali Tarık Uzun, Mr Serdar Görgüç and Mr Taylan Bilgel and Mr Tuğrul Kudatgobilik, all serving as members of the Board, Mr Metin Utkan and Mr Ibrahim Murat Çağlar, serving as auditors and Mr Hüseyin Odabaş, Mr Ali Rıza Alptekin, Mr Murat Ulutaş, Mr H. Basri Akgül and Mr Mustafa Bakırcı, members of the upper management team.

Utmost importance is given to ensure the compliance of all Company personnel with the rules on the use of information obtained from inside to attain balance between the transparency and the protection of the Company interests.

Any information on the Company gathered during the employment period, which the Company wishes not to disclose to any third party other than those who need the information to conduct the business and which can be defined as commercial secret are deemed to be 'Company Information'. All employees shall, during and after their employment at Otokar, keep the company information secret, not use them directly or indirectly, and sign the undertaking for protection of information.

## **PART III - STAKEHOLDERS**

### **13. Disclosure to Stakeholders**

The beneficiaries are furnished with information regarding matters of their interest by through invitation to meetings, whenever required, or via telecommunication means.

### **14. Participation of the Stakeholders in the Management**

Practices for participation of the beneficiaries in the improvement studies regarding administrative affairs and for expression their comments and evaluations are being carried on according to the procedures defined within the Company. Systematic meetings and training programs, extending from EFQM models and self-evaluation meetings allowing participation of all white and blue collars to open-door meetings, based on the total quality philosophy and aiming to improve productivity and where the employees as well as suppliers and customers express their opinion freely, and studies such as "inquiry on evaluation of working life" are realised in line with the HR policies. Studies are planned and carried on to enhance the efficiency on each segment of the public, from dealer meetings to the shareholders' visit to the plant. In addition, there is a system established through which the customer demands are followed on the sales and dealer network and forwarded to the management and arrangements are made accordingly and necessary feedback is obtained.

## **15. Human Resources Policy**

Within the framework of the Human Resources Policy applied by our Company, the criteria to be used for recruitment of personnel and promotion mechanism have been set in written. Our aim as human resources process is to continuously develop the competency of our labour force and to maintain our permanent advantage within the global competitive environment by adhering to the following principles:

- Right person for right job
- Equal remuneration for equal job; differentiation based on performance
- Recognition and commendation depending on achievement
- Equal opportunities for everybody

The operation of the human resources systems defined to this end shall be defined by procedures and announced to all employees.

The human resources policy has already been established and being applied. Recruitment policies, career planning, development and training policies regarding the employees are provided under the Personnel Regulation. Although the establishment of various committees to execute the relations with the employees are in discussion, no representative has been elected and appointed as of yet. Studies in compliance with the Human Resources policies applied by the Koç Group and the rights and working conditions of white as well as blue collars have been covered not to allow for any discrimination or bad treatment. No complaint was filed during the last period in this regard.

## **16. Information on Relations with Customers and Suppliers**

Customer satisfaction is the priority and indispensable aim regarding the marketing and sales of goods. Customer satisfaction is regularly reported and followed.

Our Company takes all measures and adopts necessary procedures to attain customer satisfaction at marketing, sales and after sales of the goods and services. Demands by the customers are met in speedy manner and the customer is informed accordingly. Quality standards and guarantee for high quality are fulfilled. The principles and policies concerning the suppliers as well as the satisfaction criteria for the customer-oriented goods and services are regularly measured and followed up by the responsible departments of the Company.

## **17. Social Responsibility**

Within the scope of social efforts specific to the region where our plant is located as well as generally to the public, activities are organised based on corporate social responsibility and the criteria of effects on the public. The Annual Report covers necessary and detailed information on efforts made during the term within the said framework. During the year, no notice on any environmental pollution has been issued, and records are kept on our activities, primarily environmental effect evaluation reports.

## **PART IV - BOARD OF DIRECTORS**

### **18. Structure, Composition of the Board of Directors and Independent Members**

Members currently serving as members of the Board are:

Mr Kudret Önen - Chairman

Mr Halil İbrahim Ünver - Vice Chairman,

Mr Osman Turgay Durak – Member of the Board,

Mr Alpay Bağrıaçık - Member of Auditing Committee,

Mr Ali Tarık Uzun - Member of Auditing Committee,

Mr Ahmet Serdar Görgüç - Member of the Board and General Manager,

Mr Taylan Bilgel - Member of the Board.

Mr Tuğrul Kudatgobilik – Member of the Board

Mr Serdar Görgüç serves at the Board of Directors as executive member. Following the General Assembly, where the members of the Board are appointed, the Board takes the resolution on duty allocation and the Chairman and Vice Chairman are elected. In case any position will become vacant during the year, the provisions of Article 315 of the Turkish Commercial Code shall apply.

For performance of works, covered by the company's subject, by the Chairman and members of the Board of Directors, personally or on behalf of third parties, and their participation in other companies being involved in same works, the approval by the General Assembly should be obtained, pursuant to the provisions of Article 334 and 335.

## **19. Qualification of the Members of the Board**

Chairman and members of the Board are persons with highest level of efficacy and effectiveness. It is essential to establish the Board of Directors consisting of persons who meet the requirements of the Corporate Management Principles and are of competency being masters of management. Regarding the qualifications of persons to be appointed as members of the Board, it is noted that the managers, equipped with such qualifications, possess necessary knowledge.

## **20. Company Mission and Vision and Strategic Targets**

### **Vision:**

Otokar preserves domestic and national identity of its products by developing its own technology and aims to attain the continuity of its customers, employees and shareholders satisfaction based on the total perfection philosophy.

### **Mission:**

Main task of Otokar is to design, produce and sell commercial vehicles and various products for defence industry, in line with customers' expectations, with competitive edge in international markets.

### **Strategic Targets:**

- to grow at 15% on average in certain periods ensuring at least 15% profitability for our own resources and increasing the value of our shares,
- to focus on the manufacturing of products which are of ambitious nature and have competitive strength in international markets,

- to invest in technology with the purpose to become the leading or second Company in sectors we are acting,
- to improve our band strength in sectors we act and to dominate the technology,
- to increase the share of foreign sales in revenues by improving our export volume and our activities abroad.

Strategic targets defined according to our vision and mission is handled by the Board of Directors. The values related with our vision and mission determined by the Upper Management Team and approved by the Board are given in the Annual Report. The studies of relevant departments in connection with the establishment and implementation of strategic targets are submitted to the Board by the upper management, who follows the procedure. The Board of Directors compares the upper management's targets for new year by evaluating past year performance and takes the necessary resolution.

## **21. Risk Management and Internal Audit Mechanism**

Risk management and internal audit organisation is established in line with the financial and administrative activities. Its operation and efficiency is followed by the Financial Affairs/Accounting Unit in accordance with the applicable capital market legislation and regulations.

The Company's financial statements are examined by the Auditing Committee, consisting of the members of the Board. Furthermore, auditors appointed by the general Assembly, pursuant to the Turkish Commercial Code, perform auditing functions as well.

Our Company carries on its activities being subject to audit, covering all financial control and risk analysis, by the Presidency of Auditing Group, reporting to the Board of Directors of Koç Holding Inc.

## **22. Basis for the Activities of the Board of Directors**

Topics and agenda related with the Board's resolutions are prepared periodically or according to requirements arisen. Depending on the requirements, number of meetings held within a year may vary. In last three years (2008-2010), totally 35 Board meetings were held. Attendance and invitation for the meeting is, principally, made whenever the business requires and the Board meeting is held accordingly. There is no special secretariat established for communication, but the Accounting Unit is involved in issuance of agenda, recording and following up of the resolutions

taken. If there are different votes regarding the resolutions taken, it is noted on the resolution. Questions and comments on the resolutions are noted, as well.

The agenda of the Board meetings are determined upon notification of the matters to be resolved by the Board, as set out in the Articles of Association, to the members of the Board by the upper management. Besides these, the agenda may be determined upon notification of requirement for resolution on a specific matter by any Board member to the upper management of the Company.

Topics to be discussed by the Board of Directors are gathered at the Financial Affairs Department, are consolidated and the agenda is thus determined.

Otokar A.Ş. Financial Affairs Manager is charged with the duties to determine the agenda of the Board meeting, issuance of the resolutions taken by the Board, providing information to the Board members and ensuring the communication.

Different opinions expressed during the meeting and reasons for opposing votes are written down in the minutes of meeting. However, since there is no opposition or different opinion expressed of recent date, no announcement has been made for the public.

### **23. Prohibition of Dealing with Company and Non-Competition**

It is prohibited that the members of Board deal and compete with the Company, and necessary measures are taken in accordance with the practice, adhering to statutory regulations in such cases which would result in conflict of interests.

### **24. Ethical Rules**

In general, the Company conducts studies to ensure the compliance with and implementation of ethical rules. Within the entirety of the legislation and regulations and practice, generally accepted ethical rules are complied with.

New regulations shall be disclosed to the public, whenever realised, within the framework of the Company employees, beneficiaries and policy on providing information.

### **25. Number, Structure and Autonomy of the Committees established**

### **by the Board of Directors**

There is a committee established to ensure that the Board performs its duties and responsibilities in a healthy manner, which is responsible for audit.

This Committee consists of Mr Alpay Bağrıaçık and Mr Ali Tarık Uzun, and is responsible to follow the financial matters, to examine the periodical financial statements and notes to financial statements and to submit the Independent External Auditor's report to the Board of Directors for its approval.

Any Corporate Management Committee has not been established yet within the scope of the Company's corporate management principles. In this matter, steps will be taken according to the applicable legislation and to the regulations to be announced by the CMB.

### **26. Financial Rights vested on the Board of Directors**

Rights to be vested on the Board are determined by the General Assembly. At the General Assembly held on 17.03.2010, the shareholders approved the payment of remuneration to Board members on monthly basis.

No additional benefits are provided for the Chairman and members of the Board, other than the remuneration determined by the General Assembly. There is no special application regarding performance or reward for the Board.

Furthermore, no money was lent to any member of the Board and of upper management team, no loan was awarded, no benefits were provided as loan through any third party and no security for the aforesaid, such as guaranty.