



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

TOFAŞ TÜRK
OTOMOBİL
FABRİKASI A.Ş.

28 May 2007

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Rating and Executive Summary

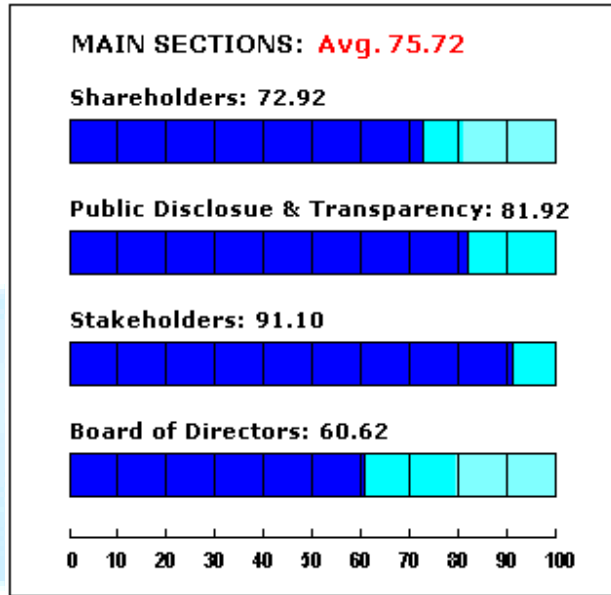
Tofaş Türk Otomobil Fabrikası A.Ş (TOASO)

 **SAHA**
Corporate Governance Rating:

7.57

Contact:

S. Suhan Seçkin
suhan@saharating.com
Ali Perşembe
apersembe@saharating.com
Abbas Yüksel
ayuksel@saharating.com



EXECUTIVE SUMMARY

TOFAŞ is rated with 7.57 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 Tofaş 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; having no limitations for voting rights, presence of an investor/shareholder relations department, 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 privilege of controlling shareholders in nominating board members and the lack of cumulative voting procedures are areas that need further improvement.

TOFAŞ performs well above the country average in terms of **Public Disclosure and Transparency**. A good example of this performance is the latest announcement of "Company Public Disclosure and Transparency Policy". Moreover, Tofaş has a well organized and informative website in addition to the public announcements done in accordance with the CMB and ISE's rules and regulations. As apposed to these positive features, the lack of disclosure about the entire group's ownership structure and insufficient information about internal control systems in the annual report and in other platforms such as audit committee reports stand out as areas of further refinement.

TOFAŞ has broadly implemented the Principles regarding **Stakeholders** (namely; company policy regarding stakeholders, protection of company assets, human resources policy, ethical rules, social responsibility, and relations with the customers and suppliers). Specifically, properly functioning law, human resources, and industrial relations departments; the existence of detailed and informative documentation about agreements signed with related parties; and social responsibility projects in progress have influenced our positive opinion.

From the perspective of the Principles regarding the **Board of Directors**, TOFAŞ, on the whole, has established positive structures, procedures and mechanisms. These are; well communicated company mission and vision, clearly determined board member duties (in the general agreement), and a board that consists of broadly experienced, competent, suitably educated individuals of high ethical standards. However, lack of independent members in the board and therefore in committees, lack of Risk Management and Corporate Governance committees, existence of privileges of controlling shareholders in the nomination of board members, 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 Tofaş Türk Otomobil Fabrikası 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) 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

Tofaş Türk Otomobil Fabrikası A.Ş	
	CHAIRMAN Mustafa V. KOÇ CHIEF EXECUTIVE OFFICER Ali Aydın PANDIR
	Corporate Governance and Shareholder Relations Manager Dr. M. Adil Salepçioğlu Tel: (0212) 275 3390, Ext.: 1631/32 adil.salepcioglu@tofas.com.tr
Zincirlikuyu Büyükdere Cad., No: 145, Tofaş Han, 34400 Zincirlikuyu, İstanbul www.tofas.com.tr	

As of 31 December 2006, TOFAŞ's authorized capital is YTL 1 billion while the issued (paid-up) capital is YTL 500 million. The Company exercised a non-paid-up capital increase at a ratio of 11.11% from the equities totaling to YTL 50,000,000 within 2005. YTL 15,527,405.88 portion of this was provided from the inflation correction difference and YTL 34,472,594.12 portion was provided by the sale of immovable assets. No capital increase was executed in 2006.

Capital Structure and Shareholding

Shareholder	Amount (YTL)	Percentage
Fiat Auto S.p.A.	189,279,856.87	% 37.8560
Koç Holding A.Ş.	187,938,121.26	% 37.5876
Temel Tic. Ve Yat. A.Ş.	175,693.44	% 0.0351
Suna Kırac	291,510.55	% 0.0583
S. Semahat Arsel	291,510.55	% 0.0583
Mustafa V. Koç	194,340.36	% 0.0389
M. Ömer Koç	194,340.36	% 0.0389
Y. Ali Koç	194,340.35	% 0.0389
Other Shareholders	121,440,286.26	% 24.2880
	500,000,000.00	% 100

Subsidiaries and Related Parties

Name	Share Amt. (YTL)	Percentage
Entek Elektrik Üretimi A.Ş.	13,188,000	% 13.33
Koç Fiat Kredi Tüketici Finansmanı A.Ş.	29,999,996	% 99.99
Mekatro Araştırma Geliştirme ve Ticaret A.Ş.	145,500	% 97.00
Platform Araştırma Geliştirme Tasarım ve Tic. A.Ş.	990,000	% 99.00
Fer Mas Oto Ticaret A.Ş.	5,468,000	% 99.42

TOFAŞ has approximately 25,000 investors and shareholders and is included in the ISE-30 and ISE-100 indices. Shares of the company are also listed on the Luxembourg Stock Exchange. The Company completed 2006 with an after-tax net profit of 81,875,000 YTL and decided to pay a cash dividend of 12% (60,000,000 YTL) to its shareholders as of 14.05.2007. TOFAŞ paid cash dividends of 10% (50,000,000 YTL) in 2005 and 6.66% (30,000,000 YTL) in the previous year.

The two controlling shareholders of TOFAŞ are KOÇ Holding A.Ş. and FİAT Auto SpA. All debentures issued since the inception of the Company have been paid in full and redeemed at their maturity. The process of dematerialization of shares is continuing

and will be completed by 31.12.2007. The total number of personnel as of 31.12.2006 is 5,088, of whom 966 are white-collar and 4,122 are blue-collar.

Although the domestic demand for automobiles in 2006 has declined by 14.9% in 2006, automobile sales of TOFAŞ decreased only by 7.6%. The success of new *Grande Punto*, launched in February, was the main factor in cushioning this fall. During this period, *Grande Punto* gained a market share of 3.8% and sold 10,096 units in 11 months. TOFAŞ manufactures cars with FIAT trade mark and enjoys a market share of 9% (8.3% in 2005) in the Turkish automobile market. LCV market share of the Company has also increased from 15.8% in 2005 to 15.9% in 2006. When both markets are viewed together, although the domestic demand shrunk by 13.4%, TOFAŞ increased its market share to 11.7% (from 11.2% in 2005). TOFAŞ realized the highest export volume in the history of the company in 2006. The performance of the new *Doblo* in Italy and other European markets was the driving force behind this success. The growth rate of the exports is 39.5% and the total amount is 1,218 million US dollars (123,070 vehicles). The share of exports in total sales is 63.2%. The total number of vehicles sold is 170,570. Production also increased by 10.6% and reached a total of 178,434 vehicles. The Company's production capacity is 250,000 units/year at double shift and the capacity utilization rate has been realized as 71.3%. Investments totaled EUR 257.6 in 2006.

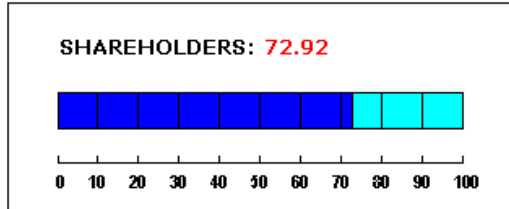
Market Total (Unit)	2005	2006	Change %
Automobile	438,544	373,216	-14.9
Light Commercial Vehicle (LCV)	280,438	249,220	-11.1
Total	718,982	622,436	-13.4

Sales (2006) Units			
	Domestic	Foreign	Total
Automobile	32,903	46,687	79,590
LCV	38,714	63,519	102,233
CKD	-	12,864	12,864
Toplam	71,617	123,070	194,687

Sales (2006) thousand YTL (UFRS)			
	2005	2006	Change %
Domestic	1,410,836	1,300,788	-7.8
Foreign	1,132,456	1,753,372	54.8
Other	56,169	51,975	-7.5
Total	2,599,461	3,106,135	19.5

BOARD OF DIRECTORS		Term	
Name	Title	Inception	Expiry
Mustafa V. KOÇ	Chairman	15.04.2005	15.04.2008
Sergio MARCHIONNE	Vice Chairman	15.04.2005	15.04.2008
Temel ATAY	Member	15.04.2005	15.04.2008
Fevzi Bülend ÖZAYDINLI	Member	15.04.2005	15.04.2008
Kudret ÖNEN	Member	01.05.2006	15.04.2008
Alfredo ALTAVILLA	Member	15.04.2005	15.04.2008
Paolo MONFERINO	Member	15.04.2005	15.04.2008
Ali Aydın PANDIR	Member & CEO	26.12.2006	15.04.2008

SECTION 1: SHAREHOLDERS



Summary:

The company has a working "Investor Relations Department" that facilitates relationships with the company and its shareholders and institutional investors. Although the controlling shareholders have the privilege to nominate Board members, there are no provisions to apply certain ceilings on the number of votes a shareholder might exercise. General Meetings are conducted in a suitable manner for minority shares to exercise their statutory rights in an equitable and timely manner. The procedures and conduct of the General Meetings are in full compliance with the CMB principles and the country's rules and regulations.

Presently, public shares are transferred easily and without any limits, whereas the transfer of "controlling" shares is subject to limitations by the Articles of Association. On the other hand, shareholders are not able to appoint external auditors and cumulative voting procedures are not embraced by the company. These evidently impose risks in terms of protection of shareholders in exercising their statutory rights.

The Investor Relations Department is highly proactive and actively pursuing steps towards better corporate governance. This positive attitude and willingness to make the next move

towards better compliance are signs of progressive improvements to come in the future.

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

There is a working "Investor Relations and Corporate Governance Department" within the company and Dr. Adil Salepçioğlu, who is licensed by the CMB as a Corporate Governance specialist, is in charge of the unit. Nevertheless, a Corporate Governance Committee within the Board of Directors has not yet been established and the department needs more staff to operate at an optimum level. At this level, the department should be bestowed with the authority to coordinate any and all related functions internally.

The General Meeting follows principles set out by the Articles of Association and laws; and records are kept appropriately. 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 and duly disclosed.

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 internet, telephone, e-mail and personal visits are open to shareholders and investors. Procedures of investor relations are well documented in the company's *information policy* document.

Moreover, TOFAŞ welcomes and encourages periodic factory visits by investors and shareholders.

Shareholders are not able to appoint external auditors. Furthermore, the *information policy* document does not include procedures that outline the scope of disclosure and transparency with regard to information about relations with individuals and institutions that are directly or indirectly related to the company by capital, management or auditing.

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. On the other front however, only holders of group A and D shares (controlling shareholders) can nominate board members (4 each). Other shareholders are stripped of this right.

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

The General Meeting announcement is published in at least two nation wide, high circulation newspapers as well as on the company's web site well in advance. TOFAŞ is very sensitive on the matter and honors requests of participation down to 2 days prior to the General Meeting.

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 open to use of shareholders in electronic media in compliance with regulations. The

board values shareholder views and opinions, and therefore endeavors to consider all requests about items to be placed on the agenda. Furthermore, shareholder satisfaction is gauged by a post meeting questionnaire.

As per the decision made in the General Meeting of 2006, board members are allowed to enter into transactions or to compete with the company.

The minutes of General Meetings show that the conduct and execution have been appropriate, fair, and efficient. However, the chairman and some of the board members were represented by proxies. Although some, but not detailed enough, information about the candidates for board membership were given to the shareholders verbally during the General Meeting, none of that information is documented or posted for the perusal of shareholders. Minimum requirements for disclosure of information about candidates are not stated in the Articles of Association either.

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. However, the Articles of Association does not include provisions for decisions regarding the sale, purchase or lease of tangible/intangible assets in significant amounts and the issuance of donations and/or grants. Nevertheless, such issues have been included in the agenda items and discussed freely during the General Meeting.

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 is easily accessible, comfortable and suitable for maximum attendance.

The General Meetings are executed according to the procedures and the chairman conducts the meeting efficiently on fair grounds. Shareholders are provided with equal opportunities to express their opinions, and raise any questions. Each agenda item is discussed and voted separately. The votes are counted and results are announced before the end of the General Meeting.

Although any changes in the Board composition are announced in the General Meeting, there has been no detailed explanation as to the purpose and justification of such actions. Similarly, no information was provided about organizational changes in the subsidiaries and affiliates (in case of such changes, annual reports and annual financial statements together with pro forma financial statements for the past three accounting periods should be provided). Company officials justify this lack of information by stating that they have only recently been established and therefore have only conducted their second General Shareholder Meeting. Nevertheless, links have been provided on the company web site to access information about subsidiaries and affiliates as well as the two controlling shareholders, namely, KOÇ Group and FIAT.

1.5. Voting Rights:

There are no ceilings applied on the number of votes that a shareholder may exercise during the General 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 stated in the Articles of Association and announced to shareholders prior to the General Meeting.

The Articles of Association, however, contains a provision that prevents minority shareholders from nominating Board members. Two controlling shareholders, namely KOÇ GROUP and FIAT, can nominate (4 each) candidates for the 8 member Board.

1.6. Dividend Rights:

TOFAŞ has a clearly defined and consistent dividend policy which is in compliance with the Turkish Commercial Code. Annual profit, amount and sources of distributable profit; the criteria according to which the board prepare dividend distribution proposal; location, time and terms of payment for dividends, principles; and provisions of interim and advanced payments are announced to the shareholders at the general shareholder meeting and also included in the company's annual report, prospectus and circulars. Furthermore, the dividend policy of the company was duly put as an agenda item for the last General Shareholder Meeting. The company has made a clear improvement in terms of Corporate Governance by allowing advance dividend payments. However, no information is disclosed about any indirect shareholder relationships and the amount of dividends due to real persons who own a significant portion of the distributable profit.

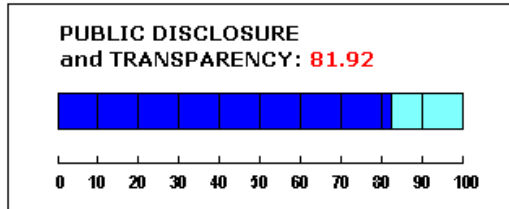
1.7. Transfer of Shares:

There are no obstacles for the free transfer of public shares (24.29% of the total) in the Articles of Association and in General Meeting decisions. The two controlling shareholders, however, are subjected to limitations in transfer of shares by the Articles of Association.

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 speak against the equitable treatment of shareholders.

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



Summary:

TOFAŞ is performing well above the country averages in terms of public disclosure and transparency. Creating a Corporate Governance and Shareholders/Investor Relations Department is an important and positive step towards better governance. The recent announcement of "Public Disclosure & Information Policy" is a good sign of the company's willingness to make these steps. 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 (Istanbul Stock Exchange).

Both the annual report and the periodical financial statements and reports of the company are signed by the responsible board members and executives, and disclosed to the public. The external audit firm of TOFAŞ is a well-known international institution and there have been no conflicts with the audit firm that required legal action.

As opposed to the above positive attributes, the lack of clear information regarding the company's ultimate controlling individual shareholder or shareholders as identified after being

released from indirect or cross shareholding relationships between co-owners; and the lack information in the annual report and other communication channels about the internal control systems register as the major areas that need improvement under this heading.

2.1. Principles and Means for Public Disclosure:

Public disclosure is the responsibility of the Corporate Governance and Investor Relations Department. The department employs one person who does not have the authority to sign official documents. Public Disclosure Project (KAP) tasks are executed by 2 employees and 4 managers who are authorized to sign.

The company has prepared collective Principles to be used in the information policy of the company, presented them to the shareholders at the general shareholder meeting and disclosed them to the public. Disclosure is normally done at the general shareholder meetings and media such as internet and press are utilized. Furthermore, if necessity arises as per the current legislation, additional information is duly disclosed to the CMB and the ISE.

Any developments that may affect the value of the company are also disclosed to the public without any delay and within the time period required by the current legislation via the special situations communiqué of the ISE.

The social and environmental initiatives of the company are duly disclosed on its web site. The website

is actively used as a means of public disclosure. Overall, TOFAŞ diligently strives to disclose all relevant and required information as accurate, complete, comprehensible, interpretable and easily accessible as possible and complies with the current rules and regulations to a high degree.

2.2. Public Disclosure of Relations Between the Company and Its Shareholders, The Board of Directors and Executives:

Although no changes to date have been affected, in case shareholding or voting right percentage of an individual or group reaches, exceeds or falls below the thresholds of 5%, 10%, 25%, 33%, 50% and 66.67% of total share capital or voting rights, the company officials have confirmed that it is the company policy to disclose such information immediately upon being informed thereof. ISE firms are obliged to disclose transactions of this nature by the Capital Markets Law and ISE regulations.

Nevertheless, 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. Similarly, 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 their share class and such table is not incorporated into the annual report and financial statement footnotes.

During our analysis, we have been unable to clearly identify whether 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 the public or not.

2.3. Periodical Financial Statement and Reports in Public Disclosure:

As part of its listing requirements in the ISE, TOFAŞ duly discloses information that is not included in the periodical financial statements or footnotes, such as significant investment decisions, in the "special situations communiqué" published by the Istanbul Stock Exchange (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 reflects the true financial status of the company and that the company acts in accordance with the related legislation. The annual report incorporates the scope of activities of the company, the information about the sector in which the company operates and the company's status within this sector, however, it does not include the Board of directors' statement about the status of the internal control system, and the Audit firm's opinion about the internal control system. Similarly, detailed explanation about the foreseeable risk factors regarding future operations, and the nature of 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 not incorporated in the annual report.

The fact that consolidated financial statements present fairly the

consolidated financial position of TOFAŞ and its subsidiaries as of 31.12.2006 and its consolidated financial performance for the year ended, in accordance with Financial Reporting Standards published by the CMB is clearly stated in the independent auditor report. Financial statements were not adjusted according to the inflation in accordance with the CMB's legislation dated 17.03.2005 effective as of 01.01.2005. The financial statements and their notes were prepared in accordance with the CMB's Accounting Standards. The effect of differences between the accounting principles of CMB and International Financial Reporting Standards (IFRS) was not quantified and reflected in the financial statements. Major portion of the company's sales and purchases are conducted through its related parties and this condition is brought to the attention of shareholders in the report of independent auditors.

2.4. Functions of External Audit:

The external audit firm chosen by the company (Güney Bağımsız Denetim ve SMMM A.Ş., the Turkish arm of Ernst & Young) 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. The audit firm, auditors and other related staff working for the audit firm are not providing consultancy services to the company. There has been no legal conflict between the company and the external audit firm. Since there is no audit committee within the Board, the nomination and election process of the audit firm is normally influenced by the decisions taken at the group companies. The audit firm is suggested by the upper management and the executive committee, and the final decision is made by the Board.

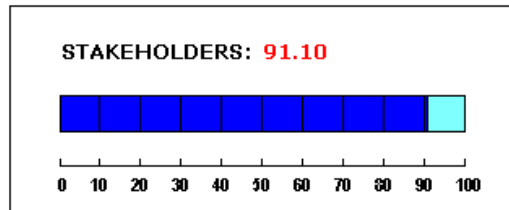
2.5. The Concept of Trade Secret and Insider Trading:

TOFAŞ strikes 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 are prepared and disclosed to public in accordance with the information policy. However, we have been unable to determine clearly what measures and precautions are taken to prevent insider trading.

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

TOFAŞ shows utmost care and sensitivity in the timely and comprehensive disclosure to public of all important development and events and their possible implications on the financial status and operational results of the company. Our analysis of 18 subtitles shows that TOFAŞ complies with the rules and regulations of the CMB (also listed in article II.6 of the Principles) and the ISE.

SECTION 3: STAKEHOLDERS



Summary:

With regard to relations between the company and all related public and private parties (stakeholders) other than 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, relations with customers and suppliers, and social responsibility.

Main factors that influenced our positive deductions have been the existence of an efficient law department, working and well organized human resources and industrial relations units, comprehensive, fair and accurate content and scope of contracts with related parties, and caliber and attributes of executed and pending social projects.

3.1. Company Policy Regarding Stakeholders:

One of the controlling shareholders of the company is the internationally renowned automobile manufacturer FIAT and the other one is a part of Turkey's largest holding company which operates in a wide variety of industries ranging from finance to manufacturing. There is no doubt that the company is endowed with a top notch corporate identity and reputation. These qualities ensure that all necessary facilities are in place to preserve the interest of stakeholders. The only issue under this heading that remains to be illuminated is the nature of customer relations. In an environment where another company that is owned by the controlling parent group enjoys the sole distribution rights of the company's products, TOFAŞ is liberated to a large degree from direct involvement with customer relations related issues. Nevertheless, we observed that the relations between the company and the distributor are healthy and efficient.

3.2. Stakeholders' Participation in the Company Management:

There is no acknowledgement of any planned mechanism or model that encourages participation of the stakeholders in the management of the company, in the Articles of Association. However, functional models such as EFQM, Kaizen, TOS (Tofaş Suggestion System for employees), and MIP (Customer Relations Principles for customers), systematic meetings and training programs, "self evaluation enquiries", and open door meetings are applied to ensure work place improvement and

communication of views, opinions and requests to upper management. An intranet application is in place for interoffice communications.

3.3. Protection of Company Assets:

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. The ownership structure of the company employs a practical "checks and balances" system internally. TOFAŞ's prominent position as a listed ISE company also imposes certain degree of controls and sanctions.

3.4. Company Policy on Human Resources:

Working conditions at TOFAŞ are well above country averages. There is an established human resources policy that ensures equal opportunities, social rights, fair remuneration, allocation of performance related rewards, sound career planning and training in a collaborative working environment. The company is looking forward to obtain "Investors in People" (IIP) certification shortly. Furthermore, no frictions have been detected in relations with trade unions during the rating process.

3.5. Relations with Customers and Suppliers:

Relations with customers and suppliers are governed with written internal rules and regulations and communicated to related parties. A call center is in operation and requests are handled in a quick and efficient manner. Records are kept meticulously and within the scope of trade secret, confidentiality of information relevant to customers and suppliers are duly respected.

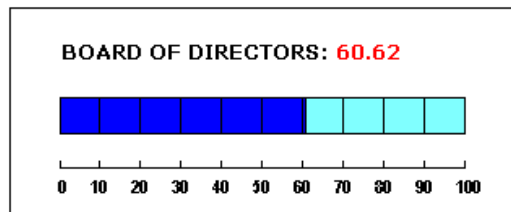
3.6. Ethical Rules:

Generally accepted ethical rules are observed in connection with internal rules and regulations. Company officials confirmed that a written declaration will be prepared under the framework of Corporate Governance Principles shortly and published as "Tofaş Business Ethical Principles".

3.7. Social Responsibility:

The company exhibits a corporate culture that respects the environment, the consumers and the public health. Led by the Shareholder Relations Directorship, other related directorships and factory units abide fully by the rules of social responsibility. Amongst the activities worthy of attention are TOFAŞ basketball schools and the "basketball volunteers" project implemented jointly by Tofaş Sports Club and the Educational Volunteers Foundation of Turkey (TEGV). In addition to the Zeugma archaeological site sponsorship that was employed in previous years, the Anatolian Cars Museum in Bursa is built and instituted by the company. Social initiatives and conduct with reference to the neighboring area of the manufacturing facilities as well as general public are fully in line with the criteria that dictate the social responsibility of the corporation and its effects on the community.

SECTION 4: BOARD OF DIRECTORS



Summary:

The fact that the board has defined the mission/vision of the company; that the board's duties and responsibilities as well as authorities and responsibilities of individual board members are defined in the articles of association of the company and posted on its web site; that all board members are individuals of highest levels of integrity and ethical values and meet the requirements set out in the CMB Principles regarding their knowledge base, skills and experience; and that provisions regarding the disclosure of confidential information and/or trade secrets are incorporated in the ethical rules of the company are all positive corporate governance applications.

On the other hand, lack of any independent board and therefore committee members; lack of any risk management and corporate governance committees; lack of cumulative voting system; and existence of privileged voting rights of controlling shareholders underline the need for further improvements under the heading of Board of Directors.

Furthermore, board members have not assumed joint liability to the shareholders and stakeholders in case of any harm caused due to incompliance with the legislation, articles of association, in-house regulations and policies.

The amount of remuneration of board members does not appear to be sufficient; however, most serve on the boards of other group companies and this shortcoming is more than compensated when aggregate membership fees are considered.

4.1. Fundamental Functions of the Board of Directors:

The board has defined the mission/vision of the company, disclosed this to the public and approved the strategic goals constituted by the executives. It also closely monitors and supervises whether or not the company's operations comply with the relevant legislation, articles of association, in-house regulations and policies.

However, neither a risk management nor an internal control committee has been established to minimize the adverse effects of the risks that the company may face and harms that the shareholders and stakeholders may suffer. The board understands and accepts that it should act as a pioneer in resolving and settling disputes that may arise between the company and shareholders, however, there are no written procedures in place. With respect to the basic functions of the board, company officials have stated that "compliance with the group procedures and practices in effect" is the norm. Nevertheless, we have been unable to clearly determine what these practices and procedures are.

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

The board's duties and responsibilities as well as authorities and responsibilities of individual board members, are defined in the articles of association of the company and posted on its web site. Beyond its basic functions, the board duly fulfils responsibilities such as approving the annual budget and business plans of the company; preparing the annual report and finalizing the same for presentation at the general shareholder meeting; ensuring that the general shareholder meeting is conducted in accordance with the legislation and the company's articles of association; controlling the company's material expenditures; and approving the career plans and remuneration of executives.

There is no history of board members exploiting confidential and publicly unavailable information in favor of themselves or others. We also have no information or evidence regarding board members disclosing company information that is confidential and/or trade secret. This matter of confidentiality is incorporated in the ethical rules of the company.

Each board member is entitled to a single vote at the board meeting. Board members are not granted with weighted voting rights or positive/negative veto rights. The board and the executive committee convene on regular basis and at sufficient intervals, and these meetings are planned and conducted in an effective and efficient manner.

The ethical rules of the company does not contain a clause stating that the board members should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains. Furthermore, members of the board have not declared in writing 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

Documents and information about the agenda items of the board meeting are submitted to the members of the board for inspection at least seven days in advance, however, the means for delivering the documents for the board meeting are not incorporated in the company's internal regulations in writing. Record keeping and follow-up work is executed by the Corporate Governance and Shareholder Relations department. A secretariat has not been established yet under the responsibility of the board chairman in order to serve the board and to keep documents related to the board meetings in order, however, the board gave the necessary authorization and the secretariat is expected to be functional shortly. Moreover, provisions regarding the procedures for invitation of the board members for a meeting by shareholders and stakeholders are not incorporated in the articles of association.

4.3. Formation and Election of the Board of Directors:

There are no board members who have been convicted of non-conformity with any kind of legislation or who have sentenced in any way. All members are individuals of highest levels of integrity and ethical values; and they meet the requirements set out in the CMB Principles regarding their knowledge base, skills and experience. They are clearly suitable to manage the company effectively; however, general rules governing the minimum requirements of experience and background have not been incorporated in the articles of association of the company.

There are unfortunately no independent board members and therefore none of the committees have independent members. Moreover,

cumulative voting system has not been adopted. As it is, this would not be possible in a company where A and D group shares (controlling shareholders) enjoy privileges in nominating board members. These are main drawbacks on the way to better corporate governance.

4.4. Remuneration of the Board of Directors:

Members of the board of directors have not borrowed or obtained warranties of any kind from the company to this date. The amount of remuneration of board members does not appear to be sufficient and have been set at almost symbolic levels. However, as most also serve on the boards of several other group companies, company officials feel that this shortcoming is more than compensated when aggregate membership fees are considered.

There is no incentive remuneration method in application for the board members in connection with the performance of the company. There is also no clearly communicated and written mechanism for the board and the members thereof to conduct a self-assessment and performance evaluation procedure. A remuneration committee does not exist to facilitate this function.

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

To support the board, an executive committee and an audit committee have been established. Since there are no independent board members, these committees do not have independent members either. There are no corporate governance and risk management committees. A positive note is that the audit committee is comprised of non-executive members;

however, we have been unable to clarify the scope and quality of internal auditing processes. It appears that the audit committee is not conducting internal controls, but only manages the relations with the external auditors and oversees the level of compliance to accounting standards. The existing committees keep records of their work and these records are submitted to the board.

4.6. Executives:

Company executives conduct their business within the framework of company mission, vision, goals, policies and strategy and act in accordance with the financial and operational plans of the company as approved by the board each year. They are sufficiently authorized to perform their duties and have the required professional qualifications in order to perform the assigned duties. There are no executives who have attempted to exploit confidential information or obtain unjust benefits. Company officials we interviewed also confirmed that all meet the eligibility requirements set down in CMB Principle 6.11 regarding conviction for misconduct. Furthermore, all employment agreements clearly indicate that the executives are not permitted to work for a competitor for certain period of time in case they renounce from their duties.

Company officials confirmed that all executives submit a report regarding the conformity of the performed works with the legislation, articles of association, in-house regulations and policies while performing their duties to the board each month. Company officials we interviewed have also confirmed that the company's personnel codes include a clause that requires executives compensate the losses incurred by the company and third persons as a result of not performing their duties duly.

Rating Definitions

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