

## THE CORPORATE GOVERNANCE PRINCIPLES DECLARATION

Pursuant to CMB (Capital Market Board) meeting decision 48/1588 made on 10.12.2004, it has been deemed appropriate for the companies having transactions in ISE (Istanbul Stock Exchange) to include their declaration of adoption to the Corporate Governance Principles on their Activity Reports and Web Sites, and in this context, our Company has issued the "Corporate Governance Principles Declaration and the Adoption Report" for 2004 and 2005 periods in our website and included in our Activity Report as of the Shareholders' General Assembly Meeting 2005.

Implementation of Corporate Governance Principles has a decisive importance for our Company under the developments in the Capital Markets. Our Company has adopted to the implementation of Corporate Governance Principles published by Capital Market Board and to make arrangements in such matters that should be observed in the light of developing conditions. Our Company aims to take actions required for application of the Corporate Governance during decision-making and actions related to the rights of shareholders, informing the public and assurance of transparency as well as interest holders and Board of Directors. In this context, it is one of the principal goals of our Company to implement the said Principles in connection with the equality of all stakeholders, information responsibility and corporate governance principles. Activities of our Company are being followed up within the framework of responsibilities regarding these Principles.

**Our Adoption Report on the Corporate Governance Principles** including 2006 activity term is submitted to your information below so as to cover the applicable and non-applicable issues of the said Principles.

Moreover, the following new Corporate Governance Adoption Report can be accessed and reviewed from the ([www.tofas.com.tr](http://www.tofas.com.tr)) address.

## ADOPTION REPORT ON THE CORPORATE MANAGEMENT PRINCIPLES

### Chapter 1:

#### SHAREHOLDERS:

##### Shareholder Relations Unit

1- As included in our previous Adoption Report and in line with the basic principles determined by the Governance Principles, and with the purpose of managing the relationships with the shareholders of our Company and implementing the required arrangements, a Shareholder Relations Unit has been established within the organization of our Company, and the name of this unit has been changed as the **Corporate Governance and Shareholder Relations** as of 2005 and continued its activities with the purpose of effective follow-up of applications regarding the Corporate Governance Principles.

The said Unit carries out Company activities within the framework of Corporate Governance Principles issued by CMB and Corporate Governance applications of ISE companies in the field of Corporate Governance, and activities on the provision of rights related to shareholding and shareholder relations and follow up of stock market and company information policy in the field of Shareholder Relations.

The said unit carrying out activities primarily for the organization of the Shareholders' General Assembly Meetings, exercising of the shareholding rights and stock transactions as well as keeping the required records for shareholders and meeting the information requests of

shareholders, and ensures the representation and contacts of the Company before the Capital Market Board and ISE as well as other relevant entities and institutions including the ISE Settlement and Custody Bank and Central Registry Agency. This Unit is also responsible for the arrangements for capital increases and dividend payouts, organizations of Board Meetings and following up and recording of Auditor decisions as well as public information in the scope of capital market regulations and meeting of the information requests of investors including the Website

Furthermore, the Corporate Governance and Shareholder Relations Unit is responsible for the following up of capital market arrangements and performing the required activities within the Company and conduction and following up of Board Meetings and General Assembly Meetings of Affiliate Companies and Subsidiaries of our Company

The authorized person in the said unit is **Dr. M. Adil Salepçiođlu**, who has the Corporate Governance Rating Expertise License; and you may contact him for information by e-mail from [borsa@tofas.com.tr](mailto:borsa@tofas.com.tr) address or by telephone from (0212) 275 33 90 / 1631 and (0212) 275 29 60 / 1632.

### Use of Rights to Information by Shareholders

2- Our 77 Shareholders that has been registered in the list of participants of the latest General Assembly were duly informed on the financial and administrative issues and their participation in General Assembly was ensured. In addition to those contacted our Company by telephone during the term, the number of shareholders that personally visited the Company and requested information from the Corporate Governance and Shareholder Relations Unit or exercised free share rights is 106 and 343 e-mail messages sent to [borsa@tofas.com.tr](mailto:borsa@tofas.com.tr) address for information request were duly replied.

Moreover, the Finance Management has organized 150 one-on-one meetings and 4 Analyst Meetings locally and abroad within the term particularly for the Corporate Investors and Investment Trusts. Investor Presentations and Analyst Reports issued on this matter are made available in our Website for the information of investors and public.

Our Shareholders may access to information on "Corporate Governance" and "Shareholder Relations" and review the general, managerial and financial data via the relevant links under the "Investor Relations" section. And, in addition to these sections, a new link "Stock Exchange Information" was provided within 2005 where they may access ISE records and continue actively in 2006.

Our Company has started the application of an electronic operating system and a program that enables sending of Special Case Explanations and other notices to CMB and ISE within the scope of the KAP (Public Informing Project), technical studies of which are carried out by Tübitak-Bilten. Moreover, the membership procedure has been completed with the Central Registry Agency that was established for the purpose of monitoring the capital market instruments based on registration, and the registration of stocks quoted in the Stock Market were completed in line with the arrangements for the monitoring of stocks based on registration is 2005. By virtue of this situation and as of 31.12.2006, our 21<sup>st</sup> and 22<sup>nd</sup> issue shares have been taken under dematerialized follow up within the scope of dematerialization of capital market instruments in order to allow dematerialized following up of non-dematerialized shares with changed types in line with the regulations of the Central Registry Agency. Studies on this matter are still on progress and the relevant regulations are followed up and implemented.

Moreover, the Company conducts "Shareholder Plant Visits" in addition to arrangements and applications. The said visit program provides shareholders and investors with the opportunity

to closely see and learn about the plant and was conducted with the participation of 120 persons in 2005. Periodical plant visit is also planned for 2007.

We have participated in Corporate Governance Forum in Corporate Governance Workshop and Quality Congress of CMB and become a member of Corporate Governance Association of Turkey within the term. Moreover, we have conducted a draft study on Corporate Governance rating.

3- The Articles of Association of the Company do not contain any provision about an individual right to appoint a “special auditor” in case of request. No requests were submitted to our Company within the term for appointment of a special auditor. Currently, there is no information and application on this matter based on the existing regulations as well as general practices. In addition to internal auditing applications, our Company is also subjected to auditing of the two main Shareholders (KOÇ and FIAT), and also of an Independent External Auditing Company as legally approved by the General Assembly.

#### Information about General Assembly

4- Within the period, ordinary General Assembly Meeting of the Shareholders was held on April 20, 2006. Invitations to the General Assembly are duly promulgated within the legal periods on the Turkish Trade Registry Gazette as well as two daily newspapers issued nationwide with all the required information. Moreover, the shareholders registered in the Shareholders Book are informed by a letter. Names of the 77 shareholders that obtained participation documents that stand as an entry card from Our Company or were listed in the blockage documents obtained from Central Registry Agency registered in the attendance list. Moreover, everyone that are willing to participate in the General Assembly as a viewer were ensured to participate in the Meeting. In this context, representatives of press, authorities of various investment trusts and banks attended the Meeting as well.

Procedure of General Assembly is made to ensure the utmost presence of the shareholders and the minutes of such meetings shall be accessible in writing or electronically at all times and includes activities that increase the efficiency of the Meeting..

Financial statements and the activity report as well as other information and documents are made available in the Head Office for the review of shareholders and interested persons within the legal period prior to the General Assembly Meeting. Promulgations on the General Assembly Meeting are made within at least 3 weeks prior to the meeting. Following issuance and submission of financial tables to ISE and publication of the Activity Report, any information and reports to be discussed at the General Assembly Meeting are sent to the addresses of those requesting by post, facsimile or e-mail in the electronic environment in a manner ensuring the quickest receipt. The records shall be maintained at the locations, including electronic media, where shareholders have the easiest access.

The most natural rights of our shareholders in the General Assembly Meetings are asking questions and raising their opinions, which are shown utmost respect. Therefore, the rights of the Shareholders for asking questions in the General Assembly or making suggestions about the Agenda items, or delivering speeches regarding their suggestions or current matters are provided by the Board of Meeting and the required records are kept as per the provisions. In this context, written and oral suggestions made by the shareholders to the Board of Meeting about various issues in the General Assembly are added to the Minutes of the General Assembly Meeting posted on the Internet. Additionally, records showing that any votes of shareholders against certain matters are also recorded in the Minutes of the Meeting can be observed by reviewing the latest General Assembly documents ([www.tofas.com.tr](http://www.tofas.com.tr)).

Annual Activity Reports, financial statements, independent auditors' reports and profit distribution proposal, form of voting by proxy and other information and documents related to the General Assembly agenda, the required documents issued in line with the capita market regulations, the most current text of the Articles of Association and any amendment texts, records that include the most recent information, Special Case Explanations submitted to the Stock Market, information contained in the Activity Report, arrangements pursuant to Corporate Governance Principles, distribution of capital among the shareholders and any other information from the Report of Board of Directors to the Corporate Governance Adoption Report can be accessed electronically.

In the light of the said proposals, the requests of shareholders for working and information from our Company are approved by the top management of the Company and the shareholders are allowed to make the desired reviews accordingly. Our Shareholders that have submitted such a request within the term was asked to provide evaluation and information based on their reviews and the required matters are taken into account.

Company activities are specified by the Articles of Association. Article 3 titled “Objective and Subject” of the Articles of Association covers the activities that might be performed to realize the objects and subjects of the company and unless any resolution to amend them is taken by the General Meeting, the Company is not entitled to perform the activities it wishes. The matters such as merger with other companies take over of another company or separation shall be resolved by the General Assembly upon suggestion of the Board of Directors. In addition, the Company may purchase, construct, sell, rent, mortgage or receive mortgage of any types of real estate and bestow real rights on them as an amendment to the Articles of Association in the form approved by the Board of Directors. The Articles of Association of the company are accessible from our Company web site ([www.tofas.com.tr](http://www.tofas.com.tr)).

All the Minutes of General Assembly Meetings and Lists of Participants for the previous years can be accessed from the Head Office of our Company as well as from the archives of Turkish Trade Registry Gazette retained at Istanbul Trade Registry Office. Furthermore, the Minutes of General Assembly Meetings and other relevant documents for the last 4 years can be accessed and reviewed from the stated Website of our Company in "pdf" format.

#### Voting Rights and Minority Rights

5- Each share entitles the holder one voting right and there is no voting privilege (Article 20 of the Articles of Association). Board of Directors and Auditor should be selected between the candidates nominated by the shareholders of Issue A and Issue D of Preferred Shares (Articles 9 and 15). Voting rights are exercised as per the provisions contained under the Articles of Association (Articles 21 and 22). Regulations of the Capital Market Board on voting by proxy are observed.

In case of mutual participation, sovereign shareholder is not possible. The Articles of Association do not contain any provision about representation of minority shares in the management or collective voting method. Due to voluntary application matter and non-planning for sovereign shareholding by the major shareholders, provision on quorum was not applied for the existing General Assembly (Article 19 of the Articles of Association).

#### Dividend Policy and Dividend Payment Time

6- Our Dividend Policy is included in the Adoption Report on Corporate Governance Principles and the Minutes of General Assembly Meeting of the previous year and is determined in accordance with the relevant articles of Turkish Commercial Code and Capital Market Law, regulations and applications of the Capital Market Board as well as mid- and long-term strategies and investment and financial plans of our Company. Our Dividend Policy

determined in this way is submitted to the information of the shareholders and the public in the Activity Report and Shareholders' General Meeting of our Company as of 2007.

The relevant provision of the Communiqué of the Capital Market Board specifies that at least 20% of the distributable profit is to be distributed. Our Company adopts the principle of distributing the maximum amount of dividends to our shareholders but not less than the above mentioned rate based on strategic plans and financial structure.

Dividends may be distributed among our shareholders in cash or by way of adding dividends in the capital or partly in cash and partly in the form of free shares pursuant to decisions of our General Assembly.

There are no privileges related to distribution of dividends. Dividends are distributed equally regardless of the whole current shares or their dates of issuance and acquisition.

The dividend distribution amounts to be determined based on the relevant regulations and article 29 of the Company articles of association related to distribution of dividends will be distributed among our shareholders on the date to be determined by our General Assembly upon approval thereof within the legal periods.

In addition to this, it is also possible to distribute a dividend advance to our shareholders upon decision of the Board of Directors if authorized to do so by the General Assembly pursuant to article 29 of our Articles of Association.

### Transfer of Shares

7- Article 8 of the Articles of Association “Sales of the Shares Registered to Title” has stipulated the provisions to be applied regarding sale and transfer of registered shares of Issues A and B and there are restrictions on transfer of shares subject to the said rules and arrangements. This features the protection of the existing rights of the dominant shareholders and the limitation of the transfer of shares to any automobile manufacturer or to companies that are controlled indirectly.

## **Chapter 2:**

### **GIVING INFORMATION TO PUBLIC AND TRANSPARENCY:**

#### Company's Policy to give Information

8- “Information Policy” of our Company is implemented in accordance with the legal regulations, capital market regulations and rules defined by the issued notifications as well as the Corporate Governance Principles. Within the scope of the said Principles, the public information and transparency criteria of our Company are intended to ensure the required information flow is provided in a timely, accurately, completely and understandable as well as easy to access and analyze manner with low costs. Any request for information will be taken into consideration and disclosed to the public unless the information requested is trade secret.

The said Information Policy includes all arrangements so as to cover all stakeholders by means of conducting public meetings, dealing with relationships with both investors and shareholders and informing customers, and is implemented and coordinated in line with the activities of the concerning Units.

Furthermore, such information methods are implemented that are arranged in line with the similar policies of Companies that are our local and foreign partners. Our Board of Directors is responsible for the implementation and development of Company Information Policy

whereas the Directorates of our Company are responsible for the controlling of processes. Our Company considers applications related to our main partners as well as both the individual and corporate investors and shareholders as a whole.

In addition to following up of capital market regulations and dealing with capital market bodies by our Company in accordance with the Corporate Governance Principles, the foundation of our Information Policy includes meeting of information requests of shareholders and investors, and enabling shareholders to exercise their shareholding rights as well as ensuring of the required coordination from General Assembly related arrangements to provision of information flow including the website.

Shareholders' General Assembly, annual Activity Report., periodical Financial Statements and Reports, Special Case Explanations and the website are carried out in accordance with the legal processes as defined in Capital Market Regulations, Turkish Commercial Code and Capital Market Board regulations.

Our Ordinary General Assembly is held in April every year and all activities regarding participation of our shareholders in the General Assembly are recorded and implemented. Our Activity Reports are accessible in printed and online formats in accordance with the legal regulations. Financial results related to the Periodical Financial Statements and Reports are prepared in accordance with CMB notifications and IFRS, submitted to CMB and ISE and promulgated accordingly. They are presented to any entities, institutions or persons upon request.

Furthermore, information related to Special Case Explanations as regulated by the CMB Notification Vol.: VIII, No:39 are made to ISE in a written form or in electronic format in the form of PIP notice.

All means of communication are utilized for the meeting of information requests of individual investors and exercising of shareholding rights. Moreover, periodical plant visits are conducted for the shareholders.

Furthermore, our company has an active and updated web site. Our Company ensures information flow by means of the website ([www.tofas.com.tr](http://www.tofas.com.tr)) by shows utmost care to the matters that should be presented on the website. The information to be needed about the company is provided in details in the web site. The "investor relations" section in the said website provides all the information as stipulated by CMB from the corporate governance adoption report, commercial matters and the Company Articles of Association as well as our activity reports, periodical financial statements, general assembly minutes and analyst presentations; and also an information line is commissioned, over which our shareholders and investors as well as analysts can access to ISE data.

In addition to this, our website contains data from our Special Case Explanations sent to ISE to Company capital structure, and we have an e-mail ([borsa @tof.com.tr](mailto:borsa@tof.com.tr)) address that includes an investor registration form for establishing contact and for replying to information requests submitted electronically. In this context, it is ensured to implement the required arrangements for systematically continuing relations with investors, ensuring easy access to corporate governance, shareholder relations and stock market information and making sure that financial data is accurate, complete and analyzable in accordance with the social responsibility and ethical rules.

Implementation of matters stated in Corporate Management Principles Adoption Report of our Company is ensured by "Corporate Governance and Shareholder Relations Unit". Periodical meetings and presentations addressing local and foreign analysts with regards to corporate investors in line with information activities are carried out by the "Finance

Department". Furthermore, the media activities of our Company are carried out by the "Corporate Relations Department".

Our Company implements the Information Policy in accordance with the Corporate Governance Principles by establishing the required connection between the concerning units and departments. Preparation of all kinds of presentations, conduction of meetings and exercising of press declarations in line with public information and transparency criteria are followed up at CEO and Directors level in our Company. The said information activities are arranged with the participation of Company senior management, as of regular periods and upon direct requests.

Our Company vision is revised based on the stakeholder concept. The said interest holders are informed regarding the matters concerning them and organizations, briefings, planned studies and arrangements regarding explanations are all held by the Company in accordance with the regulations.

Tofaş carries out the activities in the field of "corporate governance" together with its shareholders, investors and stakeholders by combining the "governance" and "communications" concepts within the scope of Information Policy.

New arrangement on the Company Information Policy has been submitted to ISE in the form of a notice for the information of our shareholders on 16.10.2006.

#### Special Case Explanations

9- Information on special cases is both given in written and through KAP-BIY computer program to ISE and CMB. The said explanations shall be released to the public together with the regulation in detail and within due period. Within the term (from 27.03.2006, the date of issue of the previous Adoption Report until the end of 2006) the Special Case Explanations and/or notices by our Company have been submitted to ISE for a total of 15 times, and can be found under "Company News" section in the ISE Bulletin.

Dates of submittal of Special Case Explanations and the dates of notices published in the ISE Bulletin are as follows: 27.03.2006, 06.04.2006 (twice), 11.04.2006, 20.04.2006, 02.05.2006, 08.05.2006, 12.05.2006, 16.05.2006, 31.07.2006, 08.08.2006, 17.10.2006, 27.10.2006, 07.11.2006, 26.12.2006.

No information and documents, except the ones given to our Exchange Market, were given to any Exchange Market quoted abroad. In addition, no delay requiring notice from CMB has occurred.

#### Company Web Site and Its Content

10- Our company has an active and updated web site. The information to be needed about the company is provided in details in the web site. Our Website provides various information from Presentations and News to Human Resources and R&D studies. Our website is regularly updated and has a "Investor Relations" section under [www.tofas.com.tr](http://www.tofas.com.tr) address that includes the minimum matters introduced by CMB as defined above. The "Corporate Governance" and "Shareholder Relations" subsections include the necessary records and information. Moreover, the "Stock Market Information" subsection is added under the Investor Relations section to make an information line that our shareholders and investors as well as analysts may access to ISE data and continued actively in 2006. In addition to the foregoing, Activity Reports of our Company may be obtained in printed form as well as reviewed as current and archive information from the Website. As it is stated, it is always possible to access to the

term financial statements and reports from our Website and the information requests sent electronically are replied accordingly.

#### Declaration of Real Person Final Shareholder/Shareholders

11- Except for major Shareholders, Koç Holding A.Ş. and Fiat Auto S.p.A., there is no other shareholder having more than 5% of the shares. Furthermore, links may be given to websites of KOÇ and FIAT to access public information of both companies quoted in their respective Stock Markets in order to access information on shareholding structures of our major Shareholders. The Members of the Board, executive management and shareholders holding more than 5% of the shares of the company directly or indirectly release the information on transactions made regarding capital market instruments and shares and outcomes thereof.

In this context, information on stock exchange transactions is sent to ISE for publishing in the ISE Bulletin. Based on the statement of Pictet Asset Management Ltd. on the stock transactions of our company within 2006 as published in ISE bulletin, it has been learned that the share of that company in the capital of our Company is 5.27 percent.

#### Announcement of the Persons Capable to Gain Inside Information

12- Trade secrets include records and data in information, documents and electronic format related to internal organization structure; financial, economic, credit and cash status; research and development activities; activity strategies; raw material resources; technical specifications of production; pricing policies; marketing tactics and expenses; market shares; wholesaler and retailer customer potential and network and permitted and non-permitted contract contacts that are known or may be obtained only by a limited number of personnel and officials with regards to the fields of activity of an establishment or company, that are not to be disclosed to competitors, third parties and public, and that are of great importance for the success and effectiveness of the establishment or company in economic life. Trade secret concept can not be disclosed, used or transferred pursuant to the principles and limitations stated in the Capital Market Law and other laws.

Considering that the information and strategic resolution only entitled to the top management of the company and assuming that the public is not able to know those persons and no legal requirement in this direction exists, it has not been needed to announce the names of them previously. However, Top Management of the company has taken all actions required to prevent insider trading. The previous Adoption Report contains names of persons that are in the position of making insider trading. The top management entitled to access the information that is likely to effect the capital market instruments of the company in capital market consists of Board of Directors and Directors of the Company. In this context, the list of persons in this position may include our Board of Directors consisting of **Mr. Mustafa V. Koç, Mr. Sergio Marchionne, Mr. Temel Atay, Mr. F.Bülent Özaydınlı, Mr. Kudret Önen, Mr. Paolo Monferino** and the Member of the Board of Director and Company CEO **Mr. Ali Aydın Pandır** as well as the Company Directors forming the top management including **Mr.A.Nezih Olcay, Mr.Massimo Risi, Mr.Antonio Benedetti, Mr.Selçuk Öncer, Mr.M.Osman Soyoğul, Mr. Okan Baş, Mr.Altan Aytaç, Mr.Turhan Çeltikçioğlu, Mr.Kemal Yazıcı, Mr.Çağlar Şahin, Mr.Ahmet Altekin, Mr.Yüksel Öztürk, Mr.Fausto Novelli, Mr.Sadık Ilgın, Mr.Necmi Mungan, Mr.Burhan Çakır, Mr.Emre Akın Sait.**

## Chapter 3:

### INTEREST HOLDERS:

#### Information to Interest Holders

13- The interest holders are employees, suppliers, customers and basically the third persons in direct relationship with the company and called the "stakeholders". Company vision is revised based on the stakeholder concept. The said interest holders are informed regarding the matters concerning them and organizations, briefings, planned studies and arrangements regarding explanations are all held by the Company. Corporate governance applications ensure guarantee of rights of the interest holders stipulated or not yet stipulated under regulation within the scope of stakeholder definition.

#### Participation of the Interest Holders in the Management

14- Participation of the interest holders in improvement activities regarding administrative matters and expressing their opinions actively in this direction as well as analyzing the matters are performed under the procedures prepared by the company. From EFQM model to Kaizen works, there are systematic meetings and training programs as well as “employment evaluation enquiry “ ranging from self-evaluation meetings open to all blue and white collars, open door meetings all based on total quality philosophy and targeting improvement of efficiency where both employees and suppliers as well as customers may reflect their requests are carried out in line with Human Resource policies. In addition to the corporate website, there is also an Intranet application in place for interoffice communications.

From dealer community meeting to shareholders' factory visit, works that will increase the social activities for any group are planned and executed. In addition to the activities carried out by sales and dealer network, there is a system in place where customer demands and satisfaction are followed up and reflected to the management and necessary arrangements are made and feedback is provided accordingly. Moreover, activities regarding Customer Relations Principles (MIP) ensure effectiveness and maximization of customer relations and implementation of policies towards improvement of the service quality. In connection with these applications, we have planned and implemented studies covering current events within the term.

#### Human Resource Policy

15- Human resources policy of our Company has been established and is being implemented in line with the company strategies and policies. In this context, recruitment, career planning and rotation, individual development, pricing and performance management issues are handled and business life related arrangements and basic duties and responsibilities of employees are ensured within the scope of Personnel Guidelines that are based on laws and collective agreement. Various committees have been established to execute relations with the employees and employees have a representative in each of those committees; however, no representative has been selected and/or assigned to execute relations directly with the employees excluding trade union relations. The rights and working conditions of both the white collar and blue collar personnel are assured without allowing for any discrimination or abuse both in the Plant and the Head Office. No complaint has taken regarding the matter during the period.

Additionally, a process has been initialized within the scope of "Investors in People" (IIP) project within 2006 with the aim to increase the Company performance by ensuring development of employees and to certify this program within 2007.

## Information About Customer-Supplier Relations

16- Any and all actions to ensure customer satisfaction during marketing, sale and post-sale of the goods and services of the company have been taken and put into practice. The demands of customer satisfaction and the demands regarding the products the customer has bought are met rapidly and the result thereof is informed to the customers. Improvement studies are organized systematically and high quality is assured by means of ISO quality certifications and quality standards. The principles and policies for suppliers as well as satisfaction criteria in customer centered product and services are regularly measured and followed up by the related units of the company and information studies are conducted. Furthermore, we attach importance to arrangements related to customers and suppliers based on the market developments.

## Social Responsibility

17- Social activities for the neighborhood where the factory is located and the public in general are arranged according to the Corporate social responsibility and effect on public criteria. In this context, the social activities conducted during the period have been detailed in the Activity Report. Furthermore, the periodically published Tofaş Newspaper, also posted on tofasweb Intranet, provides various news and information as well as publishings on social activities. No complaint regarding environmental problems caused have been received and we have records including environmental assessment reports.

### **4. Chapter:**

## **BOARD OF DIRECTORS:**

### Structure, Composition and Independent Members of the Board of Directors

18- The Board of Directors of the Company has been composed as per provisions of the related law and the Articles of Association. Excluding the CEO, none of the Board Members and the Chairman have a directly executive capacity in the company. CEO of our Company, **Mr. Ali Aydın Pandır** is also a member of the Board of Directors. In addition, as the members of the Board are elected as representative of certain shareholding groups, they are not in the nature of independent member specified under Corporate Governance Principles.

Our Board of Directors consists of **Mr. Mustafa V. Koç** (Chairman), **Mr. Sergio Marchionne** (Vice Chairman), **Mr. Temel Atay** (Member), **Mr. F.Bülent Özyaydınlı** (Member), **Mr. Kudret Önen** (Member), **Mr. Paolo Monferino** (Member) and **Mr. Ali Aydın Pandır** (Member & CEO).

Regarding employment of the members of the Board outside the Company, there are no restrictions other than those stipulated under regulations and rules resolved by the Board of Directors. Employment of them in group companies and other matters are subject to provisions of Turkish Trade Code. Articles 9 and 10 of the Articles of Association stipulates structure and office period of the member, while articles 11 and 12 powers and quorum of meeting and functions. The resolutions of the Board of Directors are taken with minimum affirmative votes of five members of the Board provided that they are elected among those suggested by minimum two Issue A and minimum two Issue D shareholders.

### Qualities of the Members of the Board of Directors

19- Chairman and Directors of the Board shall be formed in a manner ensuring effect and effectiveness at the highest level. Considering the provisions stipulated under Corporate Management Principles, the members are elected among those having the above qualifications

and competent in management. The persons to be appointed to the position shall have the above-mentioned qualifications as of appointment date as well as having required knowledge. Board of Directors are selected among effective and competent persons at higher levels and known by people and capable of providing the Company shareholders and stakeholders with maximum satisfaction on company activities.

#### Mission and Vision of the Company and Strategic Objectives

20- The mission, vision and values of the company have been formulated and published and renewed upon revisions in line with the improvements. Our mission, vision and values are determined by the senior management and informed to the Board of Directors of our Company and made available in our Website. Additionally, a "new vision workshop" was conducted within 2005 and the issued "2015 Vision of Tofaş" is published in our Website. The efforts of the concerning Units in the establishment and implementation of the strategic targets of the Company are submitted by the Senior Management to the Board of Directors and followed up accordingly. Strategic decisions of our Company have been implemented within 2006 as per the priorities. Based on the strategic targets, the Board of Directors reviews and evaluates the past year performance and compares and contrasts and decides on the coming year objectives submitted by the top management.

#### Risk Management and Internal Control Mechanism

21- A risk management is envisaged and internal control organization is established depending on financial and administrative activities of the company and the functioning and effectiveness of the internal auditing shall be followed up by the Financial Directorate and Auditing Committee as per related capital market regulation and rules.

Internal Auditing activities within the year are conducted with the purpose of improving the effectiveness of the said efforts in order to verify that the financial statements are true and ensure that the activities are carried out in compliance with the laws and regulations. The concerning Unit reviews the processes, determines the existing and possible risks and reports solution proposals for such risks. Internal auditing activities are carried out under supervision of the Auditing Committee and responsibility of Financial Directorate.

#### Duties and Responsibilities of Members of the Board and the Executives

22- Article 11 of the Articles of Association stipulates the powers and authorities of the "Board of Directors". In addition, required amendments to the Articles of Association are deemed necessary. The Company management is specified pursuant to Turkish Trade Code and the relevant regulations mainly based on representation and binding of the company, and the authorities are exercised pursuant to legal requirements.

#### Activity Basis of the Board of Directors

23- Titles or agenda items regarding Resolutions of the Board of directors are prepared and issued periodically or in line with the requirements arising. The number of the meetings of the Board may vary depending on the needs occurring. The number of resolutions made by the Board of Directors was 18 in 2004, 27 in 2005 and 18 in 2006. Presence and calls are made whenever business of the company requires and the Board of Directors convenes. No dedicated secretariat was established for communication purposes but, the Corporate Governance and Shareholder Relations Unit carries out the preparation of agendas for the Board Meetings, typing of resolutions and keeping and following up of records. In case of different voting on the resolutions occurs, the case and reasons thereof shall be noted. The resolution shall contain questions and responses thereto, if any. The resolution of the Board of

Directors shall be signed by 5 members, at least 2 from Issue A and 2 from Issue D shareholders in order to be effective and there is no cast vote or veto right.

#### Restrictions on Business and Competition with the Company

24- The members of the Board of Directors are banned from conduct of business and competition with the company and in case of such actions that might cause conflict of interest; required actions shall be applied subject to the legislation in effect.

#### Ethical Rules

25- The Company has conducted studies regarding observance of ethical rules and applications as per them in general. Generally accepted ethical rules are observed in connection with regulations and arrangements as well as applications. In addition, the ethical rules will be specified under Corporate Governance Principles and be released to public as "Tofaş Business Ethical Principles". Relationships with company shareholders, public information, and the activities of Company employees, interest holders and the Board of Directors are followed up in accordance with the ethic rules. In this context, new arrangements to be made within the framework of information policy will be disclosed to all stakeholders and the public as they take place.

#### Number, Structure and Independency of Committees to be Established Under the Board of Directors

26- Pursuant to article 12 of the articles of association, an executive committee -consisting of 4 persons, 2 from Issue A and 2 from Issue D shareholders- has been established. The committee has been established among the members of the Board of Directors in order to carry out the required actions in the intermediate period between the meetings of the Board of Directors.

Furthermore, an Auditing Committee was established for the follow up of financial matters, reviewing of periodical financial statements and footnotes in accordance with the relevant Notification, carrying out of the required activities as stated in the Corporate Governance Principles, reviewing the Report of the Independent External Auditors, and finally submitting of the proposal on the financial results based on the current information to the Board of Directors; and the Committee consisted of **Mr. Kudret Önen** and **Mr. Paolo Monferino** as of the end of 2006.

Corporate Management Committee under Corporate Governance Principles has not been established as of 2006 yet. The action regarding the matter shall be taken as per the related regulations in effect and the regulations to be issued by Capital Market Board on Corporate Governance applications. Observance of Corporate Governance Principles shall be followed up by the Chairman of the Board personally.

The activities performed as per duties delegated to the said committees are forwarded to the Board of Directors. When needed, the specialist persons not being member to the Board can also be appointed to post in the said committees. The committees shall act in line with their responsibilities and submit their recommendations to the Board. The final decision shall be taken by the Board.

## Financial Benefits Allocated to the Board of Directors

27- As stated in previous Reports, no interest is provided for the Chairman and the Members of the Board of Directors other than the remunerations determined by the General Assembly. No application based on performance or rewarding of the Board is applied.

During the period no debt has been granted to any members of the Board and Top Manager of the company, no credit has been utilized by them and none of them has used benefits through third persons as well as no guarantees in favor of them.