



Corporate Governance and Credit Rating Services, Inc.

## Corporate Governance Rating Report

# Otokar

23 March 2021

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## Rating and Executive Summary

### OTOKAR OTOMOTİV ve SAVUNMA SANAYİ A.Ş.

**SAHA**  
Corporate Governance Rating:

**9.49**



**MAIN SECTIONS : Avg. 94.89**

**Shareholders : 95.92**



**Public Disclosure & Transparency : 96.19**



**Stakeholders : 97.13**



**Board of Directors : 92.28**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

The Corporate Governance Rating of 9.47 that has been assigned to Otokar Otomotiv ve Savunma Sanayi A.Ş. (Otokar) on March 23, 2020 is hereby revised as **9.49**. This revision is based on the fact that the Donation and Sponsorship Policy approved by the Board of Directors was submitted to the approval of the General Shareholders' Meeting held on March 17, 2021 and publicly disclosed on the corporate web site. SAHA's rating methodology is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" ("the Communiqué") released on January of 2014.

SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Otokar is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on October 8, 2019 can be accessed at <http://www.saharating.com>.

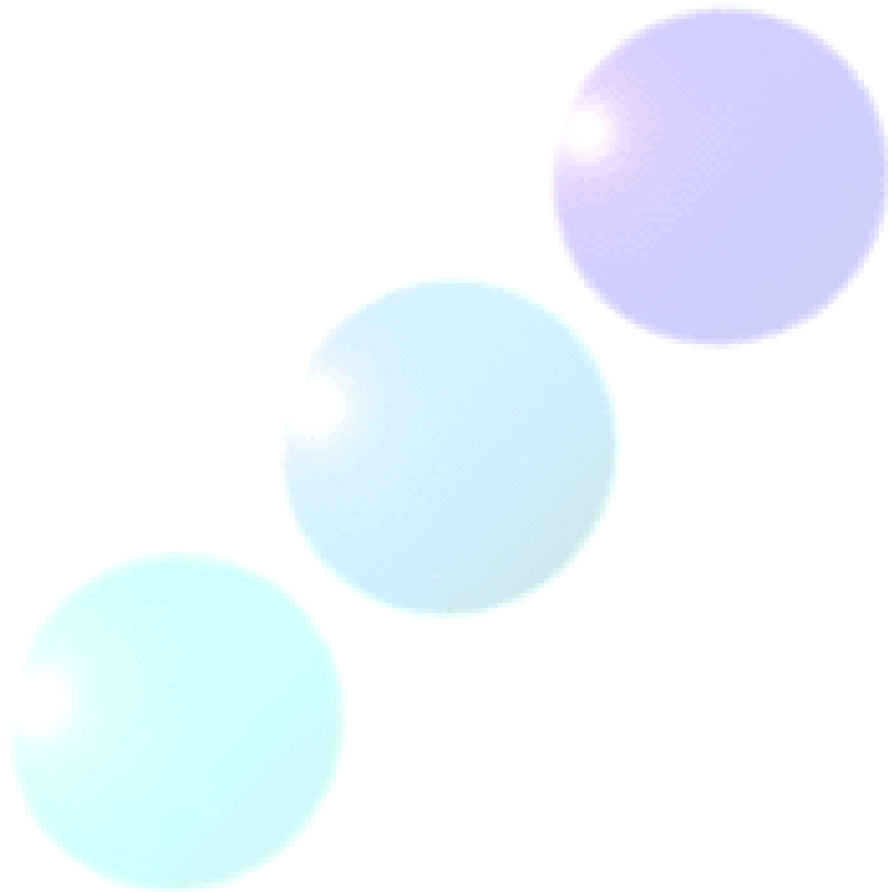
Otokar is rated with **9.59** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Otokar carries out the shareholder relations obligations through the Investor Relations Department. There is no upper limit or privileges on voting rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed and consistent dividend policy of the Company. There are no restrictions on transfer of shares. The Company has constituted a policy on donations and sponsorships and disclosed it to the public on its corporate web site. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the Company's articles of association as prescribed for public joint stock companies (%5).

Otokar attained **9.62** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul A.Ş. (BIST) rules and regulations. The Annual Report is prepared to provide true and accurate information on Company's activities. However, the Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners and nature of privileges held are not disclosed to the public. Furthermore, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

On the topic of **Stakeholders**, Otokar scored **9.71**. Otokar guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. Models have been developed to support the participation of stakeholders in management, but such models are not included in the articles of association. The Company has a written and advanced human resources policy. Otokar is taking measures to ensure customer satisfaction in market and sales of its goods and services, and conducting research and studies to increase the efficiency. Code of ethics is publicly available through the corporate web site. Sustainability implementations and social responsibility activities are at sufficient levels. During the rating period, the Company was not held liable by any public authorities for any sanctions, and was not subject to any adverse notice for any damage to the environment. There is a labor union at the Company and the collective bargaining agreement is adhered to. Nevertheless, there is no written compensation policy for the employees.

From the perspective of the principles regarding the **Board of Directors**, Otokar's tally is **9.23**. There is a well communicated mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board of directors and the chief executive officer is not the same person. Defects and damages that may be caused by the board members during the execution of their duties have been insured with an amount exceeding 25% of the Company's capital, but a relevant PDP disclosure has not been realized. The board of directors consists of 8 members, with 1 executive and 3 independent members. CMB criteria are complied with in designation of the independent members and they have signed a declaration of independence. Corporate Governance, Audit, and Risk Management Committees are established

within the board of directors. The working principles of the Committees are disclosed to the public. Principles of remuneration of board members and senior executives are available on the Company's web site. The Company does not provide any loans or extend any credit to the board members or senior executives. There is 1 female member on the board of directors.



## 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 January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul 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 taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in future should be mentioned in the annual report and disclosed to public.

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

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.24).

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

Shareholders: **25%**

Public Disclosure and Transparency: **25%**

Stakeholders: **15%**

Board of Directors: **35%**

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

## Company Overview

| Otokar Otomotiv ve Savunma Sanayi A.Ş.                                                                                                                                                                          |                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Otokar</b>                                                                                                                                                                                                   | <b>CHAIRMAN OF THE BOARD</b><br>Yıldırım Ali Koç<br><br><b>GENERAL MANAGER</b><br>Ahmet Serdar GÖRGÜÇ                                                                                                                      |
| <b>Headquarters:</b> Aydınevler Mh.<br>Saygı Cd. No:58,<br>34854 Maltepe/Istanbul<br><br><b>Factory:</b> Atatürk Cd. No:6, 54580<br>Arifiye/Sakarya<br><a href="http://www.otokar.com.tr">www.otokar.com.tr</a> | <b>Shareholder Relations Manager</b><br><b>Assistant General Manager - Finance</b><br><br>Hüseyin ODABAŞ<br>Tel:(0264) 229 22 44, Fax:(0264) 229 22 42<br><a href="mailto:hodabas@otokar.com.tr">hodabas@otokar.com.tr</a> |

Otokar Otomotiv ve Savunma Sanayi Anonim Şirketi ("Otokar" or "the Company") was established in 1963 and registered at Istanbul, Turkey. The Company, which started its operations with bus and minibus production, became part of the Koç Group in 1976, and decided to specialize in other business areas in addition to mass transportation vehicles. Along with the on-going production of buses and minibuses, Otokar began manufacturing vehicles for defense industry in 1987, and produced Turkey's first tactical wheeled armored vehicle in the 1990s.

Otokar operates in the automotive industry's commercial vehicles segment. Its product range consists of buses preferred in the urban public transportation, service and tourism sectors with different lengths (from 7 meters to 18.75 meters) and passenger capacities, in addition to variety of 4X4 tactical wheeled and tracked armored vehicles for defense industry services. The Company also manufactures light trucks for the transportation and logistics industries under the Atlas brand name and develops turret systems for the defense industry.

Otokar is registered with the Capital Markets Board ("CMB"). The Company shares are traded at Borsa İstanbul A.Ş. ("BIST") since 1995 and Otokar is a constituent of BIST STARS / BIST METAL PRODUCTS, MACHINERY / BIST SUSTAINABILITY / BIST ALL SHARES / BIST DIVIDEND 25 / BIST 100 / BIST CORPORATE GOVERNANCE / BIST INDUSTRIALS / BIST DIVIDEND and BIST 100-30 indices.

As of December 31, 2020, the registered capital of the Company is TL 100 million and the issued capital is TL 24 million. The latest shareholding structure of the Company is as follows.

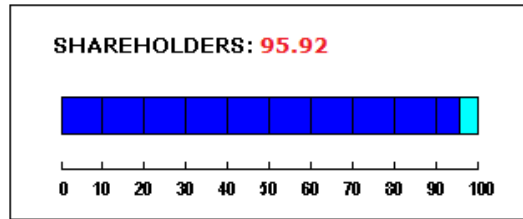
| <b>Capital Structure of the Company</b> |                         |                |
|-----------------------------------------|-------------------------|----------------|
| <b>Shareholders</b>                     | <b>Share Value (TL)</b> | <b>Share %</b> |
| Koç Holding A.Ş.                        | 10,722,749.81           | 44.68          |
| Ünver Holding A.Ş.                      | 5,954,943.83            | 24.81          |
| Other Shareholders                      | 7,322,306.36            | 30.51          |
|                                         | <b>24,000,000.00</b>    | <b>100.00</b>  |

The controlling shareholders of the Company are the Koç Holding A.Ş., the Koç Family and the companies owned by the Koç Family. The Ünver Family is the controlling shareholder of the Ünver Holding, another shareholder of Otokar.

Following the Ordinary General Shareholders' Meeting held on March 17, 2021, the Board of Directors has been structured as follows:

| <b>OTOKAR BOARD OF DIRECTORS</b> |                                                                                              |
|----------------------------------|----------------------------------------------------------------------------------------------|
| <b>Name</b>                      | <b>Title</b>                                                                                 |
| Yıldırım Ali Koç                 | Chairman of the Board                                                                        |
| Levent Çakıroğlu                 | Vice-chairman<br>Corporate Governance Committee<br>Member                                    |
| Selin Ayla Ünver                 | Non-executive Member                                                                         |
| İsmail Cenk Çimen                | Non-executive Member<br>Risk Management Committee Member                                     |
| Ahmet Serdar Görgüç              | Executive Member<br>General Manager                                                          |
| Ali İhsan İlkbahar               | Independent Member<br>Corporate Governance Committee<br>Chairman<br>Audit Committee Chairman |
| Ali İhsan Kamanlı                | Independent Member<br>Audit Committee Member                                                 |
| Kenan Güven                      | Independent Member<br>Risk Management Committee Chairman                                     |

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

|   |                                                                                                                        |
|---|------------------------------------------------------------------------------------------------------------------------|
| + | Equal treatment of shareholders                                                                                        |
| + | Unrestricted shareholder rights to review and receive information                                                      |
| + | Voting rights are facilitated                                                                                          |
| + | General shareholders' meetings are conducted in compliance with the legislation                                        |
| + | No share privileges                                                                                                    |
| + | No restrictions on transfer of shares                                                                                  |
| + | Specific and consistent dividend distribution policy                                                                   |
| + | Policy on donations and sponsorships approved at the general shareholders' meeting and disclosed to the public         |
| = | Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital |

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

The Board of Directors resolved on June 27, 2014 to assign the duties stipulated in article 11 of the Corporate Governance Communiqué II-17.1 to İrfan Özcan, Financial Affairs Director, Doğan Seçkinler, Finance, Risk Management and Investor Relations Director, and Hatice Gülşah Mutlu, Investor Relations and Corporate Governance Manager, under the leadership of Hüseyin Odabaş, Assistant General Manager – Finance. Mr. Odabaş has also been appointed a

member of the Corporate Governance Committee. Doğan Seçkinler and Hatice Gülşah Mutlu hold Capital Market Activities Advanced Level License and Corporate Governance Rating Specialists License.

The Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows:

- Ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- Respond to the queries of the shareholders requesting written information on the Company.
- Ensure that the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- Prepare the documents that might be used by shareholders in the general shareholders' meeting.
- Supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

In 2020, the Investor Relations Department held five one-to-one meetings with local and international investors and 140 teleconferences with analysts from stock brokerage companies and potential investors to provide up-to-date information about the latest developments.

Information and explanations that may affect use of shareholders' rights are available and up to date on the investor relations section of the corporate web site.

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

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders and no such demand was received within the reporting period.

All kinds of information about the Company required by the legislation are provided in a complete, timely, honest, and diligent manner and there is no fine or warning received in this regard.

The Company has constituted a disclosure policy, submitted it to the attention of general shareholders' meeting and disclosed it to public on its corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

### **1.4. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting held on March 17, 2021 is

performed through all means of communication available to the Company on February 12, 2021 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Besides, the Company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and all other related documents pertaining to the agenda items along with the dividend distribution proposition are made available to all shareholders for examination purposes in convenient locations including the headquarters of the Company, and the electronic media.

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

- a. The total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure, privileged share groups within the Company capital, voting rights and nature of such privileges.
- b. Information about the fact that there were no changes in management and activities of the Company and its subsidiaries in the previous fiscal year, or planned for

the upcoming fiscal period which can significantly affect the Company operations.

- c. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the Company and its related parties, whether they are independent or not, and information on similar issues.

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

At the General Shareholders' Meeting, which we attended as observers, items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions.

The members of the board of directors related with those issues of a special nature on the agenda, other related persons, authorized persons who are responsible for preparing the financial statements and a representative of the external audit company were present to give necessary information and to answer questions at the general shareholders' meeting.

There were no agenda items in need of approval due to a lack of consent of the majority of independent board members.

The Company has established a policy on donations and grants and submitted it to the general

shareholders' meeting for approval. Shareholders were informed of donations made within the reporting period and the cap for the upcoming period was approved.

There is no clause in the articles of association on permitting the attendance of stakeholders and media to the general shareholders' meetings with no voting rights, but there is a clause in the General Shareholders' Meeting Internal Guidelines allowing the attendance of the media organs to the meetings.

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

All shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

The Company's articles of association do not include any privileges for the exercise of voting rights.

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

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

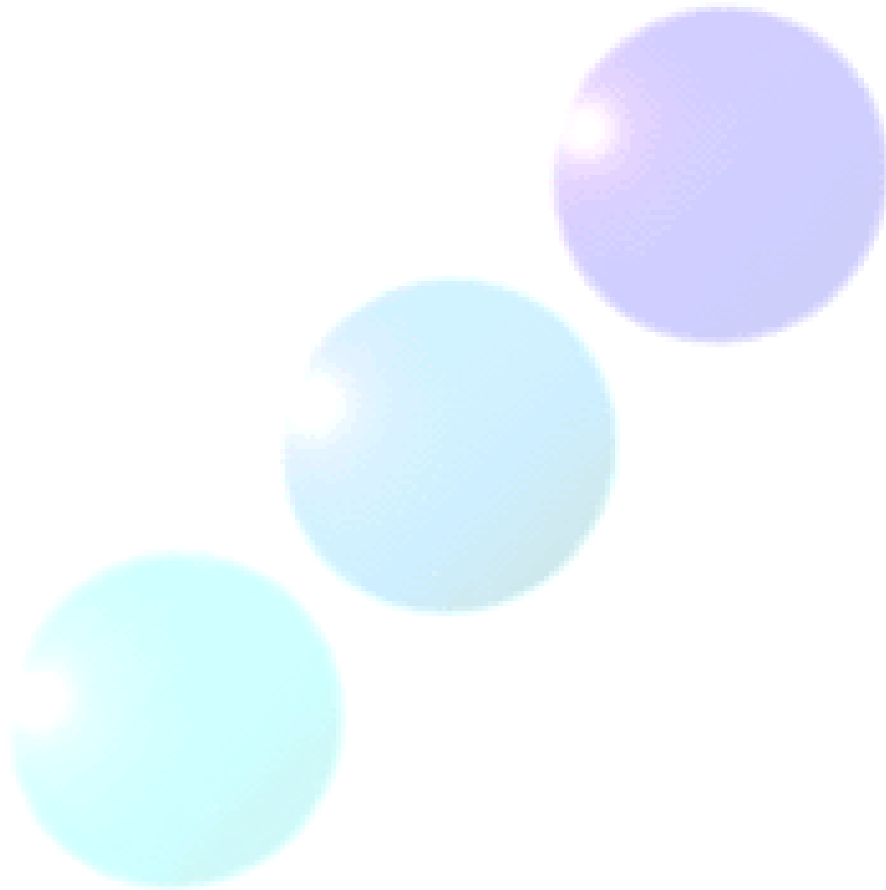
The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and those of the Company.

At the Ordinary General Shareholders' Meeting held on March 17, 2021, it was decided to distribute TL 400,000,000 of dividend from the 2020 profit.

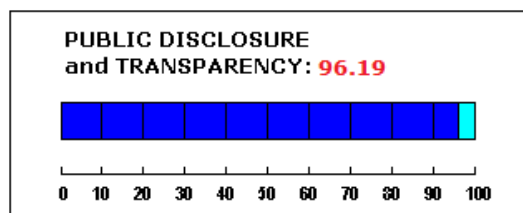
The articles of association of the Company contain a provision on advance dividend payments.

**1.7. Transfer of Shares:**

Neither the articles of association of the Company nor any resolutions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

|   |                                                                                                              |
|---|--------------------------------------------------------------------------------------------------------------|
| + | Disclosure policy established and disclosed to public on the corporate web site                              |
| + | Comprehensive web site, actively used for public disclosure                                                  |
| + | Annual report complies with the legislation, comprehensive and informative                                   |
| + | Important events and developments disclosed in accordance with the legislation                               |
| + | English version of the web site for the benefit of international investors                                   |
| + | Remuneration policy established and disclosed to public on the corporate web site                            |
| + | Dividend distribution policy disclosed to public via corporate web site                                      |
| = | Benefits provided to board members and senior executives are mentioned collectively in the annual report     |
| - | Ultimate controlling individual shareholders with a share over 5% in the capital structure are not disclosed |

#### 2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the corporate web site

includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, periodical financial statements, annual reports, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the Company, frequently asked questions, and responses thereof.

In this context, information on at least the last 5 years can be reached on the web site.

However, the Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is not disclosed to the public neither on the Public Disclosure Platform (PDP) nor through the corporate web site.

Otokar disclosed its Corporate Governance Compliance Report ("CRF") and the Corporate Governance Information Form ("CGIF") notifications via PDP on February 22, 2021, within the specified notification period.

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

The Company's web site also includes; the donation and sponsorship policy, working principles of the Committees, material disclosures, important board resolutions, information on dividend payments and capital increases for the last 5 years, general shareholders' meeting internal guidelines, studies on sustainability, information on senior management, financial data, main ratio analysis, web site privacy/security policy, timetable on events and developments which may interest investors, and the human resources policy.

## **2.2. Annual Report:**

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and it covers information such as;

- a. Period covered by the report, the title of the Company, trade register number, contact information.
- b. Names of the chairmen and members serving on the Committees and the board within the reporting period.
- c. The sectors in which the Company's subsidiaries operate and information on their position in these sectors.
- d. Qualifications of the Company's units, general explanations related to their activities and performances, and yearly developments.
- e. Progress on investments, the eligibility status on incentives.
- f. Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.

- i. The Company's organization, capital and ownership structure.
- j. Information on external duties of the board members, with intra/out Group distinction and within the scope of permission granted at the general shareholders' meeting.
- k. Research and development activities.
- l. The dividend distribution policy.
- m. Basic ratios on the financial position, profitability and solvency.
- n. Company's financing resources and risk management policies.

In addition to the matters specified in the legislation, following information was also given in the annual report:

- a. External duties of board members and executives.
- b. Declaration of independence of the related board members.
- c. Members of the Committees within the board, meeting frequency and working principles of the Committees.
- d. Number of board meetings held during the year and status of participation of the members to these meetings.
- e. Major court cases against the Company and possible consequences.
- f. Information on the fact that there is no cross shareholding in excess of 5% of the capital.
- g. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results.
- h. Rating results.
- i. Application status of the corporate governance principles as required by the CMB communiqué.

On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

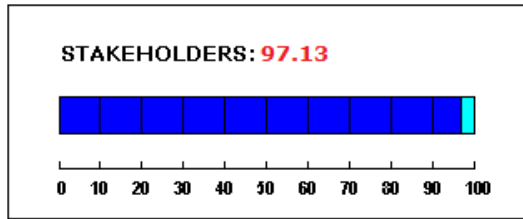
### **2.3. External Audit:**

The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

There has not been a situation during the reporting period where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared that there has been no legal conflict between the Company and the external audit firm.

External audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

|   |                                                                                                                                                                            |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| + | Measures to safeguard stakeholders' rights are facilitated                                                                                                                 |
| + | Efficient Human Resources Policy                                                                                                                                           |
| + | Stakeholders' views are taken on important decisions                                                                                                                       |
| + | Code of ethics disclosed to the public                                                                                                                                     |
| + | Company is socially and environmentally sensitive and respectful                                                                                                           |
| + | Social Responsibility and Sustainability studies are at an adequate level                                                                                                  |
| = | No provision in the articles of association regarding the participation of stakeholders in the management of the Company despite the existence of certain incentive models |
| - | No Employee Compensation Policy                                                                                                                                            |

### 3.1. Company Policy Regarding Stakeholders:

Otokar recognizes the rights of stakeholders established by law or through any other mutual agreement. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and expeditious compensation is provided in case of violation of the rights.

Stakeholders are consistently informed within the framework of the Company's disclosure policy.

If and when necessary, the Company's stakeholders are either invited to meetings on matters concerning them or informed by means of telecommunication. Public announcements are published through the media, and employees are informed at various events organized by the Company.

Employees may access important announcements, changes in management and press releases via the intranet. Moreover, the Corporate Communication Unit publishes an in-house journal titled "Otokar Hattı" (Otokar Line) followed by the Company's employees, dealers and customers. The E-bulletin named "Otokar'da Bu Ay" (This Month at Otokar) is published within the Company, sharing important news concerning Otokar with the employees.

Relations with dealers are maintained at the highest level through meetings and visits organized with general or regional dealers.

Stakeholders may access the Audit Committee through the communication line provided on the Company's web site and/or intranet, concerning any practices which violate the law, or are ethically inappropriate.

Although the Company does not have a written compensation policy for its employees, they are entitled to compensation available under the relevant legislation.

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

Otokar has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company. Such models are included in internal guidelines but not in the articles of association.

The representation of shareholders and other stakeholders in management is carried out by three independent members on the Board of Directors.

In making important decisions with regard to the stakeholders, senior executives representing the stakeholders are invited to board meetings to express their opinions.

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

Within the scope of the Company's human resources policy, all the systems and processes on recruitment are set out in written form. Human Resources' goal is to ensure continuous improvement and motivation of workforce, and to maintain their loyalty to the Otokar family.

Within the frame of this policy, the vision and mission of Otokar Human Resources have been defined and published on the corporate web site.

Policies and other topics such as recruitment policies, career planning, improvement and training policies for employees have been defined accordingly, and are dealt with under Personnel Regulations. The recruitment policy is based on "the right person for the right job" philosophy, and aims to acquire qualified workforce that is in alignment with Company objectives, as well as creative and open to innovations.

Otokar looks only for the criterion of matching the job description in all its recruitments, and ensures equal opportunity without discrimination. While various committees have been established to carry out relations with employees, one Human Resources Representative from each division has been selected. The Company acts in harmony with the Koç Group's Human Resources policies, and the rights and working conditions of both office and field employees are secured so as to ensure no employee is subjected to any discrimination or ill treatment. No complaints were received in this regard during the period.

Employees' job descriptions are defined in written and shared with the employees. Practices related to performance reviews and rewards are carried out through the electronic platform named Koç@insan. This platform is open to all employees, and serves to inform employees of the Company's goals as well as measure their performance in realizing these goals. The employees can view the realization of goals on the system, and the overall performance of the employee is also assessed, and communicated verbally during the yearend performance feedback meetings with the employee's supervisor. These face-to-face meetings between the employee and their supervisor help to clarify the employee's training and development needs. The ensuing development planning process is also carried out on the Koç@insan electronic platform.

Otokar has a variety of award systems established to appreciate the business success of its employees. The award criteria set for these award systems are shared with all employees at the beginning of the relevant award evaluation process by e-mail. In addition, throughout the evaluation process, relevant criteria are also posted on the internal communication

screens. At the end of the evaluation process, employees who will be rewarded are determined by the evaluation committee composed of the senior management of the Company.

All Human Resources activities are designed according to the principle of developing the human resource and maintaining their loyalty to the Company, while aiming to ensure that Otokar continues to grow by updating itself and protecting its competitive advantage.

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

Otokar aims to establish long-term relations based on mutual trust with its customers while ensuring their unconditional satisfaction. For this purpose, Otokar has in place a Customer Satisfaction Policy. Otokar has obtained ISO 10002 Customer Satisfaction Management System Standard and ISO 10001 Quality Management-Customer Satisfaction certifications for quality assurance of customer satisfaction.

Product and aftersales service responsibility plays a major role in ensuring customer satisfaction. For this purpose, Otokar continuously works to improve the safety of its products and keeps the customers informed about the latest developments while considering social, environmental and economic impact across its production and aftersales service operations.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

### **3.5. Ethical Rules & Social Responsibility:**

Otokar Code of Ethics is based on and in line with Koç Holding Code of Ethics

and Implementation Principles. According to the Code of Ethics, which includes anti-bribery and anti-corruption policies, Otokar expects not only its employees, but also its suppliers and partners to comply with these guidelines. UN Global Compact, to which Koç Holding is a party on behalf of all Group companies, is binding for all Otokar operations as well as across the value chain. All Otokar employees are obligated to report Code of Ethics violations according to a specific procedure. Such violations and conflicts can be reported anonymously to the Ethics Board using certain communication channels.

The Company carries out a number of social activities to support the social life of the employees and strengthen interpersonal communication. For this purpose, employee clubs also organize various activities together with the families of employees.

### **3.6. Sustainability:**

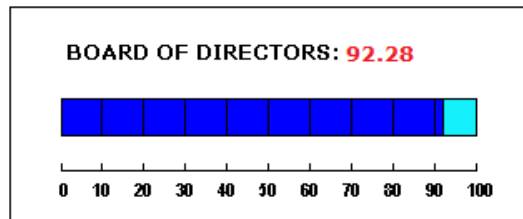
The objective of Otokar's sustainability strategy is to maintain its domestic capital structure and increase profitability with an environment-friendly business model that faithfully follows work ethics, aims for operational excellence, meets all customer expectations and that is focused on developing high-tech, value added products. The Board of Directors determines the strategic direction of the Company's commercial, operational, social, economic and environmental activities in line with this sustainability strategy. On the other hand, Otokar Sustainability Working Group monitors the social, environmental and economic impact of the Company's operations. This group reports to the General Manager, who is also a Board member. The General Manager oversees the sustainability efforts and determination of the activities to serve this purpose and also ensures that

they are implemented in compliance with Company policies and applicable legislation.

Otokar embraces and actively promotes United Nations Global Compact and United Nations Women's Empowerment Principles (WEPs), signed by Koç Holding in 2006 on behalf of all Koç Group companies, across its operations. Otokar has also adopted United Nations Sustainable Development Goals (SDG), aiming to align its material sustainability efforts with these goals.

Otokar is included in the Borsa Istanbul (BIST) Sustainability Index, which consists of the shares of companies with high corporate sustainability performance.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

|   |                                                                                                                                              |
|---|----------------------------------------------------------------------------------------------------------------------------------------------|
| + | The Company's vision, mission and strategic goals are defined                                                                                |
| + | The board works efficiently and staffed with qualified members                                                                               |
| + | Three independent members on the board                                                                                                       |
| + | Audit, Corporate Governance, and Risk Management Committees are established and functional                                                   |
| + | Principles of remuneration of board members and senior executives established and disclosed to public                                        |
| + | Each member has a right to a single vote                                                                                                     |
| = | Although there is no policy for female members in the Board of Directors, provided that it is not less than 25%, there is 1 female member    |
| = | Manager liability insurance in place with a price exceeding 25% of the capital, but the relevant PDP statement is not made                   |
| - | Remuneration and benefits provided to board members and to managers with administrative responsibility are not disclosed on individual basis |

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

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return balance at an appropriate level and

conduct a rational and cautious risk management approach with a view to the long-term interests of the Company. The board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance. The board also oversees that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

#### 4.2. Principles of Activity of the Board of Directors:

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

Distribution of tasks between the members of the board of directors is explained in the annual report. The board of directors established internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the Committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

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

There is no individual in the Company who has unlimited authority to take decisions on his/her own.

The board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise and works in close coordination with the Corporate Governance Committee and the "Investor Relations Department".

Defects and damages caused by board members during the execution of their duties are insured with an amount exceeding 25% of the Company's capital. However, the relative statement is not included on the Public Disclosure Platform.

#### **4.3. Structure of the Board of Directors:**

The Company's board of directors is composed of eight members of whom one is an executive member. There are three independent board members who have the ability to execute their duties without being influenced under any circumstances.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria, and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

Although there is no target and policy to increase the ratio of women members in the board of directors to the rate stipulated in the corporate governance principles, there is 1 female board member.

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

In accordance with the Turkish Commercial Code and the relevant articles of the Company's articles of association, the board of directors convenes physically when the Company business calls for it, and when necessary, resolutions can be reached by passing them around pursuant to article 390, paragraph 4 of the Turkish Commercial Code. The board of directors passed 20 resolutions in 2020. Due to the pandemic, the board of directors did not convene in a physical setting; however, the members were regularly advised about the Company's performance and developments while resolutions were all reached by passing them around. The board has also convened twice with all members in attendance to address strategic matters and discussed the Company's position and activities without passing any resolutions

Each board member is entitled to a single vote.

The board of directors meetings and decision quorums are included in the articles of association of the Company.

There are no limitations on external duties of the board members.

Shareholders are informed of external duties of the board members through the general shareholders' meeting, annual report and the Corporate Governance Compliance Report.

#### **4.5. Committees Established Within the Board of Directors:**

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

Functions of the Committees, their working principles, and members are designated by the board of directors and disclosed to public on the corporate web site.

All members of the Audit Committee are elected among the independent board members. Also the chairmen of the Corporate Governance and Risk Management Committees are elected among the independent board members. The Corporate Governance Committee has three members, while the other two Committees are composed of two members each. The chairman of the board and the general manager are not on the Committees. The Assistant General Manager in charge of the Investor Relations Department is a member of the Corporate Governance Committee. There are no other executive members on the Committees.

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

The frequency of Committee meetings is sufficient, all activities are documented and records are kept. Reports containing information about the activities and the resolutions of the meetings are submitted to the board of directors.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the Company regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, notifies the board in writing on findings related to their

duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate. The Committee has convened seven times in 2020.

Audit Committee members possess the qualifications listed in the Corporate Governance Principles communiqué.

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

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the "Investor Relations Department".

The Corporate Governance Committee carries out the duties of the Nomination Committee and the Remuneration Committee, since they are not established. The proposals for independent board membership candidacy are evaluated by taking into consideration whether the candidates possess the criteria for independence under the applicable legislation and these assessments are documented.

Creation of a transparent system for identification, evaluation and training of suitable candidates for the board of directors and determination of policies and strategies in this respect as well as regular evaluation of the structure and productivity of the board of directors and submission of its recommendations to the board members on changes that can be implemented on these matters have all been designated as the responsibilities of the Committee in its charter. We will continue observing the level of functionality and efficiency of the Committee regarding such responsibilities.

The Risk Management Committee carries out its tasks towards early detection of risks which may jeopardize the Company's assets, its development and progression, and measures taken to mitigate and manage those risks. It reviews risk management systems and finalizes relevant reports.

#### **4.6. Remuneration of the Board of Directors and Managers with Administrative Responsibility:**

The board of directors explained in the annual report whether the operational and financial targets of the Company disclosed to the public are met or not.

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders as a separate item in the previous years' general shareholders' meetings. A remuneration policy prepared for this purpose can be found on the corporate web site.

Stock options or performance based payments are not included in the remuneration package of the independent board members. Their remuneration is designated at a level to maintain their independence.

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

The executives have the required professional qualifications in order to perform the assigned duties. The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There have been no cases where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Company's affairs, and provided unfair advantage.

Remuneration of executives is consistent with the Company's ethical values, inner balance, and strategic objectives, and it is not associated with the Company's short-term performance.

Remuneration of board members and managers with administrative responsibility as well as benefits provided are mentioned collectively in the annual report. Full implementation of Corporate Governance Principles dictates reporting on an individual basis.

## Rating Definitions

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

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