

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IMPLEMENTATION

COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Otokar Otomotiv ve Savunma Sanayi A.Ş. ("Company") acts with utmost diligence to comply with the "Capital Markets Board Corporate Governance Principles" promulgated by the Capital Markets Board (CMB).

The Corporate Governance related activities in 2020 were executed in compliance with the Capital Markets Law that includes regulations about CMB's corporate governance principles and the communiqués promulgated pursuant to this Law.

At the 2020 Ordinary General Assembly meeting, the Board of Directors and its Committees were formed in line with the provisions of the Corporate Governance Communiqué. Ahead of the upcoming general assembly meeting, Independent Board members were nominated and announced, and the entire process was executed in line with the regulations. The Board Committees have been functioning effectively. The information note that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating privileged shares, voting rights and organizational changes, as well as the résumés of Board of Directors membership candidates, the Remuneration Policy for Board Members and Senior Management and other information that is required to be disclosed, all of which were made available for the investors three weeks prior to the general assembly meeting. Furthermore, the company's corporate website and annual report were reviewed and revisions required to comply with the principles were made.

The company will continue to work toward full compliance with the principles based on the developments in legislation and general practice.

As an indication that the company has significantly adapted to corporate governance principles and that its efforts toward full compliance with corporate governance principles will increase and continue, the company's corporate governance rating has been increased to 94.67 (9.47 over 10) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., as announced in our material disclosure on 23.03.2020. The Corporate Governance Rating Report can be found on the corporate website at www.otokar.com.

DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Otokar adopts the "Corporate Governance Principles" first published by the Capital Markets Board ("CMB") in July 2003 and implements them to a great extent. Compliance with the mandatory principles of the Corporate Governance Communiqué II-17.1 was fully accomplished in 2020, while the company has also complied with the majority of the non-mandatory principles. While full compliance with the non-mandatory principles is eventually targeted, due to the challenges encountered in the implementation of some principles, on-going discussions in Turkey and internationally regarding compliance with certain principles, and the failure of the current market and corporate structure to comply with such principles in proper fashion, full compliance has not been achieved yet. We are working on the principles yet to be implemented and we plan to apply them once the administrative, legal and technical infrastructure for the effective governance of the company has been completed.

Full compliance with a number of non-mandatory Corporate Governance Principles listed below has not been achieved for the aforementioned reasons, and detailed information on this matter is provided in the relevant sections that follow. The company has not been subjected to any conflicts of interest due to non-compliance with the non-mandatory principles.

- Regarding principle 1.3.10, donations made by the company are provided in a separate item on the General Assembly agenda and the details of the donations with the highest amounts are included in the General Assembly information document. The remaining amount, not detailed in the information document, consists of various donations, each lower than TL 500,000, made to a number of institutions and organizations and that are not of material significance for investors. Donations lower than this amount are not followed by the investors and the company has plans to continue disclosing this materiality limit in the coming years.
- Regarding principle 1.5.2, minority rights for shareholders holding less than one twentieth of the capital have not been defined in the articles of association, and the rights have been defined within the frame of general provisions in the legislation. The investors have not expressed any interest in this matter while the company follows the best practices and does not foresee any changes in the near future.
- Regarding principle 4.3.9, the company agrees that achieving diversity in the Board of Directors in terms of knowledge, experience and perspectives contributes positively to its operations and enhances the effective functioning of the Board of Directors and believes that the current structure reflects this perspective. While there is no policy in place, female member ratio in the Board of Directors is currently 12.5 percent. Even though developing a policy for this purpose is currently not on the agenda, the topic may be revisited in the following years with the increase of suitable candidates.
- Regarding principle 4.4.1, the Board of Directors did not convene in a physical setting due to the COVID-19 pandemic; 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.

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- Regarding principle 4.4.2, a minimum period of time has not been defined to communicate the information and documentation about the agenda topics to the Board members. The timing of when to provide information to the Board members is determined based on the topics and processes on the Board agenda and the members are advised reasonably in advance. Even though an urgent need to define such a period is not apparent, given the effective functioning of the Board, this topic may be revisited in the times to come.
- Regarding principle 4.4.5, the company has in place processes concerning the conduct of the Board meetings that have been consistently observed for many years and a specifically written internal regulation is not available. Given the effective functioning of the Board, an urgent need to address this issue is not apparent but it may be revisited in the times to come.
- Regarding principle 4.4.7, considering that Board members contribute significantly to the Board with their business experience and industry knowledge, they are not restricted in terms of assuming other duties outside the company. The résumé of each Board member and their other duties outside the company are provided in the annual report. Given the effective functioning of the Board, no changes to the current practice are anticipated in the near future since no negative consequence has been observed in terms of corporate governance.
- Regarding principle 4.5.5, committee appointments are decided, taking into consideration Board members' expertise and experience, and in accordance with applicable regulations, and some Board members serve on more than one committee. However, the said members facilitate communication and increase the opportunities for cooperation between committees handling related subjects. Considering the efficient work of the Board members with their wealth of knowledge and experience, the current committee structure is deemed effective and no changes are anticipated in the near future.
- Regarding principle 4.6.5, remunerations provided to the Board members and executives with administrative responsibilities are provided in the notes to the financial statements and disclosed to the public as a total figure. Given that this matter is important due to the privacy of personal data, practices in the market are followed with plans to act in line with the wide-spread preferences.

The Corporate Governance Compliance Report (CGCR) and Corporate Governance Information Note (CGIN), drawn up according to the new reporting formats pursuant to CMB resolution no. 2/49 dated 10.01.2019, and approved by the Board of Directors, are presented as an appendix to this annual report (pages 163-175) and the relevant documents can also be accessed in the Company's corporate governance page on the Public Disclosure Platform. (https://www.kap.org.tr/tr/cgif/4028e4a140ee35c7_0140ee4316b3001d)

INVESTOR RELATIONS DEPARTMENT

At Otokar Otomotiv ve Savunma Sanayi A.Ş., relations with the shareholders are handled by the Investor Relations Department, which works in cooperation with relevant departments. The department is responsible for providing information to the shareholders and potential investors, assuring that no confidential information or trade secrets are disclosed, and without causing any information disparity while ensuring two-way communication between the company's management and the shareholders.

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.

Investor Relations Department managers are listed below:

Hüseyin Odabaş (Assistant General Manager - Finance)

İrfan Özcan (Financial Affairs Director)

Doğan Seçkinler (Finance, Risk Management and Investor Relations Director)

Hatice Gülşah Mutlu (Investor Relations and Corporate Governance Manager)

Investor Relations Department Managers Doğan Seçkinler and Hatice Gülşah Mutlu hold Capital Market Activities Advanced Level License (Level 3) and Corporate Governance Rating Specialists License.

In 2020, the Investor Relations Department held five one-to-one meetings with local and international investors and 140 teleconferences with analysts from stockbrokerage companies and potential investors to provide up-to-date information about the latest developments. To ensure this, the company's website, investor presentations and investor newsletters are regularly updated. Material disclosures that may be important for the investors are published on the corporate website in Turkish and English after they are announced on the Public Disclosure Platform (KAP). Information of the last five years is available on the corporate website in Turkish and English languages. Numerous requests for information were submitted to the Investor Relations Department by analysts and investors regarding the company's financial reports and activities, and these were replied in line with publicly available information in a manner to avoid information disparities.

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Obligations required by legislation, such as holding the General Assembly meetings in accordance with applicable regulations, articles of association and company bylaws, and preparing Annual Reports and other documents for the shareholders to benefit from, are the responsibility of the Investor Relations Department. The General Assembly Meeting held in 2020, call to meeting and records related to the meeting were performed in compliance with applicable regulations, articles of association and other relevant company bylaws.

All kinds of public disclosure obligations as required by the regulations, such as financial reporting and disclosing of special situations to the public, are fulfilled by the Investor Relations Department. In 2020, 47 material disclosures were announced, and those that particularly concern the investors were published on the Public Disclosure Platform (KAP) and the corporate website along with their English translations.

The Investor Relations Department submits a report to the Corporate Governance Committee at least once a year regarding its activities to be communicated to the Board of Directors. The said report on the activities of 2020 was evaluated by the Corporate Governance Committee and the Board of Directors on February 19, 2021.

The company takes utmost care to ensure compliance with legislation in satisfying investors' demands. In 2020, no complaints, or administrative or legal pursuit of exercising shareholders' rights in the company have been filed to the best of our knowledge.

BOARD OF DIRECTORS

The Structure and Formation of the Board of Directors

The company is managed by a Board of Directors formed by minimum five (5) members, who are elected by the General Assembly. In addition to electing the Board members, the General Assembly also determines the number of members to serve on the Board. Without prejudice to the requirements imposed by the Capital Markets Board Corporate Governance Principles for independent members, the General Assembly has the right to replace Board members at any time if deemed necessary pursuant to Article 364 of the Turkish Commercial Code.

In the event that a Board membership is vacated for any reason such as when an independent member's status is no longer independent, or he/she resigns or becomes unable to perform his/her roles, the Board of Directors will nominate an individual that meets the legal criteria in accordance with the applicable provisions of Turkish Commercial Code and the CMB regulations and submit the nomination to the General Assembly for approval in the next meeting.

The duties of the Chairman of the Board and the General Manager are performed by separate individuals. Board members are encouraged to spare the required time to fulfil their obligations toward the company while there are no rules restricting them from assuming other duties outside the company. Considering that independent members, in particular, may contribute significantly to the Board with their business experience and industry knowledge, no such restrictions have been deemed necessary. The résumé of each Board member and their other duties outside the company are shared with the shareholders prior to the annual General Assembly meeting.

Duties of the Nomination Committee and the Remuneration Committee in the company are carried out by the Corporate Governance Committee. Three candidates were nominated for independent membership in 2020, and the declarations of independence and résumés of these individuals were evaluated by the Corporate Governance Committee and the Board of Directors on January 15, 2020, determining them to be independent member candidates. All independent board members submitted their declarations of independence to the Corporate Governance Committee, and in the 2020 reporting period, no situation that would contravene their independence occurred.

The company agrees that achieving diversity in the Board of Directors in terms of knowledge, experience and perspectives contributes positively to its operations and enhances the effective functioning of the Board of Directors. While there is no policy in place, female member ratio in the Board of Directors is currently 12.5 percent.

The table below provides an overview of the current Board members, elected at the General Assembly on March 16, 2020 to serve until the next General Assembly meeting to review the 2020 activities, who are all non-executive except for General Manager Ahmet Serdar Görgüç as defined in the CMB Corporate Governance Principles.

Detailed résumés of the Board members can be found on the corporate website and on pages 28-29 of the Annual Report.

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Name	Title	Independence Status	First Elected to Board of Directors on	Term	Board and Committee Duties	Other Assignments
Yıldırım Ali KOÇ	Chairman	Not independent	26.03.2015	1 Year		Koç Holding A.Ş. - Vice Chairman; Chairman, Board Member and Committee Member at a Number of Koç Holding Companies
Levent ÇAKIROĞLU	Vice Chairman	Not independent	26.03.2015	1 Year	Corporate Governance Committee - Member	Koç Holding A.Ş. - CEO; Chairman, Board Member and Committee Member at a Number of Koç Holding Companies
Selin Ayla ÜNVER	Member	Not independent	22.10.2018	1 Year		Ünver Holding A.Ş. - Chairwoman
İsmail Cenk ÇİMEN	Member	Not independent	18.03.2019	1 Year	Risk Management Committee - Member	Chairman, Board Member and Committee Member at a Number of Koç Holding Companies
Ahmet Serdar GÖRGÜÇ	Member-General Manager	Not independent	20.04.2006	1 Year		
Ali İhsan İLKBAHAR	Member	Independent	16.03.2020	1 Year	Audit Committee - Chairman, Corporate Governance Committee - Chairman	
Ali İhsan KAMANLI	Member	Independent	15.03.2018	1 Year	Audit Committee - Member	
Kenan GÜVEN	Member	Independent	15.03.2018	1 Year	Risk Management Committee - Chairman	Turkish Heart Foundation - Chairman

Operating Principles of the Board of Directors

The powers and responsibilities of the members of the Board of Directors are specified in the Articles of Association. Distribution of duties among Board members and their duties and powers are explained in the annual report.

The subject or agenda of the Board of Directors Resolutions is determined according to the matters, for which the company's Articles of Association explicitly require a Board of Directors resolution, or the issues that arise as reported to the company's Senior Management and Board members by the relevant departments. Otherwise, a meeting agenda may also be drawn up when a Board member notifies the upper management of a specific matter that requires the Board's resolution.

The Board convenes for meetings when company business so requires. Although there is no dedicated secretariat established to facilitate communication, the Investor Relations and Corporate Governance Department under the Finance, Risk Management and Investor Relations Directorate prepares the meeting agenda, records the resolutions, and monitors the outcome of resolutions.

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 COVID-19 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.

Different views expressed during the Board meetings as well as the reasons for casting opposing votes are recorded in the minutes of the resolutions. However, since no such opposing or discordant views were recently expressed, no public disclosures were released in this regard.

Board members and senior executives of the company are covered by an "Executive Liability Insurance" policy.

While overseeing the company's activities, the Board of Directors assesses the potential for any conflicts of interests, and if such potential exists the board evaluates its repercussions for the company and reaches necessary resolutions to act in the best interest of the company. In addition to ensuring that provisions are complied with in related party transactions, Board of Directors also assesses potential risks for misconduct and diligently addresses the transactions of related parties.

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The Committees formed by the Board of Directors

The company's Board of Directors has formed several committees in order to effectively fulfil its duties and responsibilities, and these committees carry out their activities in accordance with specified procedures. The committees reach certain decisions after independently conducting a number of studies before presenting these in the form of proposals for the Board's consideration, with the Board then reaching the final decision.

The committees' operating principles and fields of activity are determined by the Board of Directors and publicly disclosed.

The heads of the committees are appointed from among the Independent Board members, while all the members of the Audit Committee consist of Independent Board members.

The committees document all of their activities and keep records. The committees hold meetings as frequently as deemed necessary for working effectively and as defined by their operating principles, and they report the information and results of their work to the Board of Directors.

Members who serve on multiple committees facilitate communication and increase opportunities for cooperation between committees handling related subjects. The Board of Directors believes that it has obtained the expected benefit from the committee's work.

Operating principles of the committees are available on the corporate website.
(<https://www.otokar.com.tr/investor-relations/corporate-governance/committees>)

Audit Committee

The Audit Committee, established pursuant to the Board of Directors' resolution dated April 29, 2003, fulfils the duties of audit committees set out in the Capital Market Legislation.

The Board of Directors resolved on April 2, 2020 that the Audit Committee would be composed of 2 independent members, with Ali İhsan İlkbahar appointed as Chairman, and Ali İhsan Kamanlı as Member of the Committee.

In 2020, the Audit Committee submitted to the Board of Directors a written report of its views on the choice of independent auditor, its assessments of annual and interim financial statements to be disclosed to the public in terms of their truth, accuracy, and compliance with the accounting principles adopted by the company as well as the decisions made during Committee meetings held within the year. The Audit Committee convened seven times in 2020.

Corporate Governance Committee

The Corporate Governance Committee was established following the Board of Directors resolution on May 25, 2012 to monitor the company's compliance with the Corporate Governance Principles, examine the reasons for non-compliance with the Principles, which are not yet implemented, and propose improvement actions, evaluate corporate governance practices and the Corporate Governance Compliance Report, and oversee the work of the Investor Relations Department. The Board of Directors resolved on April 2, 2020 that the Corporate Governance Committee be composed of three members and that Ali İhsan İlkbahar, who is an independent member, be appointed as the Chairman, and Levent Çakıroğlu ve Hüseyin Odabaş as members of the Committee, and to also serve as the Nomination Committee and the Remuneration Committee in accordance with the Communiqué.

The Corporate Governance Committee reviewed the company's corporate governance practices in 2020 and the Corporate Governance Compliance Report (CGCR) and Corporate Governance Information Note (CGIN), drawn up according to the new reporting formats pursuant to CMB resolution no. 2/49 dated January 10, 2019 and also informed the Board of Directors on the activities of the Investor Relations Department. The committee, which also undertakes the duties of the Nomination Committee and Remuneration Committee, worked on various topics within its purview such as determining the Independent Board member nominees and the benefits provided to the Board members and Senior Executives. The Corporate Governance Committee convened six times in 2020.

Risk Management Committee

The Board of Directors resolved on July 11, 2012 to establish the Risk Management Committee, which would work on early detection of risks that could pose a threat to the company's presence, development and continuity, and on applying necessary measures to mitigate these risks in order to ensure compliance with article 378 of Law 6102 of the Turkish Commercial Code, which entered force in July 2012. The Board of Directors resolved on April 2, 2020 that the Committee would be composed of two members, with Kenan Güven, who is an independent member, as the Chairman, and İsmail Genk Çimen as a member of the Committee. The committee convenes at least six times a year.

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MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE COMMITTEES

The Risk Management Committee submitted its written report to the Board of Directors to inform them about their assessment of the Risk Report to be included in the annual report and their opinions on the risk factors, as well as the decisions reached in the Committee meetings during the year. The committee also reviewed the information systems management activities in 2020 and related Report in accordance with the CMB Communiqué on Information Systems Management VII-128.9 ("Communiqué on IS Management"), which imposes obligations on public companies. The Risk Management Committee convened six times in 2020. The report presented by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. on February 4, 2021 stated that Otokar's early risk detection system and the Risk Management Committee are adequate in all material aspects within the framework of article 378 of the TCC.

Board of Directors	Title	Term Start	Term End
Yıldırım Ali Koç	Chairman	16.03.2020	17.03.2021
Levent Çakıroğlu	Vice Chairman	16.03.2020	17/03.2021
Selin Ayla Ünver	Member	16.03.2020	17.03.2021
İsmail Cenk Çimen	Member	16.03.2020	17.03.2021
Ahmet Serdar Görgüç	Member - General Manager	16.03.2020	17.03.2021
Ali İhsan İlkbahar	Independent Member	16.03.2020	17.03.2021
Ali İhsan Kamanlı	Independent Member	16.03.2020	17.03.2021
Kenan Güven	Independent Member	16.03.2020	17.03.2021
Audit Committee	Title	Term Start	Term End
Ali İhsan İlkbahar	Chairman	16.03.2020	17.03.2021
Ali İhsan Kamanlı	Member	16.03.2020	17.03.2021
Corporate Governance Committee	Title	Term Start	Term End
Ali İhsan İlkbahar	Chairman	16.03.2020	17.03.2021
Levent Çakıroğlu	Member	16.03.2020	17.03.2021
Hüseyin Odabaş	Member	16.03.2020	17.03.2021
Risk Management Committee	Title	Term Start	Term End
Kenan Güven	Chairman	16.03.2020	17.03.2021
İsmail Cenk Çimen	Member	16.03.2020	17.03.2021

- Clauses pertaining to the Board of Directors have been resolved in accordance with articles 11, 12 and 13 of the Articles of Association and pursuant to the provisions of the Turkish Commercial Code.
- The principles of remuneration of Board of Directors and Senior Executives have been put in writing, and the Remuneration Policy prepared for this purpose has been included in annual reports and the company's corporate website (www.otokar.com).
- The compensations provided to Senior Executives in 2020 have been included in note 27 of the financial statements for the 2020 fiscal year.
- Detailed information on committees and their operating principles have been provided on page 69-70 of the annual report and the company's corporate website (www.otokar.com).
- As stated in Board Resolution no. 2021/10, the Board of Directors has been briefed on the activities of the Board Committees in 2020.
- In 2020, the Audit Committee convened 7 times, the Corporate Governance Committee 6, and the Risk Management Committee 6 times, respectively. The meetings were attended by all committee members.
- The résumés of the Board members are provided on page 28-29.