



Corporate Governance Rating Report

Otokar

21 March 2018

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Rating and Executive Summary

OTOKAR OTOMOTİV ve SAVUNMA SANAYİ A.Ş.

 SAHA
Corporate Governance Rating:

9.35



MAIN SECTIONS: **Avg. 93.51**

Shareholders: **95.41**



Public Disclosure & Transparency: **93.94**



Stakeholders: **97.13**



Board of Directors: **90.31**



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

This report on rating of Otokar Otomotiv ve Savunma Sanayi A.Ş.'s (Otokar) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the Company. Our rating methodology (page 6) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Otokar is rated with **9.35** as a result of the Corporate Governance study done by SAHA. Details of this study are presented in the following chapters as main sections and sub-sections. We observe that Otokar took the necessary steps to determine and manage its governance risks. There is still room, on the other hand, for improvements in order to fully comply with the CMB's "Corporate Governance Principles".

Furthermore, 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 July 21, 2017 can be accessed at <http://www.saharating.com>.

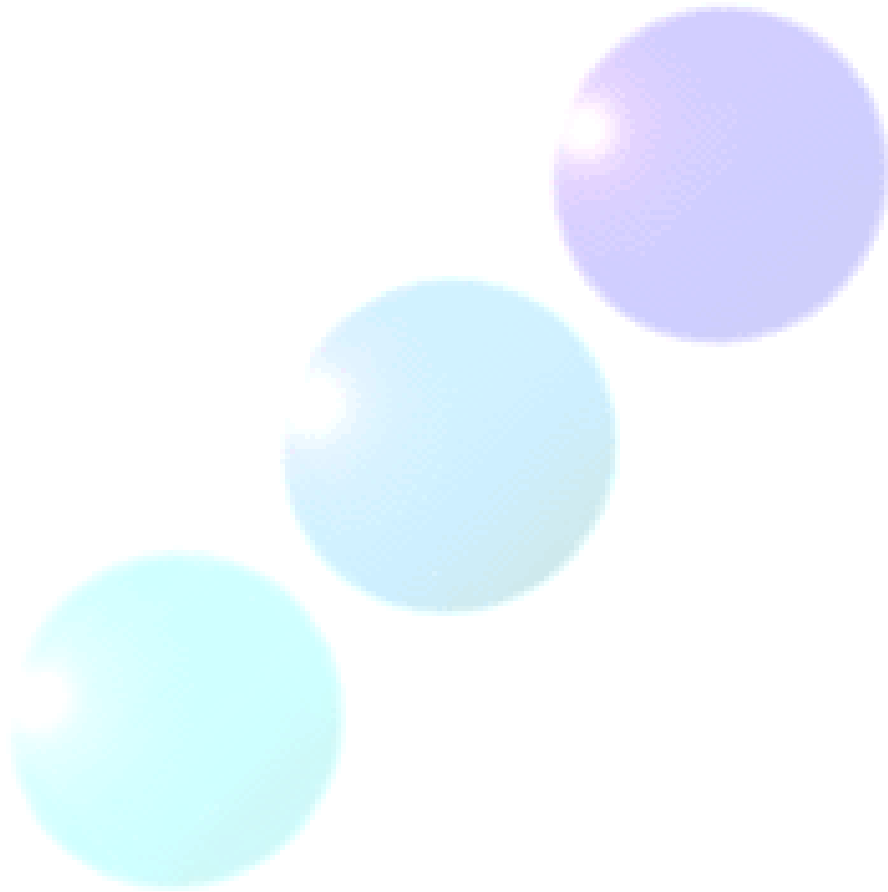
Otokar is rated with **9.54** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Otokar carries out the shareholder relations 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. 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) and inexistence of a policy on donations and grants.

Otokar attained **9.39** 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 about the 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. In addition, 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 the management of the Company, 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 marketing 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. 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. On the other hand, a written compensation policy is not established and disclosed to the public on the corporate web site.

From the perspective of the principles regarding the **Board of Directors**, Otokar's tally is **9.03**. There is a well communicated Company 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. The board of directors consists of 9 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 Committee 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 are no female members 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. | |
|---|--|
| Otokar | CHAIRMAN OF THE BOARD Yıldırım Ali Koç GENERAL MANAGER Ahmet Serdar GÖRGÜÇ |
| Headquarters: Aydınevler Mh. Saygı Cd. No:58, 34854 Maltepe/Istanbul Factory: Atatürk Cd. No:6, 54580 Arifiye/Sakarya www.otokar.com.tr | Shareholder Relations Manager Assistant General Manager - Finance Hüseyin ODABAŞ Tel:(0264) 229 22 44, Fax:(0264) 229 22 42 hodabas@otokar.com.tr |

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 minibuses, midi-buses and bus-like vehicles that are preferred for public transportation services and shuttle transportation for the commercial market. On the other hand, it comprises various types of 4x4 land vehicles, tactical wheeled/palletized military vehicles, and tanks and their variants for the defense industry services. In addition, the Company manufactures trailers and semi-trailers under the brand Otokar-Fruehauf for the transportation and logistics industry whereas it produces light trucks under the brand Atlas.

Within the scope of the "Modern Tank Production Project using National Sources" (the Altay Project) signed on July 29, 2008 between Otokar and the Undersecretariat for Defense Industries (UDI), System Qualification and Acceptance Tests, which form the last step in Phase I Turkish Main Battle Tank Design and Prototype Production Main Agreement, were successfully completed, and prototypes approved in February 2017. Meanwhile, the inspection and approval process of the Technical Data Package (TDP) by UDI continues. UDI released the call to bid document for the serial production of Altay and invited Otokar to submit an offer. The Company obtained the Call to Bid File (CBF) on July 31, 2017 and submitted its first offer on November 16, 2017. In the process of evaluating the Best and Final Offer (BAFO) by the UDI, submission of new bid prices not exceeding the bid price quoted in BAFO has been requested. The renewed price quotation in this frame was presented to UDI on March 9, 2018.

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 DIVIDEND / BIST CORPORATE GOVERNANCE / BIST SUSTAINABILITY / BIST 100 / BIST 30 / BIST METAL PRODUCTS, MACHINERY / BIST INDUSTRIALS / BIST 50 and BIST ALL SHARES indices.

As of December 31, 2017, 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.

| Capital Structure of the Company | | |
|---|-------------------------|----------------|
| Shareholders | Share Value (TL) | Share % |
| Koç Holding A.Ş. | 10,722,750 | 44.68 |
| Ünver Holding A.Ş. | 5,954,944 | 24.81 |
| Temel Ticaret ve Yatırım A.Ş. | 647,275 | 2.70 |
| Ford Otomotiv A.Ş. | 140,599 | 0.59 |
| Others | 6,534,432 | 27.23 |
| | 24,000,000 | 100.00 |

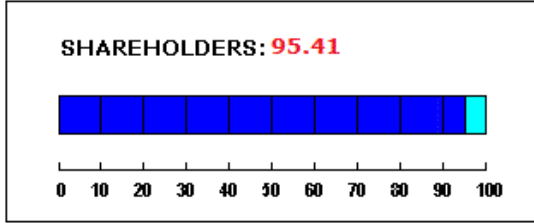
The controlling shareholders of the Company are the Koç Holding A.Ş., the Koç Family and the companies owned by the Koç Family. The Ünver Family is the controlling shareholder of the Ünver Holding, another shareholder of Otokar.

At the General Shareholders' Meeting held on March 15, 2018, it was decided to distribute gross dividend of TL 70,000,000 TL from the 2017 profit.

Following the same Meeting, the Board of Directors has been formed as follows:

| OTOKAR BOARD OF DIRECTORS | |
|----------------------------------|------------------------------------|
| Name | Title |
| Yıldırım Ali Koç | Chairman |
| Halil İbrahim Ünver | Vice-chairman |
| Osman Turgay Durak | Non-executive Member |
| Levent Çakıroğlu | Non-executive Member |
| Kudret Önen | Non-executive Member |
| Ahmet Serdar Görgüç | Executive Member – General Manager |
| Ahmet Nezi Olcay | Independent Member |
| Ali İhsan Kamanlı | Independent Member |
| Kenan Güven | Independent Member |

SECTION 1: SHAREHOLDERS



SYNOPSIS

| | |
|---|--|
| + | Equal treatment of shareholders |
| + | Unrestricted shareholder rights to review and receive information |
| + | No upper limits or privileges on voting rights |
| + | Voting rights are facilitated |
| + | General shareholders' meetings are conducted in compliance with the legislation |
| + | No share privileges |
| + | No restrictions on transfer of shares |
| + | A specific and consistent dividend distribution policy established |
| = | Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital |
| - | No established policy on donations and grants |

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

To carry out the duties set forth in article 11 of CMB's Corporate Governance Communiqué numbered II-17, Assistant General Manager for Financial Affairs, Mr. Hüseyin Odabaş, has been appointed as department head, with Financial Affairs Manager Mr. İrfan Özcan, Finance Manager Mr. Doğan Seçkinler and Corporate Governance Specialist Ms. Hatice Gülşah Mutlu as officers, and Mr. Odabaş has been appointed as a

member of the Corporate Governance Committee in the Board Meeting on June 27, 2014. Finance Manager Mr. Seçkinler and Corporate Governance Specialist Ms. Gülşah Mutlu both hold Capital Market Activities Advanced Level Licenses and Corporate Governance Rating Specialist Licenses.

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 2017, a total of 44 one-on-one meetings (19 of them abroad) and 92 teleconferences were held by the Investor Relations Department, with stock broker analysts and domestic and foreign investors. Three

Conferences and roadshows were attended to, (2 of them abroad), during the same year. In addition, seven visits to the production facility were organized for institutional investors and analysts during the year.

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

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 15, 2018 is performed through all means of communication available to the Company three weeks in advance 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.

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.

Shareholders were informed of donations made within the reporting period and the cap for the upcoming period was approved. However, the Company has not established a policy on donations and grants and submitted it to the general shareholders' meeting for approval.

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:

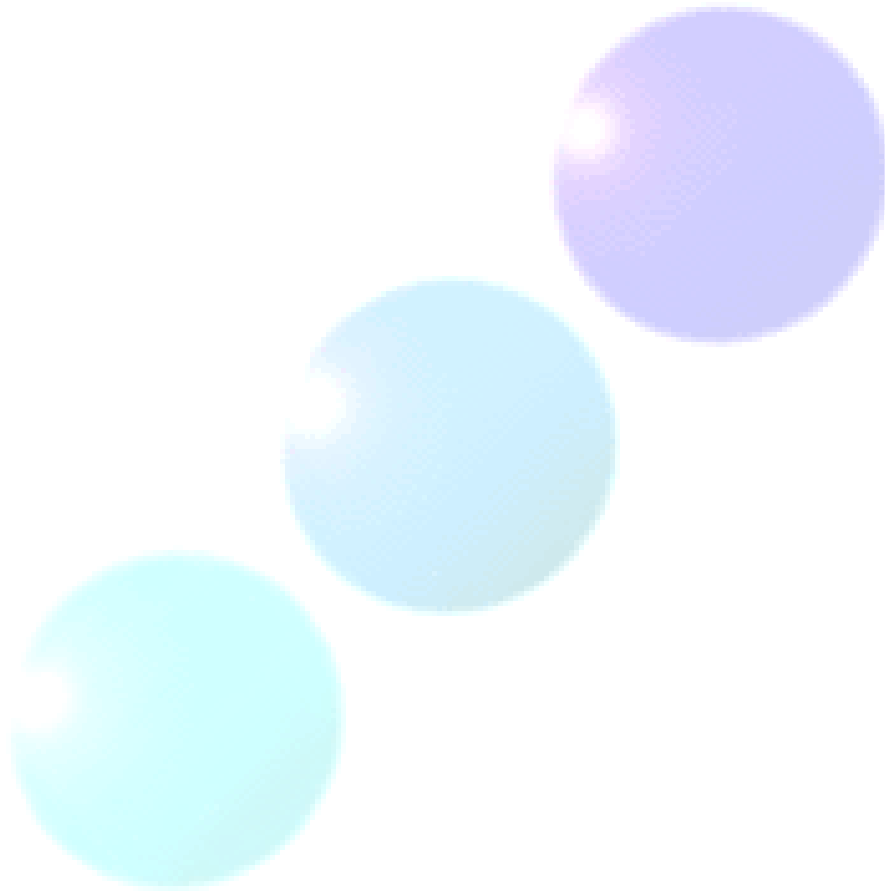
The dividend policy of Otokar is clearly defined and disclosed to public on the corporate web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

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.

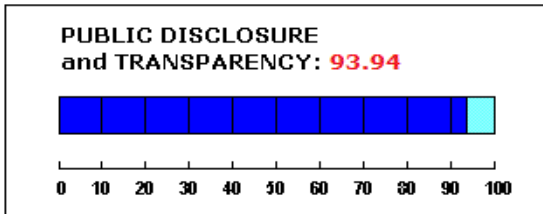
The articles of association of the Company contain a provision on advance dividend payments.

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 the corporate web site.

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

The Company's web site also includes; 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.

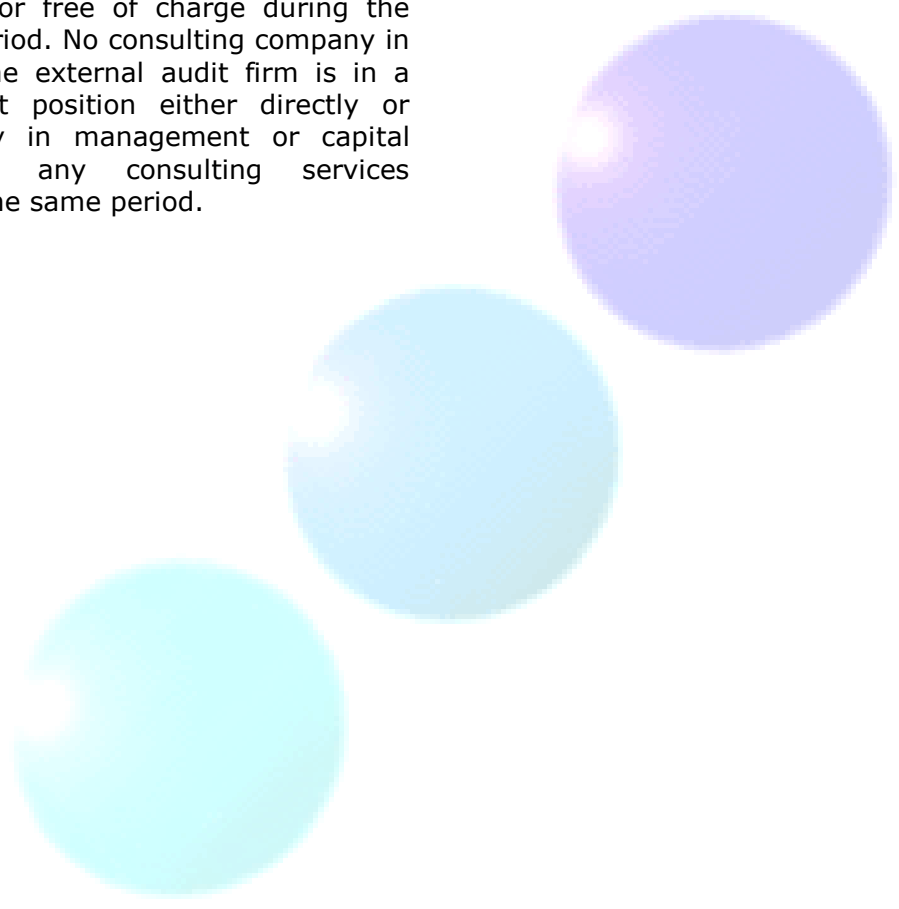
On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

2.3. External Audit:

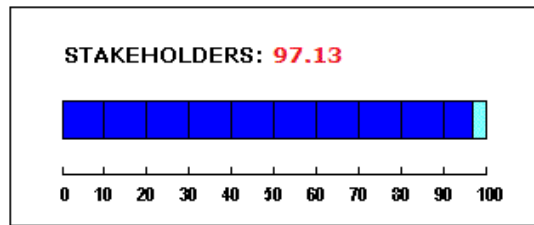
The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

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 projects implemented |
| = | 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 devices. 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 a magazine titled "Customer Line" which is followed by the Company's employees, dealers and customers. The E-bulletin named "Otokar'da Bu Ay" is published within the Company, which aims to share all the 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 contact information 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 currently have a written compensation policy for its employees, employees 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.

Stakeholders may participate in the improvement efforts on administrative matters, actively express their opinions and impart comments in accordance with the procedures implemented within the organization. Such practices include the EFQM model, self-assessment meetings which are attended by all white- and blue- collar employees, and open-door meetings, all of which are developed on the basis of a total quality philosophy and which aim to increase productivity. The Company also organizes regular meetings where employees, suppliers and customers can express their requests. In addition, a number of training programs and various surveys, such as the "Working Life Evaluation Questionnaire", are carried out within the scope of the Company's HR policies.

From dealer network meetings to factory visits of shareholders, the Company strives to reach out to stakeholders and thus have a greater impact on society. Additionally, the Company implements a system through which customer demands received by the sales and the dealer network can be tracked, hence enabling necessary measures to be taken and feedback to be provided.

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:

In 2017, the Company launched the Otokar Service Days campaign to improve customer satisfaction. With approximately 100 authorized aftersales service centers across Turkey participating, the campaign offered discounts to vehicle owners in labor, periodic maintenance and filter parts. Vehicle owners that chose periodic maintenance as part of the

campaign, which was offered at aftersales service centers that operate with Otokar's service excellence and professional technicians, were presented vests and free check-up as gifts.

Otokar constantly prioritizes measuring the satisfaction of its clients and business partners while improving the communication tools to ensure closer contact with the users and launches projects to increase efficiency. In this context, Otokar encourages and supports suggestions, especially those submitted within the company. In 2017, the employees submitted 1,647 suggestions via the Otokar Suggestion System.

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 acts appropriately in all of its domestic and international activities and relations with business partners, the wider society, its customers, suppliers, shareholders and employees, and strives to expand such behavior not only in its sector but also to a larger platform. The Company announces how it plans to achieve this purpose on its web site, under the section Otokar's "Ethical Code".

Otokar carries out various activities with the aim of contributing to the community's education, health and culture. In 2017, the Company became a signatory of the UN Women's Empowerment Principles (WEPs), the product of collaboration between UN Women and the UN Global Compact. As part of the "I Support Gender Equality for My Country" project launched within Koç Group in 2015, Otokar continued to create awareness of gender equality in the

public transportation industry. Otokar also encouraged organizations that carried out exemplary work to increase female employment and promote gender equality with the awards presented at the 2017 Transportation Platform Awards Ceremony.

3.6. Sustainability:

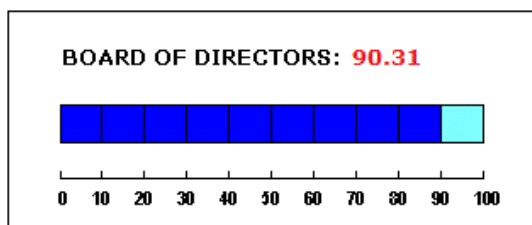
Otokar's sustainability strategy is built on being environment friendly, committing to and upholding ethical business principles, aiming for operational excellence and fully meeting client expectations to preserve its local shareholding structure and to increase profitability through a business model focused on developing highly technological value added products. Otokar adopts and actively supports UN Global Compact Principles signed by Koç Holding in 2006 on behalf of all Group companies, carrying out several projects within the scope of sustainability programs. The activities that the Company has carried out to create long-term value by incorporating economic, environmental and social factors with corporate governance principles have been evaluated as part of the "Index Selection Criteria" defined by Borsa Istanbul.

Otokar carried out several activities in 2017 for the development of environment-friendly products and production processes as one of the key topics of its sustainability program. The Company's improvement efforts for environmental protection continued throughout the year. In this context, various measurements and inspections were performed by the Ministry of Environment and Urbanization and Koç Holding with successful results. Furthermore, Otokar's environmental permit was renewed, greenhouse gas levels verified, tie rod adjustment station improved and all of these

activities were performed in line with the Waste Management Plan.

The Sustainability Work Group that was formed with the participation of executives representing the whole Company determines the framework of sustainability management. It is responsible for actualizing performance enhancing practices, and coordination of reporting processes within the determined framework. The Company's sustainability priorities are determined in workshops held with the participation of the Sustainability Work Group members, General Manager and Assistant General Managers by taking into consideration risks and opportunities the Company may encounter on issue basis. The priorities are re-evaluated by the senior management and finalized for use in implementation.

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 |
| + | Meeting/decision quorums are included in the articles of association |
| = | Any potential losses incurred by the Company and third parties as a result of misconduct by executives are insured with an amount exceeding 25% of the Company's capital, but not disclosed on PDP |
| - | Remuneration and benefits provided to board members and to managers with administrative responsibility is not explained on individual basis |
| - | No female members on the board |

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.

4.3. Structure of the Board of Directors:

The Company's board of directors is composed of nine members of whom one is an executive member. There are three independent 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.

There are no female members on the board. No target and policy has been set to reach the rate of female members envisaged in Corporate Governance Principles.

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

Issues or agendas requiring the resolution of the board of directors are arranged and prepared periodically or whenever the need arises. Therefore, the number of board meetings may vary according to such need. The board of directors drew up 22 resolutions in 2017. Minimum two of the independent members have been made sure to attend the meetings. The board convenes for meetings whenever the operations of the Company so require.

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. There are no executive members on the committees. The Assistant General Manager in charge of the Investor Relations Department is a member of the Corporate Governance Committee.

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 five times in 2017.

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.

A remuneration policy determining the basis and fundamentals for remuneration of board members and executives with administrative responsibility is established and disclosed to public on the corporate web site.

Revising, changing and re-evaluation of principles, criteria and applications on remuneration, and submission of the views to the board in the upcoming reporting periods and when necessary, will be closely monitored by us.

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 Senior Management:

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

DISCLAIMER

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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