



VESTEL

**VESTEL ELEKTRONİK
GREEN BOND FRAMEWORK**

JUNE 2020

1. Introduction

1.1 Our Business

With over half a century of business experience, Vestel Group of Companies ('Vestel') as a member of Zorlu Group ('Holding') continues its activities in the Manisa Organized Industrial Zone with its more than 16,000 employees on a consolidated basis. We currently export our products to 155 countries around the world. We thus take justified pride in improving consumers' lives in various geographies with our products considering our annual production capacities of 15 million units in consumer electronics and digital products and 12 million units in household appliances.

The United Nations Global Compact, which the Holding signed in 2007, and which is congruent with the Holding's values, has been a guiding element in shaping our vision and reinforcing our sustainability approach.

As Vestel, we define sustainability as a business model that enables us to create shared value for all our stakeholders including customers, human resources and the communities that we are operating in.

We aspire to achieve our aim of creating shared value through our products that offer a better life to our customers, innovative technologies that we are continuously investing in, and our human resources, driven by a corporate culture focused on sustainability and entrepreneurship. These are in line with the Holding's 2030 aspirations under "Smart Life 2030" program.

1.2 Sustainability Framework

"Environmental sustainability" is an integral part of our business model. We are aware that our success as Vestel is closely linked to comprehensive management of sustainability issues. With this awareness, we map global risk trends that affect or are likely to affect our activities and manage these risks through a holistic approach which starts at the Holding level. We aim to build a smarter future by putting our planet and the society besides profitability at the core of our "Smart Life 2030" sustainability vision, which we started to implement throughout the Holding in 2019. Smart Life 2030 is developed in line with the 2030 Sustainable Development Goals (the SDGs).

Vestel Elektronik Sanayi ve Ticaret AŞ ('Vestel Elektronik'), one of the Holding's publicly traded companies, was included in the Borsa İstanbul ("BIST") Sustainability Index, which comprises of the listed companies with a high corporate sustainability performance, for the first time as of November 2nd 2015. As in 2016 and 2017, Vestel Elektronik continued to meet the required criteria for the BIST Sustainability Index and was included in the Index for the November 2018 - October 2019 period. Vestel Beyaz Eşya Sanayi ve Ticaret AŞ ('Vestel Beyaz Eşya'), a subsidiary of Vestel Elektronik, has also been included in the BIST Sustainability Index on a voluntary basis since November 2016. Having continued to meet the criteria of the Sustainability Index of Borsa İstanbul, Vestel Beyaz Eşya is taking part in the Index for the third time on a voluntary basis for the November 2018 - October 2019 period.

The linear economy model that is based on production, consumption and disposal without taking into consideration the natural capital poses a great threat on our planet's natural

resources. In order to use our resources more efficiently, we continue our efforts aimed at reducing energy and water consumption throughout our value chain including our production processes and our products. We regard this as one of our greatest responsibilities to the society and the planet.

As Vestel, we are aware that designing our products in a responsible manner is key to manage our negative impacts in our value chain. From this point of view, we allocate a large budget for R&D activities in order to reduce the energy consumption of our products and to develop eco-friendly, recyclable materials for our products. During the design, we take into account factors like energy efficiency, reliability, elimination of hazardous chemicals, use of recyclable materials, reducing variety in material usage, less raw material usage, etc. as the main design aspects. We are aware that an improvement in the design of a product will also reduce environmental impacts (energy consumption, fuel consumption, reducing transportation related carbon emissions, reducing the use of packaging, etc.) in the supply chain, the production process and during and at the end of the useful life of the product.

2. Green Bond Framework

With a vision of “always do better together”, Vestel has developed this Green Bond Framework which is designed to facilitate the issuance of “Green Bonds” by Vestel and will be publicly disclosed in Vestel’s investor relations website¹ after the first Green Bond issuance under this Framework.

The following section summarizes Vestel’s Green Bond Framework, aligned with the four key pillars of the ICMA Green Bond Principles (GBP)², i.e. (1) use of proceeds; (2) process for asset evaluation and selection; (3) management of proceeds; and (4) reporting.

With this Framework, Vestel aims to contribute the following three main environmental objectives:

- Climate change mitigation,
- Natural resource conservation,
- Pollution prevention and control.

3. Use of Proceeds

If Vestel issues “Green Bonds”, Vestel intends to use the net proceeds to finance or refinance certain assets that have been specifically selected in accordance with this Green Bond Framework. Eligible Green Assets may fall within any of the Eligible Categories listed below and will be funded, in whole or in part, by the Green Bond proceeds issued under this Framework. The Eligible Categories have been selected based on the key elements of Vestel’s sustainability framework.

3.1 Eligible Categories

In order to be eligible for financing from Green Bond proceeds, the projects should fall under any of the categories listed below. The Eligible Categories relate to Vestel’s sustainability objectives as explained in 1.2 and contribute to the following SDGs.

SDG 6, 7, 12 and 13 (Illustration of SGD logos)

¹ <http://www.vestelinvestorrelations.com/en/sustainability/sustainability-strategy.aspx>

² <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

The types of expenditures are as explained in the following table and may cover entire lifecycle of a green activity including expenditures that relate to R&D, design, construction, processes, machinery and equipment purchase, integration of facilities and systems, capacity building efforts, manufacturing, sales and O&M. Green Innovation includes all R&D activities directly contributing to the development of green products and solutions.

The impact indicators given below are ultimately expected to contribute any of the 2022 Interim Objectives under “Smart Life 2030” vision³ of the Holding. As the methods used to create impact data on green investments evolve over time, Vestel can add additional impact indicators which represent the impact of a specific activity better than the indicators listed below. Vestel has specified the eligibility criteria of being environmentally friendly as having a minimum 10% improvement threshold in terms of energy efficiency, resource efficiency (raw materials), waste reduction or water efficiency. The decrease will be in comparison with BaU, which means the same operation/product or group of products without efficiency measure. With this definition Vestel refers to either efficiency that occurs on customer side (once the product is used by the customer) or to the efficiency that occurs in the manufacturing plants.

Table 1 Eligible Categories

Category	UN SDG Alignment	Eligibility Criteria and Description	Environmental Objectives and Benefits	Potential Indicators
Climate Change Mitigation	SDG 7, 12 and 13	<p>Resource efficiency in all operational processes starting from procurement to distribution</p> <p>Offering environmentally friendly products</p> <p>Green innovation that results in climate change mitigation (R&D)</p> <p>Capacity building activities and solution generating efforts on climate change</p>	<p>Climate Change Mitigation</p> <p>Improved energy efficiency</p> <p>Avoided GHG emissions</p>	<p>Output&Outcome: (%) of environmentally friendly products sold out of total sales in the same category in a given year⁴</p> <p>(%) reduction in Global Warming Potential (GWP) per product compared to conventional technologies</p>

³ <http://www.zorlu.com.tr/akillihayat2030/en/home>

⁴ The percentage value can be provided for new products sold in a given category per year, for a given product range available to customers, etc.

		<p>Reductions in the use of heating energy in the manufacturing process</p> <p>Illumination products with controls for lower brightness</p> <p>Products with automatic switch-off feature</p> <p>Installation of electric vehicle charging units</p> <p>Energy Efficiency in Lighting Systems in production area</p>		<p>Impact:</p> <p>Avoided GHG emissions (tCO₂e per year or per unit, i.e. volume or product) based on total energy savings compared to BaU where no adjustments are made to reduce energy consumption ⁵</p>
Sustainable Use and Protection of Water	SDG 6 and 12	<p>Water efficiency</p> <p>Green innovation that result in sustainable use and protection of water resources (R&D) and pollution prevention</p>	<p>Natural Water Resource Conservation</p> <p><i>(Water savings)</i></p> <p>--</p> <p>Pollution Prevention and Control</p> <p><i>(Prevention of water pollution)</i></p>	<p>Output and Outcome:</p> <p>% of products with water saving or water pollution reduction aspects sold out of total sales in the same category in a given year</p> <p>⁶Impact</p> <p>Water savings (liter per year or per unit, i.e. product or volume)</p>

⁵ based on total energy savings or other activities.

⁶ The percentage value can be provided for new products sold in a given category per year, for a given product range available to customers, for products manufactured under the ISO 14046 Water Footprint certification in a given category per year etc.

				<p>achieved by sales of water-efficient devices</p> <p>Savings of chemicals⁷ (per year or per unit, i.e. product or volume) achieved by sales of more efficient devices</p>
<p>Circular Economy and Waste Prevention and Recycling</p>	<p>SDG 12</p>	<p>Expenditures aimed at recycling and reuse of materials in the manufacturing process</p> <p>Resource efficiency including reduction of packaging waste and the use of raw materials</p> <p>Green innovation that contribute circular economy practices</p> <p>Activities to increase supply chain's performance on Circular Economy and Waste Prevention and Recycling</p>	<p>Natural Resource Conservation (raw materials) <i>(Decrease in use of raw materials)</i></p> <p>--</p> <p>Pollution Prevention and Control <i>(Waste reduction)</i></p>	<p>Output and Outcome: (%) of resource efficient products sold out of total sales in the same category in a given year⁸</p> <p>% of # of supplier contracts entailing ESG Criteria</p> <p>Impact: % of annual savings or savings per unit (product or volume) in materials use in a given manufacturing activity compared to BaU where no adjustments are made to reduce</p>

⁷ The chemicals referred here are those which are disposed to sewage system through the use of devices such as dishwashers. Detergents are an example to such chemicals. Designing more efficient devices which reduces the need to use chemicals results in less polluted waste water discharged to sewage system during the use of devices/white goods.

⁸ The percentage value can be provided for new products sold in a given category per year, for a given product range available to customers, etc.

				resource consumption (%) Reduction in packaging waste per annum or per unit (product or volume) compared to BaU where no adjustments are made to reduce waste
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3.1.1 Climate Change Mitigation

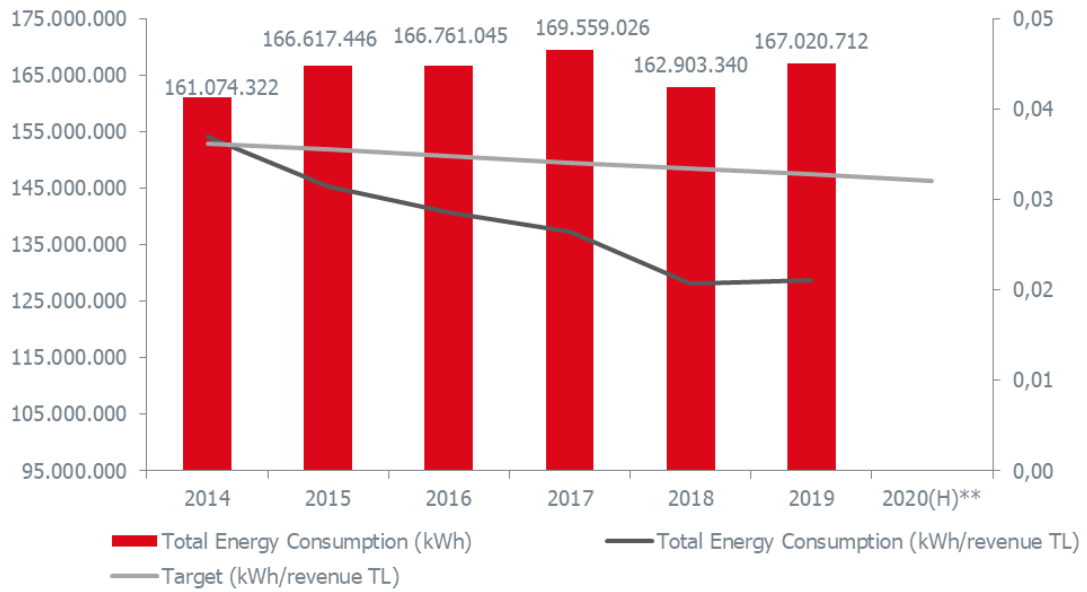
As Vestel, we see climate change as a serious risk for the future and the sustainability of our operations. As a responsible global citizen, we focus our efforts to mitigate climate change on 3 main pillars:

- ❖ Continuously optimizing expenditures linked to all operational processes starting from procurement to distribution to improve resource efficiency
- ❖ Offering our customers environmentally friendly products, which have the highest energy efficiency rates: Green Innovation includes all R&D activities directly contributing to the development of green products and solutions which enables our customers to reduce their footprint OR which are produced with more climate-friendly technologies.
- ❖ Performing capacity building activities on climate change and supporting solution generating efforts: Activities are aimed at increasing Vestel's capacity to deliver climate-friendly solutions. They can be consultancy, training, employee awareness, etc. programs to contribute Vestel's goals on climate change.

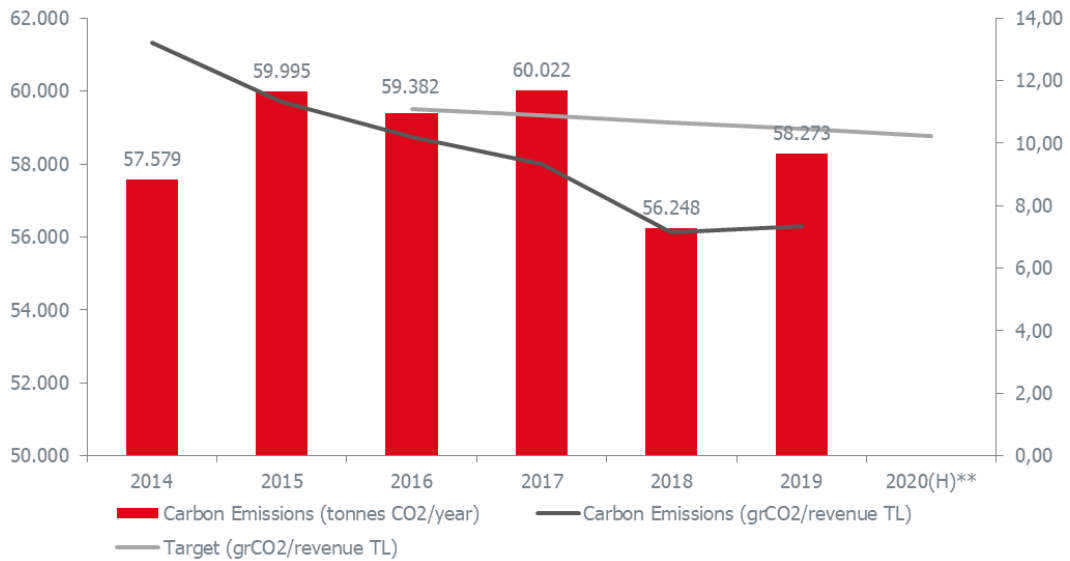
In line with these pillars, Vestel obtained the ISO 14001 Environmental Management System Certificate in 1998 and the ISO 50001 Energy Management System Certificate in 2012. Vestel Elektronik obtained the ISO 14064 Greenhouse Gas Verification Statement in 2017 and received its verification in June 2018 after calculating its greenhouse gas emissions for 2017.

Vestel Elektronik and Vestel Beyaz Eşya follow strategies aimed at achieving “reduced carbon emissions” in line with the Holding’s “Smart Life 2030” vision. In this context and in line with our target to reduce carbon emissions by 15% by 2022, energy efficiency projects under Total Productive Maintenance (TPM) practices will be continued and there will be an increasing use of energy efficient technologies. Total Energy Consumption table is provided below.

Vestel Elektronik Sanayi ve Ticaret AŞ – Total Energy Consumption Values and Targets

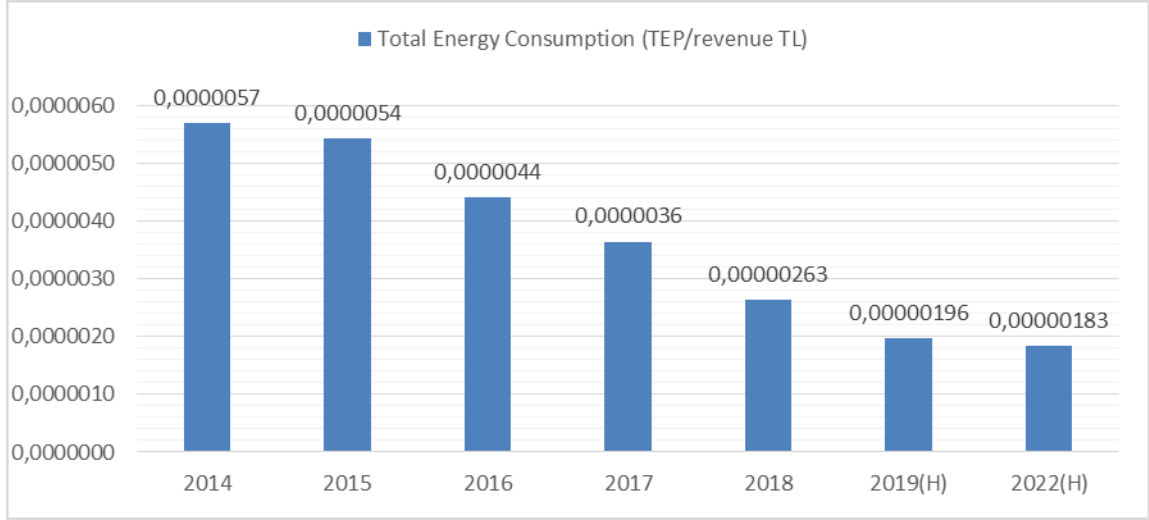


Total CO₂ Emissions of Vestel Elektronik Sanayi ve Ticaret AŞ's Facilities

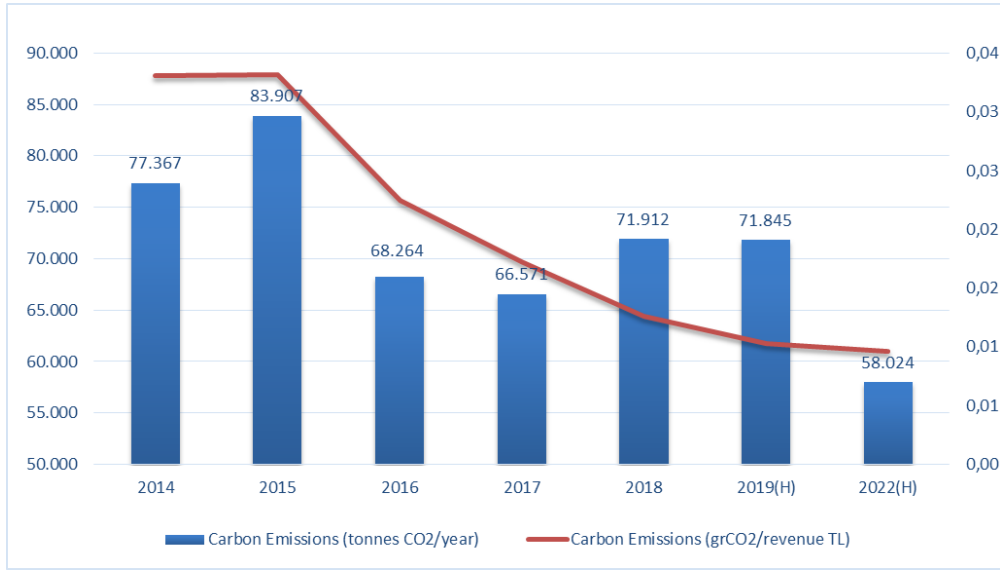


Vestel Beyaz Eşya overachieved its 2022 target to reduce its total CO₂ emissions to turnover ratio (kgCO₂/turnover) by 15% in 2017 with rapid improvements. The company aims to reduce its CO₂ emissions over turnover further by 4.5% annually until 2022. The graph below indicates the evolution of the ratio as well as Vestel's future targets.

Vestel Beyaz Eşya Sanayi ve Ticaret AŞ - Total Energy Consumption (TEP/revenue)



Total CO₂ Emissions of Vestel Beyaz Eşya Sanayi ve Ticaret AŞ's Facilities (tonnes CO₂/year)



Vestel Beyaz Eşya received the “Low Carbon Hero” Award by the Sustainable Production and Consumption Association (SPCA). Vestel Beyaz Eşya, which has amassed several other awards for its efforts in energy efficiency, has received this award for the second time in a row.

Vestel's green product portfolio includes LED lighting products, the Smart Home kit, televisions and white goods with A+ and A++ energy efficiency levels, electric vehicle charging units and smart walking stick. The R&D designs of the Company's entire product portfolio are based on the sustainability criteria.

LED lighting products, which provide energy savings of up to 80% and are environmentally friendly as they do not contain mercury and reduce waste generation with an operating life of more than 35,000 hours, contribute to lower carbon emissions by consuming less energy than standard lighting fixtures. Sold in both domestic and foreign markets with

these features, the whole range of LED lighting products are included in the sustainable product portfolio.

Vestel aims to achieve A+, A++ and A+++ energy standards on both the TV product group and the white goods.

The automotive sector is currently undergoing a transformation in terms of switching to electric vehicles. This trend is translated into an important area of focus at Vestel. Vestel Elektronik has started its activities with Turkey's Automobile Joint Venture Group Inc. (TOGG) on electric vehicle charging unit. Vestel aims to increase its market share in the coming years.

Thanks to the integration of heating systems and electrical systems with Smart Home kits, households can benefit from the following;

- ❖ Reductions of between 10-30% in the use of heating energy,
- ❖ Automatically turning off the unnecessary lights,
- ❖ Use of illumination with brightness at 90%,
- ❖ Electricity savings of up to 30% achieved by devices being automatically switched on in periods of cheaper electricity tariffs, by programming the devices to operate during low tariff periods.

Vestel Elektronik aims to launch its Smart Home kit sales and increase its market share with growing sales in the coming years.

Vestel Elektronik applies the same environmental sensitivity in its production processes as it does to its products. In addition to implementing process improvements to achieve these targets, new technologies are adopted where appropriate. Within the scope of its corporate environmental practices, in 2017, Vestel Elektronik received the Technology and Innovation Star Award in the "Turkey's Stars" category at the Technology Stars Awards, which was organized by Yıldız Teknopark for the second time, for its "Nano Spray Chrome Plating System," which is used in the production of smartphones and televisions. In 2017, this project won Second Prize in the "Process Innovation" category at the European Commission's European Business Awards for the Environment, one of the EU's most prestigious accolades.

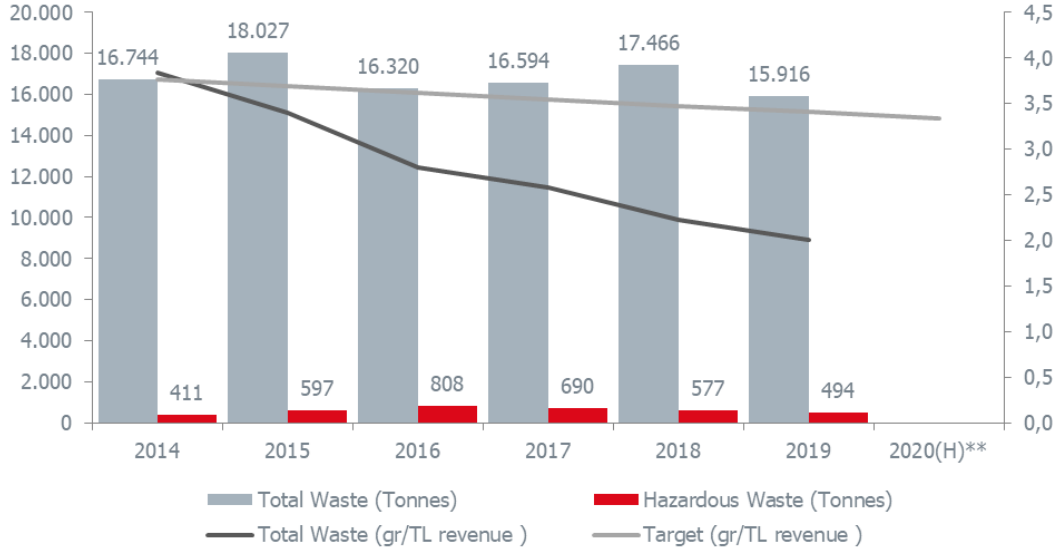
3.1.2 Circular Economy, Waste Prevention and Recycling

All processes, from product design to the recycling of the waste generated, are managed in line with the Holding's "Smart Life 2030" vision. "Waste Paint Recycling and Reusing System" developed by Vestel enables the recovery of waste paint particles used in the plant and prepares them for reuse. The design of all the chemical formulations and machineries used in the system belongs to Vestel which has become the first company to use this system across all industries. The Company obtained and registered three patents for this system. At the 2018 EU Awards for the Environment, Vestel won First Prize with its "Waste Paint Recycling and Reusing System" in the "Process Innovation" category. Within the scope of the awards held since 1990, Vestel became the first and only Turkish company to rank as the successive finalist in this category. With "Waste Paint Recycling and Reusing System", Vestel also won the "Large-Scale Enterprise Process Category Award" at the Technology Awards, which is a product of the synergy created between TUBITAK, TTGV and TUSIAD,

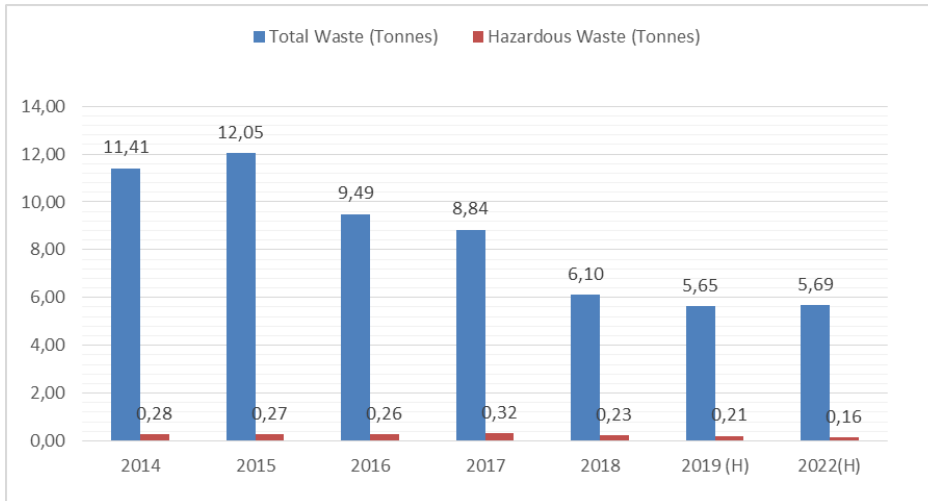
and handed out in recognition of the creative and innovative solutions featuring technical excellence and competitiveness.

Vestel Beyaz Eşya’s “Waste Management System” Project was awarded the Green Dot Award in the “Waste Management System and Practices” category at the Green Dot Industrial Awards. Below graph indicates the evolution of the ratio of Waste Generation and Targets.

Vestel Elektronik Sanayi ve Ticaret AŞ - Waste Generation and Targets



Vestel Beyaz Eşya Sanayi ve Ticaret AŞ - Waste Generation and Targets



*As a result of the studies for the delivery of products to dealers in a sound manner and improvement of the quality of packaging to approach the “zero waste” target, Vestel Beyaz Eşya was granted an award with its “Decreasing Styrofoam Weight and Density Project” in the “Prevention Applications in Packaging Design by Reducing Resources” category at the Green Dot Industrial Awards organized by the ÇEVKO (Environmental Protection and Recovery of Packaging Waste) Foundation. While packaging wastes are reduced with the Decreasing Styrofoam Weight and Density Project; the main gain is derived from the reduction in the use

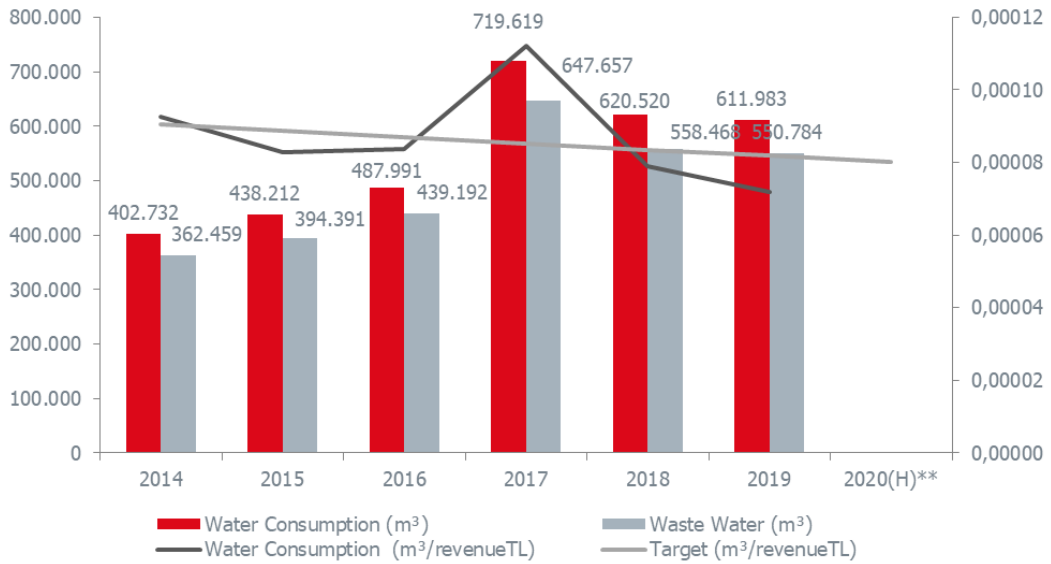
of raw materials. In addition, the carbon footprint is also reduced thanks to the reduced need for transportation during the procurement of raw materials.

3.1.4 Sustainable Use and Protection of Water

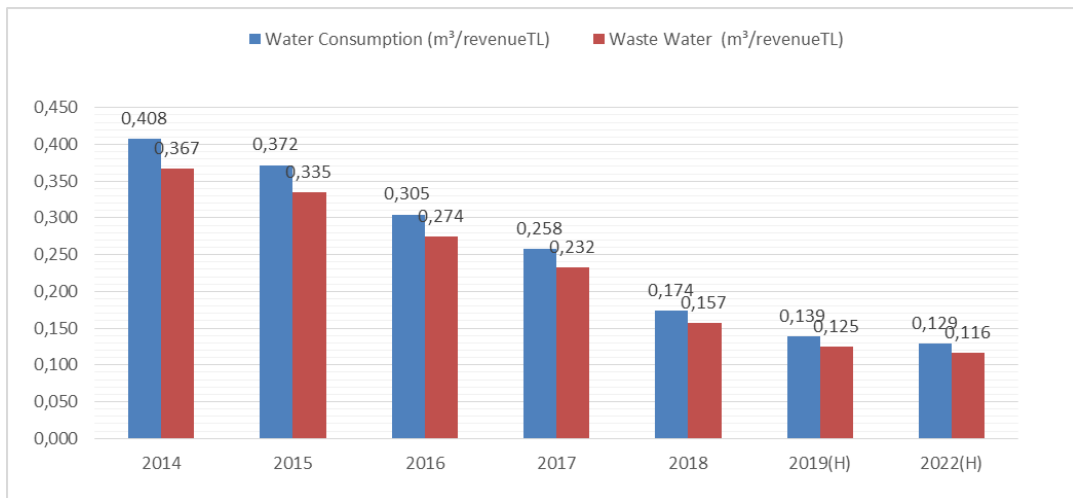
Vestel Beyaz Eşya’s water footprint is being calculated and verified in accordance with the “ISO 14046 Water Footprint” Standard on a corporate level. Vestel aims to increase water efficiency both in manufacturing plants and on the customer side (compared to BaU, per product, volume or annum). Vestel invests for developing products that meet water efficiency standards. Waste water generation is also tracked on an annual basis.

This category includes activities that relate water efficiency, as well as treatment, recycling and reuse of process water.

Vestel Elektronik Sanayi ve Ticaret AŞ - Water Consumption and Waste Water Generation



Vestel Beyaz Eşya Sanayi ve Ticaret AŞ - Water Consumption and Waste Water Generation



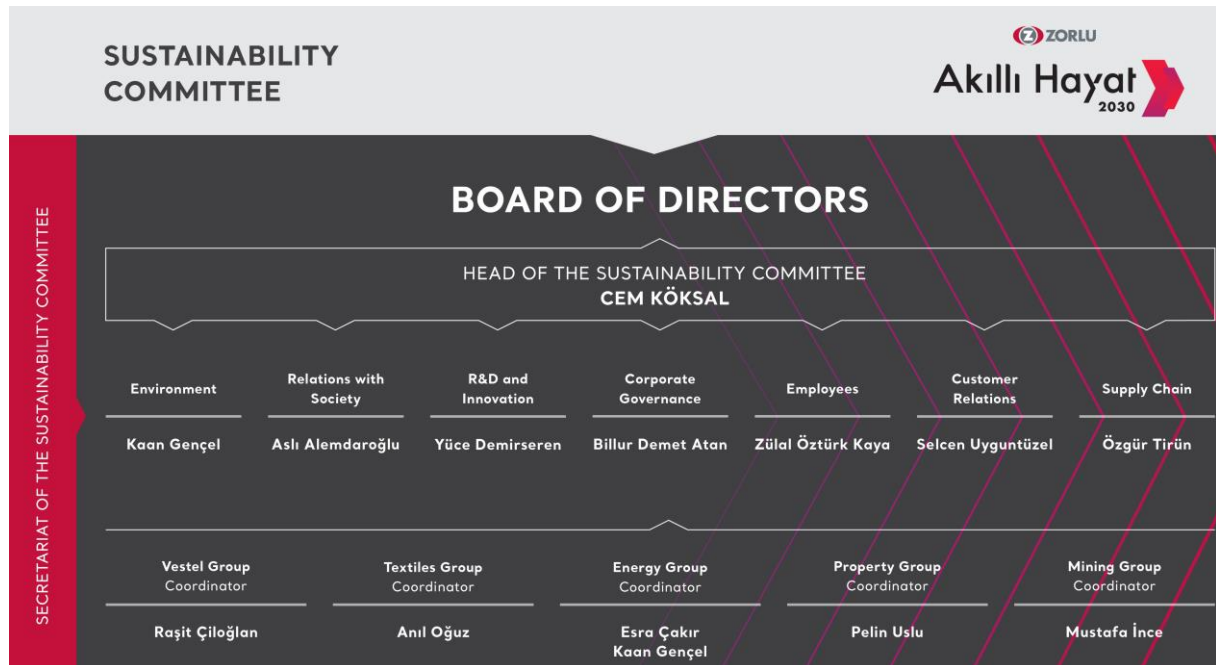
Vestel aims to use water in their facilities in the most efficient way. And also invests for developing products that meet water efficiency standards. In the coming years, Vestel will undertake every effort to reduce water consumption and waste water generation throughout the entire value chain of its operations.

Supplier Performance:

Vestel Elektronik and Vestel Beyaz Eşya have identified the expectations of their stakeholders within the framework of a life-cycle assessment and evaluated the internal and external factors for a better environment. On this note, Vestel Elektronik launched the Risk Assessment Project in 2017, which aims at improving the Environmental/Occupational Health and Safety standards and the working conditions of its nearly 450 suppliers. Using the Country Risk Classification, the List of Least Developed Countries, technology usage and industry details and the pre-evaluation audit results, the Company divided its suppliers into Low Risk, Medium Risk and High Risk categories. With Advanced Supply Chain Management studies, the system is targeted to be carried further. Vestel Elektronik will continue its efforts in evaluating and improving its suppliers and increasing their levels of awareness on environmental and social issues in the coming years.

4. Process for Asset Evaluation, Selection and Exclusion Criteria

Vestel has established a “Sustainability Working Group” consisting of representatives from different departments including; Environmental Management Systems, Production, Investor Relations, R&D, and Finance. This Working Group is coordinated by the Finance department which informs periodically the Sustainability Committee of Zorlu Holding. The structure of Sustainability Committee that oversees the activities under “Smart Life 2030” vision of the Holding is provided below.



Eligible Green Assets will be evaluated in relation to the eligibility criteria in this Green Bond Framework by this Working Group. The Working Group have meetings once a year and keeps meeting records. The finance department acts as the coordinator to present the upgrades in the Framework to the approval of Sustainability Committee of Zorlu Holding. They

are also responsible for the collection, validation, and monitoring of financial and environmental data, with support from the R&D Department, and Environmental Management Systems. All activities that are deemed as eligible as per this Framework is compliant with Turkey's environmental, health and safety and labor legislation. In addition, Vestel commits not to perform any activities which are included in EBRD and IFC's exclusion list. This Committee also decides in consensus which projects meet the requirements to be Eligible Green Assets when needed. The look back period for the Eligible Project Portfolio will be applied as 36 months from the date of each bond issuance under this Framework.

If an expenditure no longer meets the eligibility criteria, Vestel will remove the expenditure from the Green Bond Portfolio and will strive to replace it with an eligible expenditure within one year. Environmental Management Systems and R&D department will be responsible for informing Finance should there are any controversies related to the investments. Finance department will investigate and confirm the controversy with relevant departments (e.g. plant manager, etc.) and decide to replace the investment if the said investment is found to be no more eligible. Finance department will also be responsible for identifying a new project to replace the one that is removed from the portfolio with the support of the Sustainability Working Group.

5. Management of Proceeds

The net proceeds from the issue of Green Bonds will be used to finance/refinance the Group's Eligible Green Assets as contemplated in this Green Bond Framework. Eligible Green Assets may include financial expenditure relating to sustainable practices such as research and developing tools, processes, machines and equipment and the integration of facilities and systems. The rate of refinancing will be between 70% and 100% for the first bond issuance under this Framework. For the following issuances, the rate of refinancing may again reach 100% and the exact rate be disclosed in relevant Green Bond Impact Reports.

Finance department with the support of 2 people from R&D and Environmental Management Systems will be responsible for ensuring the eligibility criteria compliance. They will act as internal control/audit mechanism to crosscheck what is reported is compliant with the framework. They will also ensure monitoring and tracking of the use of proceeds. Additionally, Vestel will get assurance for the relevant impact indicators associated to pool of expenditures which are financed through the proceeds.

The full amount of the net proceeds obtained from any green bonds is expected to be allocated within a maximum of 12 months from issuance. Nevertheless, if this is not possible, and until such moment, Vestel will hold the balance of net proceeds not yet allocated to the relevant projects in its liquidity portfolio invested in money market products in cash or cash-equivalent.

6. Reporting

To enable investors and other stakeholders to assess Vestel's Green Bond issuances, Vestel commits to issue Green Bond Impact Reports.

One year after the issuance and once the proceeds are fully allocated, Vestel will issue the first Green Bond Impact Report. An external verification of the Report will be performed by a third-party auditor, covering (i) the actual allocation of proceeds to the Eligible Green Assets, (ii) their alignment with the eligibility criteria and (iii) the published indicators. From thereon

until the Bond's maturity, an additional verified Green Bond Impact Report will be published only in case of any material change in the content of first report.

The report will be disclosed on Vestel's Investor Relations website⁹.

The list of information covered in the Green Bond Impact Report will include the following:

Bond level:

- ❖ The total amount of issuance
- ❖ Share of financing and/or refinancing in total proceeds of the Bond
- ❖ The share of allocated and unallocated proceeds

The total amount of net proceeds allocated to each Eligible Category, including a list of eligible expenditures financed Category level:

- ❖ Impact metrics for each eligible category
- ❖ ESG controversy status and replacement of eligible categories
- ❖ The calculation methodologies and assumptions used for the environmental/social indicators

⁹ <http://www.vestelinvestorrelations.com/en/sustainability/sustainability-strategy.aspx>