



CORPORATE GOVERNANCE RATING REPORT ON

VESTEL ELEKTRONIK A.Ş.

VESTEL

RATING RELEASE DATE
21 February 2014

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INTRODUCTION

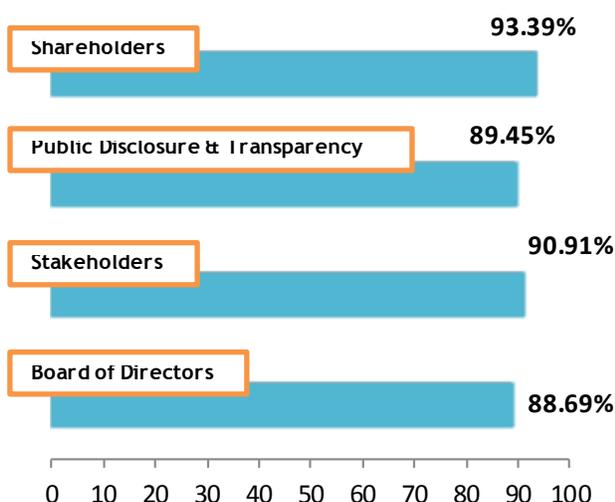
GROUP



OVERALL SCORE

9.03

RESULTS BY CATEGORY



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ISS Corporate Services (hereafter, ICS) assigns a rating score of 9.03 (or 90.39 percent) to Vestel Elektronik A.Ş. (the "Company" or "Vestel"). This rating reflects a positive and stable overall performance of the Company regarding its corporate governance structures as measured against the rules stipulated by the Capital Markets Board of Turkey (the "CMB Rules"). The results also signals that there still remains room to improve Vestel's governance practices.

ICS was first appointed by Vestel in March 2006 to review its corporate governance structures and processes in line with the CMB Rules. Vestel then had been rated with a score of 7.59. This rating report represents the eighth rating update after Vestel had been subject to a first rating. It should be noted that the World Finance magazine confirmed the Company's good performance in corporate governance with their "The Best Corporate Governance – Turkey" award.

The rating report is based on information provided to ICS prior to February 2014. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

Important: Please note that Vestel's rating results are not compared to ICS's last Rating as the methodology has changed. Please refer to the "Rating Methodology" section for more information.

COMPANY INFORMATION

VESTEL	
Trade Name	Vestel Elektronik A.Ş.
Address	Ambarlı Petrol Ofisi Dolum Tesisleri Yolu Zorlu Plaza 34840 Avcılar-İstanbul Turkey
Web	www.vestel.com.tr
Investor Relations	Ms. Serap Mutlu Phone: +90 212 282 2810 Fax: +90 212 422 0106 E-Mail: yatirimci@vestel.com.tr
Chairman	Mr. Ahmet Nazif Zorlu
CEO	Mr. Enis Turan Erdoğan

Vestel was originally founded under the name “Ferguson Elektronik Sanayi ve Ticaret Anonim Şirketi” in 1983. An initial public offering of part of the Company’s shares was conducted in 1990, which was followed by an additional public offering in 2000. Today, approximately 78 percent of the Company’s issued share capital is owned by Zorlu Holding A.Ş (“Zorlu Holding”) which is fully owned by Zorlu family.

In addition to the production of television sets, Vestel’s original core business, the Company expanded into the production of white goods and digital devices. Vestel is one of the leading providers in the Turkish market and continues to gain global market share in the segments in which it competes. Today, Vestel is comprised of 25 companies operating in manufacturing, software and technology development, marketing, and distribution fields in the consumer electronics, household appliances, multimedia communication, LED lighting, and defense industries with USD 4.2 billion turnover for the 2012 financial year.

Vestel remains one of the top world-wide producers of appliances and generates about three-fourths of its revenues in foreign markets. Vestel has been one of the country’s top export champions in consumer

electronics for several years with exports to 140 countries.

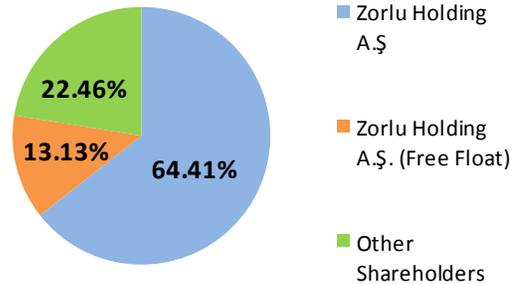
The Company received financial ratings from Fitch, Standard and Poors (S&P) and Moody’s again for the fiscal year end 2012, whereby Fitch attributed a “B stable”, S&P a “B-stable” and Moody’s a “B2 stable” respectively. In 2013; however, the Company requested Moody’s and Fitch to stop their ratings on Vestel due to redemption of its Eurobond.

The Company’s Global Depository Receipts (GDRs) are traded on the London Stock Exchange’s Over the Counter (OTC) market.

The Company’s registered capital is TL 1 billion, divided into 100 billion shares. The registered capital ceiling granted by the CMB is valid between the years 2012-2016 (5 years). It should be noted that Collar Holding B.V, the former controlling shareholder of Vestel, transferred all of its shares corresponding to approximately 75 percent of the share capital to Zorlu Holding, a group Company, for an amount of TL 437 million at a share price of TL 1.74 on 16 September 2013. Collar Holding has no stake remaining in Vestel following this transaction.

The current issued share capital of the Company is TL 335.5 million. As at January 2014, the Company’s shareholder structure was as follows:

Shareholding



RATING METHODOLOGY (as at 31.1.2014)

UNDERLYING REFERENCE

The corporate governance rating at hand has been conducted by ICS based on the latest CMB Rules published 3 January 2014 (II-17.1). As such, it differs in content and methodology from ISS' standard corporate governance ratings that are based on ISS' own methodology.

The CMB defined its first Corporate Governance Principles in 2003, followed by several amendments and most recently in January 2014. ICS has updated its rating methodology under CMB's supervision based on the latest regulation. According to the CMB Rules, all Borsa Istanbul companies are subject to mandatory implementation of certain CMB Rules. The CMB Rules continue to look at four categories (see Weighting Scheme for more information).

Turkey's governance landscape has moved away from a "comply or explain" regime to one that is more regulated as the CMB has increased its tone with a view to boost the competitiveness of Turkish companies globally.

THE RATING

Based on the new CMB Rules, ICS identified close to 600 criteria for the rating (which was previously around 500 criteria). Each criterion is examined thoroughly upon compliance by Vestel, on the basis of publicly available information. Additional information was provided by Vestel upon request.

Under the old methodology, a straightforward 0 (no) or 1 (yes) scoring approach was applied, in addition to attributing a score of 0.5 points in some instances to acknowledge partial fulfilment. However, this scoring system has been amended whereby companies now receive a maximum score of 0.85 (out of 1) for meeting the mandatory clauses of the CMB Rules, but can increase to 1 if the practices adopted by a company go further than what is stipulated in the CMB Rules as mandatory for each specific group, described below.

THE GROUPS

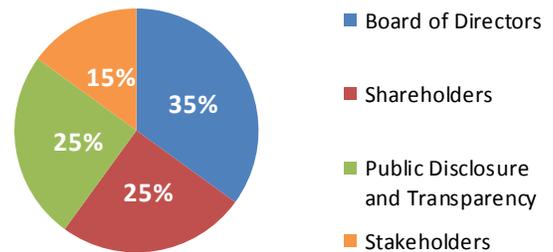
The CMB Rules classify companies in three main groups based on the systematic risk companies pose to Turkish capital markets:

- 1. Group I:** Companies with a market value exceeding TL 3 billion and free float exceeding TL 750 million;
- 2. Group II:** Companies with a market value exceeding TL 1 billion and free float exceeding TL 250 million; and
- 3. Group III:** All other companies which do not fall under either Group.

Group I companies are required to comply with all mandatory Principles whereas Group II and III companies benefit from certain exemptions. Vestel remains in Group III as of January 2014.

WEIGHTING SCHEME

The weighting scheme applied for the four main sections was pre-determined by the CMB, which did change in 2013. The Board of Directors category has increased from 25 percent to 35 percent whereas the Public Disclosure and Transparency category reduced from 35 percent to 25 percent.



Further sub-weightings have been attributed to the sub-criteria according to ICS's own reference. Based on the scoring and adjusted weightings, the overall rating result is calculated. The result reflects the overall compliance of Vestel with the CMB Rules as well as each main category.

THE GOVERNANCE LANDSCAPE IN TURKEY

Though the corporate governance structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the corporate governance landscape on the country level. Despite the fact that the country level is not a part of the rating itself, ICS believes that an overview can enable investors to enhance their perspective and evaluation of corporate governance in a more holistic approach.

Turkey is well aware of the structural changes and the need for ongoing development and harmonization of its capital market legislation. Although Turkey is a latecomer to corporate governance, it has tried to speed up the progress since the year 2000. The overall legal framework regulating public companies in Turkey is determined by the new Turkish Commercial Code (effective 1 July 2012), the Capital Markets Law, the Decree-law, CMB Rules, and Borsa Istanbul listing requirements.

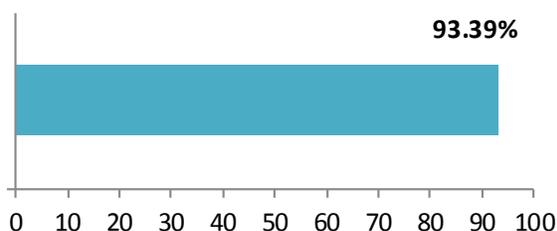
Focusing in particular on corporate governance, the CMB and Borsa Istanbul can be observed as key players in promoting relevant regulations. They are supported by several other organizations such as the Turkish Industrialists' and Businessmen's Association, Corporate Governance Association of Turkey, Corporate Governance & Sustainability Center and the Corporate Governance Forum of Turkey.

Below we have highlighted the general aspects of the governance landscape in Turkey.

- Within Turkish companies stock ownership is concentrated, very often characterized by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings are quite common. Through these mechanisms Turkish families control a considerable amount of Turkish listed companies. Additionally, one can also find shares containing multiple voting rights, thus preserving family control.
- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers are rare, thus, weakening the market for corporate control.
- State ownership has declined significantly in line with privatization efforts, but is still to be found in the energy, communication and mining industries. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few companies.
- Minority rights are granted to shareholders that own at least 5 percent of the company's capital, providing them with the right to call an extraordinary general meeting or bring in a shareholder proposal.
- Even though pre-emptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude pre-emptive rights in case of capital increases up to 100 percent of their registered capital.
- Mandatory tender offer bid requirements exist above a 50 percent threshold.
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75 percent) are passed.
- Companies have adopted IFRS accounting standards.
- Companies have a single tier board structure.
- The current CMB Rules outline principles that regulate the independence of board members.

SECTION I - SHAREHOLDERS

SHAREHOLDERS



SUMMARY

Vestel attains a score of 9.33. A clear dividend policy is in place and voting rights are well defined. Each share is subject to the **one share - one vote - one dividend principle**. However, in case of a capital increase, the board can restrict the rights of the existing shareholders to acquire new shares (exclusion of pre-emptive rights). This feature continues to be in place today.

An **Investor Relations (IR) Unit** is established to enable shareholders to exercise their rights and obtain relevant information. The IR website is easily accessible from the Company's main website and includes information concerning the Company's corporate governance structure, financials, and pertinent news. Another shareholder friendly feature of the IR website is that investors can access it in English.

Minority rights are clearly defined; however, the right to request a special auditor is still not granted under Vestel's AoA and the scope of minority rights is left at the minimum threshold of 5 percent. It should be noted, however, that the right to appoint a special auditor is guaranteed in the Turkish Commercial Code (TCC).

The Annual General Meeting's (AGM) invitation, agenda and proxy voting form is uploaded to the main page of the Company's website and announced in one leading newspaper three weeks prior to the meeting. A summary of the voting results and

attendance rate (the "Minutes of the AGM") is also uploaded on the Company's website on the same day of the AGM.

The AGM appears to be run in a fair and efficient manner and shareholders are allowed to exercise their statutory rights. Although not included in the Company's AoA, Vestel does permit stakeholders and media to attend general meetings if asked beforehand. The Company has also published, and shareholders approved it, a robust document highlighting how General Meetings will be handled. This document can be found on the Company's website.

Although no dividend was paid during the past financial year, Vestel maintains a clear dividend policy. Vestel's dividend policy suggests that a dividend minimum at the rate of 25 percent of the distributable net income shall be distributed to shareholders. The amount of dividends to be distributed will also depend on national and global economic conditions and the Company's growth plan.

1.1 RIGHTS OF SHAREHOLDERS

GOVERNANCE FOCUS
+ Established dividend policy
+ Clearly defined voting rights
+ No preferred shares issues
+ One Share – One Vote respected
- The board may exclude pre-emptive rights
- Shareholders are not able to appoint a special auditor pursuant to the Company's AoA

1.1.1 Equal Treatment of Shareholders and Their Ability to Obtain and Evaluate Information

No provisions hindering the equitable treatment of shareholders have been identified. No written or verbal complaints reached the Company concerning the exercise of shareholder rights, nor is the

Company aware of any legal proceedings initiated against itself in this regard.

The Company has an active IR Unit that enables shareholders to exercise their rights, access information easily, and oversee the Company's information policy. The IR Unit is also responsible for the website and is closely related to the Corporate Governance Committee. Upon engagement with Vestel, the Company stated that the IR members attend meetings of the Corporate Governance Committee. In line with the recent changes made to the CMB Rules, the Company confirmed that it will appoint someone from the IR team to the Corporate Governance Committee following the Annual General Meeting (AGM) in 2014.

The IR Unit is led by Ms. Serap Mutlu, which was previously led by Ms. Figen Çevik. The head of the IR Unit communicates directly with the Chief Financial Officer, the executive committee and the Corporate Governance Committee. A more detailed description of the IR Unit's duties can be found on the Company's website. Upon engagement, the Company confirmed that both the IR Director and IR Manager have Capital Market Activities Advanced Level License and Corporate Governance Rating Specialist License. Given that Vestel is part of Group 3, the only required license that someone from the IR team needs to hold is the Capital Market Activities Basic Level License.

A high level of information continues to be provided to shareholders and Vestel has made a strong effort to comply with the CMB Rules in this regard. Information that may be of interest to shareholders is provided in an accurate, timely, and diligent manner through the Company's website and the Public Disclosure Platform ("KAP"). The news contained on the Company's website is available in Turkish and English.

During the 2012 financial year, the IR Unit had nearly 70 one-on-one meetings with investors and analysts. More than 80 requests for information were responded to by e-mail and about 90 such requests

were answered by telephone by the IR Unit. Finally, the IR Unit participated in four conferences organized by brokerage houses during the 2012 financial year.

Verbal and written requests for information received from shareholders during the year were responded in a timely manner under the supervision of the IR Unit and in compliance with the Capital Markets Law.

1.1.2 Dividend and Voting Rights

Dividend Rights

Each share is entitled to an equal dividend. None of the Company's shares incorporate special rights concerning the distribution of the Company's profits. No dividend payments were again made for the past financial year as the Company reported a loss for the 2012 financial year.

A dividend policy is established and accessible through the Company's public documents and website, in English and Turkish. Depending on the financial results of Vestel, a dividend will be paid to its shareholders. The distributable net profit is distributed in four successive steps: first legal reserve of 5 percent must be set aside, first dividend set at a rate and amount determined by the CMB, second dividend or extraordinary reserve determined at the AGM, and secondary reserve of one-tenth of the remaining amount.

The Company does not carry out any interim dividend payments and no such provisions exist in its AoA.

Voting Rights

As the Company has not issued any preferred stock, each share is entitled one vote without any further privileges. The right to vote is automatically granted when the share is purchased, and no arrangements can be installed that would hinder this right or cause a delay in exercising voting rights, following the share acquisition.

Voting rights are well defined in the Company's AoA, ensuring equal and clear voting procedures. The

exercise of voting rights can be delegated to a proxy whether or not the person is shareholder. Voting rights for bearer share certificates can be exercised by the holder of the certificate.

There are no ceilings on the number of votes a shareholder might exercise during the meeting. The Company's share capital does not involve any cross-shareholdings. Finally, ICS is still not aware of any voting agreements aimed at increasing control over the management of the Company.

1.1.3 Minority Rights and Transfer of Shares
Minority Rights

The Company's AoA no longer define minority shareholders (but this is defined under the TCC); however, shareholders representing (collectively) at least 5 percent of the Company's issued share capital can request the Board to convene. According to the TCC, minority rights are granted to shareholders that own at least 5 percent of the company's capital, providing them with the right to call an extraordinary general meeting or bring in a shareholder proposal. Both aspects are up to the discretion of the board, though shareholders can appeal to the court to decide on the General Meeting to convene.

The ability to appoint a special auditor is considered crucial by ICS, though this not a mandatory clause under the CMB Rules and a right protected under the TCC. The Company did not receive any requests in this sense during the reporting period.

Transfer of Shares

There are no provisions installed or included in the Company's AoA that may impede the free transfer of shares by shareholders.

1.2 GENERAL MEETINGS

Vestel had two general meetings (GMs) during the 2013 calendar year, one annual and extraordinary. The Company's Extraordinary General Meeting (EGM) was held on 27 March 2013 where the selection of the independent external auditor was

approved as well as the Company's "Internal Directive on Working Principles and Procedures for General Meetings." The Annual General Meeting (AGM) was held on 5 June 2013.

According to Article 1527 of TTC, shareholders can participate at GMs personally or electronically to vote on the agenda items. Shareholders or representatives of them who participate electronically need to have an Electronic Signature Certificate. Shareholders wanting to participate electronically need to fulfil the process in accordance with "Regulation Regarding Participation to General Assembly Meetings of Joint Stock Companies on Electronic Medium" and "Communique on the Electronic General Assembly Meeting System Used in General Assembly Meetings of Joint Stock Company" published in the Official Gazette in August 2012.

GOVERNANCE FOCUS
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Voting procedures are clear
+ Sufficient disclosure on candidates
+ Minutes of the AGM are disclosed in a clear and timely manner (including in English)
- Although allowed, a provision has not been included in the Company's internal documents/AoA to allow the media and stakeholders to attend the AGMs
- More background information can be provided on the agenda items being voted on at the GMs

1.2.1 Invitation

The Company can convene a GM ordinarily or extraordinarily. The AGM should be held at least once a year within the three months following the closing of the financial year. This is ensured in the Company's AoA.

The announcement of the 2012 AGM, including the necessary information such as the date, time, location, agenda items, procedures for attendance, and proxy forms were published 21 days in advance. The announcement was also published in one

Turkish newspaper 21 days in advance. In addition to the procedures stipulated by legislation, the AGM announcement and all necessary documents (annual reports, etc.) were also made available on the Company's website 21 days prior to the meeting in an attempt to reach the maximum number of shareholders possible.

The agenda for the 2012 AGM was prepared in a concrete manner, clearly indicating each agenda item. However, ICS feels that the Company can provide more information on the agenda items. In line with the CMB Rules, the Company allows shareholders to put forward agenda items to be voted on at the AGM. However, for the AGM held in 2013, the Company received no such request.

Considering the administrative proceedings, voting procedures are set up in a clear and understandable manner and proxy forms are available in written and electronic form. Ordinary and extraordinary GMs are notified to the Ministry of Customs and Trade (the "Ministry") and the agenda and the documents pertaining to the meeting and the relevant supporting documents are submitted to the foregoing Ministry. The attendance of a Commissar appointed by the Ministry in the GMs is mandatory.

Finally, according to Vestel, GMs are open to related parties and the media but they are not entitled to vote. A clause to this regard can be inserted in the Company's AoA.

1.2.2 Functioning

Vestel held its 2012 AGM on 5 June 2013 at its headquarters in Istanbul, Turkey. The location is considered as easily accessible to shareholders. The Company's AoA does allow for meetings to be held at another location in Istanbul.

Following examination, Vestel's AGMs continue to be held in an appropriate way, led in an unbiased manner by the chairman of the AGM and overseen by an official government representative, and thereby ensuring that all shareholders are able to exercise their statutory rights. The chairman of the

Company's AGM held in June 2013 was Mr. Aydın Temel, Attorney at Law.

The AGM functions as a forum to discuss the Company's annual report and financial results. The chairman of the AGM reads a summary of the annual report and the Company's financial performance at the beginning of the AGM. This is followed by a discussion of the questions raised by shareholders, if any. According to Vestel, all questions coming from shareholders are, in principle, responded to in detail.

It is our understanding that the chairman of the AGM ensures an equitable participation among shareholders and leads the meeting in a fair and efficient manner, where each agenda item is voted upon separately and where there are no special privileges enjoyed by any of the Company's shareholders.

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. If any Company official who has been invited to a meeting cannot attend the meeting, the reasons of non-attendance are to be announced by the chairman of the AGM. The specific right of shareholders to ask questions to the candidates is provided by the Company.

Candidates to be elected to the board are obliged to disclose a wide range of information covering nearly all aspects put forward by the CMB Rules. These requests comprise for example, their educational background, previous board membership(s) and experience, financial status, and independence considerations. All of this information was provided to the shareholders at the 2012 AGM.

The AoA enables the AGM (with a majority of three-fourth) to allow board members to be engaged in business with the Company or competition against the Company. Once again, no board member made use of this authorization and was involved in business or competitive activities with the Company during the 2012 financial year.

Voting at GMs is carried out by the raising of hands; however, secret ballot system may also be applied upon the request of the shareholders representing 10 percent of the share capital in the GM.

1.2.3 After the General Meeting

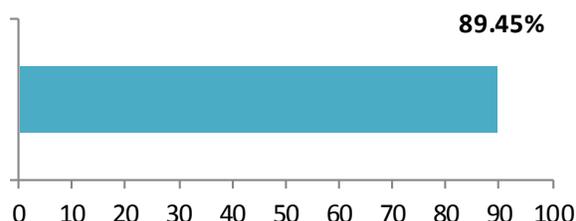
As a follow-up to the meeting, minutes are made available for the examination of shareholders at the Company's headquarters. This information is also disclosed on the Company's website (in English and Turkish) summarizing the meeting in a short but clear manner.

Information pertaining to previous GMs is stored on the Company's website and is easily accessible. The English versions of the invitation, summary of the voting results, etc. have all been uploaded on the Company's website for previous years.

In compliance with the CMB Rules, in cases where questions are raised by shareholders that cannot be answered immediately, the IR Unit is responsible for providing a response in a fast manner. The new CMB Rules stipulate that the IR Unit needs to provide a written response within 15 days after the GM. In addition, all questions asked and their responses at the GM will need to be disclosed on Vestel's website within 30 days after the GM. To this end, the Vestel stated it will fulfil the necessary requirements.

SECTION II - PUBLIC DISCLOSURE & TRANSPARENCY

PUBLIC DISCLOSURE & TRANSPARENCY



SUMMARY

Vestel attains a score of 8.94 in this category. This score reflects the continued good flow of information between the Company and its investors and an acceptable level of transparency.

A **Public Disclosure Policy** (the "PDP") document has been provided on the Company's website and contains Vestel's policy on how it will approach public disclosure of material events. The IR Unit continues to assume the responsibility of overseeing and monitoring all matters regarding public disclosures.

Vestel also discloses its **Code of Ethics** and a comprehensive **Insider Trading** which is updated regularly on MKK's platform. With regard to Vestel's Code of Ethics, this document is a set of essential rules that have been formulated to govern the Company-wide relationships, the relationships between the Company and its employees, and the relationships with customers, and other stakeholders. Additional safeguards governing the behaviour towards clients, employees and corporate governance principles are also formalized in this document.

Over the past year, there have been a number of changes to the Company, all of which have been disclosed to the public. One important change was the fact that Collar Holding is no longer the Company's controlling shareholder. Another major

change is that the Company changed its independent external auditor. The Company confirms that in case there are further changes to the organization's structure, this will be shared with the public within the scope of legislative requirements.

A **website** for investors is easily accessible and is continuously improved. The content on the website is well structured and comprehensive. The Company's **annual report** is detailed and contains a corporate governance section that explains the Company's rationale for opting-out of key governance provisions. The Company's financial statements and their notes are prepared in accordance with existing legislation and international accounting standards.

GOVERNANCE FOCUS
+ Public Disclosure Policy is established and covers material disclosure aspects
+ Disclosure proceedings are clearly defined and assigned to high level personnel
+ A Code of Ethics has been disclosed
+ The Company's website provides a good level of resource for investors
+ A comprehensive annual report has been provided which complies with legislation
- Disclosure on remuneration is limited
- The evaluation of the Board's and its key Committees' performance has not been disclosed
- The Company's Annual Report does not include much forward-looking information

2.1 DISCLOSURE – PRINCIPLES & MEANS

2.1.1 Information Policy

The PDP, which was last updated in April 2010, has been disclosed to the public and is accessible through the Company's website. The PDP aims at providing shareholders, stakeholders and the public at large with timely, complete, clear, and accurate information in line with the CMB Rules. To underscore its importance, the Board introduces,

develops and monitors the PDP, while the IR Unit is responsible for its implementation and follow-up.

The PDP covers scope, forms, frequency and methods of disclosure, as well as disclosing the Company's authorized persons regarding public disclosure. The Company states its adherence to the following principles: (i) all amendments to the PDP should be publicly announced and put on the corporate website within 24 hours; and (ii) special circumstances are prepared by the IR Unit and sent to Borsa Istanbul and published simultaneously on the Company's website.

When announcing forward-looking information to the market, the Company states that it will act carefully and reasonably, providing underlying statistical data and avoiding exaggerated or misleading information. Forward-looking statements need the approval of the Board and prior notification of the IR Unit. Due to the nature of forward looking information and the implied uncertainty, the Company reviews the predictions and assumptions and will disclose revised information about the Company's projections together with the reasons for the changes. The principles applicable to forward looking information are included in the PDP. Although the Company has a robust policy on the provision of forward-looking information, ICS notes that the Company does not provide much forecast information in its public documents.

2.1.2 Disclosure Procedures

After reviewing Vestel's public disclosures made during the period under review, ICS has found no issues that would harm investors' interests.

Vestel's shares are traded on Borsa Istanbul and its announcements are made on the Public Disclosure Platform ("KAP"). Announcements made to Borsa Istanbul and CMB are simultaneously translated into English and put on Vestel's website. For the 2012 and 2013 financial years, 187 and 161 material disclosures were made to the public, respectively. Vestel's GDRs are traded also on the OTC market,

London, UK. During the 2012 financial year, the CMB imposed no sanctions on the Company on account of disclosures.

The responsibility for public disclosure is clearly defined and is assigned to the Board Chairman and the Executive Committee members. Additionally, the established Board Committees (the Audit, Corporate Governance and Early Detection of Risk Committees) are closely involved in public disclosure issues. Three executives are currently responsible for public disclosures, with the authority to sign official documents: Mr. Cem Köksal (Executive Committee member responsible for Finance), Mr. Alp Dayı (CFO of Vestel), and Mrs. Özden Bozatlı (IFRS and Budgeting Manager of Vestel).

An IR Unit has been established and is familiar with the responsibility for publicly disclosing all information about the Company.

2.1.3 Transparency Issues

Transparency issues cover ethical behavior, insider trading rules and the functions of the external audit.

Ethical Behavior

To ensure a high degree of transparency, Vestel discloses its ethical rules to the public. For more information on the Company's Code of Ethics, please refer to the "**Stakeholders**" section of this report.

Insider Trading

In order to prevent insider trading, Vestel prepares a comprehensive list of executives and other third parties who potentially have access to information that can impact the value of the capital market instruments issued by the Company. This list is published on MKK's platform and updated regularly by the Company. Vestel has published an Insider Trading document that provides information on the matter like definitions, implementation, and the internal control unit responsibilities.

External Audit

For the 2012 financial year, the Company's auditor was Eren Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş. (member firm of Grant Thornton International). Eren Bağımsız Denetim had not provided any consulting services and was considered to be independent from having other business interests that may impede on their objectivity.

At the Company's March 2013 EGM, shareholders approved the appointment of Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş (a member firm of PricewaterhouseCoopers). Upon review, there appears to be no legal conflict between the Company and the external audit firm. The reason for the change of auditor was because the previous auditor's term of office expired according to regulations of Public Oversight Accounting and Auditing Standards Authority. Although no concerns are being raised with the appointment process of the new auditor, we note that the Company does not have a publicly disclosed policy on how it considers the appointment of auditors.

2.2 ANNUAL REPORT

The Company's 2012 Annual Report is well prepared and houses all of the pertinent information relevant for investors. For example, Vestel's Corporate Governance Compliance Report, risk management, and financial statements can all be found in both tabular and graphic form. Financial information is presented in a manner that is easy to follow and the notes to the financial statements clarify the content. Although the Company's growth strategy is also clear for shareholders to follow, more information can be provided on future forecasts of sales, market size, etc.

A declaration of the board accepting the financial statements is included in the Company's 2012 Annual Report. According to the Company's independent auditor for the 2012 financial year,

Grant Thornton, the financial statements truly reflect the current financial status of the Company.

There is a dedicated section in the 2012 Annual Report on the Company's efforts with regard to corporate social responsibility (CSR). This section outlines a thorough and concrete plan regarding employees' social rights and the environment. A separate sustainability report has yet to be published by the Company.

Vestel's risk management and internal control systems have been disclosed which is also accompanied by an explanation of the different types of risk the Company must manage (such as liquidity, interest rate, foreign currency, credit, etc.). For more information on Vestel's risk management and internal control systems, please refer to the "**Board of Directors**" section of this report.

Overall, the Company's 2012 Annual Report continues to provide the required pertinent information regarding disclosure and transparency. However, ICS feels there is still room for improvement in areas, such as: (i) detailed information on the remuneration of executives; and (ii) the performance evaluation of the Board and its key Committees.

2.3 WEBSITE

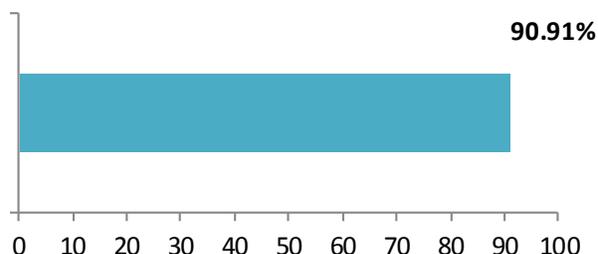
Vestel has a dedicated website for IR where shareholders may find information on the Company's corporate governance practices, financial statements, annual reports, etc. As a means of communication the use of the website is also subject to and incorporated in the Company's PDP.

The website is considered to be user-friendly and as a satisfying instrument for shareholders to access information on the Company. The Company notes that the website is continuously being improved. This is evident in the timely updates made to the website and the robust content therewith. For foreign investors an English version of the website is also available, which does not differ in content from the Turkish version.

In reference to the AGM, the website contains relevant information for shareholders. This includes the announcement, agenda, meeting information note, the attendee list, and the Minutes of the AGM.

SECTION III - STAKEHOLDERS

STAKEHOLDERS



SUMMARY

Vestel has scored 9.09 in this category. There continues to be a lack of a formal model to include stakeholders in the Company's management; however, there are mechanisms that address stakeholder issues.

Vestel has provided a detailed **Code of Ethics** on its website. This Code provides the essential framework of rules to be applied in the relationships between the Company and its stakeholders. Stakeholders are continually kept informed within the framework of the Company's PDP. Compensation in case of violation of rights is only foreseen for customers and there are no concrete measures in place to avoid conflicts of interest.

A **Human Resources (HR) Policy** is in place and disclosed publicly. In accordance with its policy, the Company offers equal opportunity to people with the same qualifications in recruitment and promotions. In addition to these policies, an overview of a robust training policy for employees has been publicly disclosed by the Company. Vestel instituted a performance-based compensation model for its employees in 2007. Finally, the Company adheres to an "open door policy" to keep channels of communication open between management and personnel.

There is a **Corporate Social Responsibility (CSR)** section in the annual report and website outlining Vestel's social and environmental efforts. However,

a standalone sustainability report has not yet been published by the Company.

GOVERNANCE FOCUS
+ Companywide human resources policy
+ Employee rights are warranted
+ Code of Ethics governing companywide relationships disclosed publicly
+ A section on Corporate Social Responsibility is included in the Company's annual report
- Succession planning for higher-level executives has not been disclosed
- No formal model to include stakeholders in the Company's management, but some actions are in place
- The Company does not have a mechanism in place for its employees to own shares

3.1 RIGHTS & DUTIES OF STAKEHOLDERS

Vestel recognizes and guarantees the rights of employees in its Code of Ethics. There is also a CSR section in the 2012 Annual Report where information on Vestel's social initiatives is provided.

Stakeholders are kept informed by the Company through annual reports, material event disclosures, press releases, meetings, and its website.

Vestel demonstrates its intention to avoid conflicts of interest, but does not establish concrete measures in order to do so and does not explain how potential disputes between the Company and the stakeholders are resolved. According to the Company, no conflicts have occurred to date. The Company only foresees compensation in case of violation of rights of the customers but not of other stakeholders.

3.2 RELATIONS WITH CUSTOMERS & SUPPLIERS

Vestel makes a great effort to ensure customer satisfaction. As a proof, the Company has regular meetings with its customers and suppliers concerning the marketing and sale of its goods and

services. Additionally, a Customer Communications Center is in place to deal with customers' problems. Special attention is paid to quality control and the Company is working towards the implementation of a Total Quality Management system.

Customer satisfaction is measured at regular intervals and corrective action is taken to resolve issues and deal with dissatisfaction when it occurs. To this end, periodic "after-sales service and quality meetings" are held with the Company's external customers. In addition, the Company carries out surveys on the following independent website – www.şikayetvar.com – to monitor customer satisfaction.

Compensation is provided to customers for any losses or damages they may suffer on account of the company's products and services.

3.3 PARTICIPATION IN MANAGEMENT

Stakeholders (inclusive of employees) still do not formally take part in the Company's management. However, the Company notes that the Human Resources Coordinator represents the employees, one of the Company's largest stakeholder groups, on the Executive Committee.

In order to take into account stakeholders' opinions in the management of the Company, some actions are in place. More specifically, stakeholders are continuously informed through the IR Unit and the corporate website and there are periodical meetings with customers and suppliers. To date, no specific measures have been set up to ensure an integral model to include stakeholders in the Company's management.

3.4 EMPLOYEES & SUSTAINABILITY

Employees

To manage its large workforce, Vestel has a written Human Resources (HR) Policy which is disclosed publicly. The HR Policy talks about training employees on the job as well as promotion procedures. Employee relations are conducted by the Company's HR Department.

The Company ensures that equal opportunities are provided to employees with similar qualifications. According to the Company, the HR Policy is based on the rule of "equal opportunity" which denies any sort of discrimination. In recruitments, discrimination is strictly prohibited. To this end, ICS notes that there were no complaints from employees concerning discrimination.

A performance evaluation process has been instituted for each employee. This performance evaluation is carried out by at least two managers to avoid subjective evaluation. With respect to performance-based compensation, a model was introduced in 2007. The performance-based compensation model foresees employees' evaluations at least yearly in line with specific performance criteria. The Company's performance system is built on the following five criteria: (1) know-how and qualifications; (2) work contributions and effort; (3) harmony with corporate culture; (4) drive and behavior; and (5) outcomes and results.

Staying on the subject of employees, notwithstanding other training programs within Vestel, the Company launched the Vestel Technology Academy in September 2010 in cooperation with Özyeğin University to improve the technical knowledge of its engineers. To date, 317 engineers have benefited from the advanced training opportunities at the Academy. In 2012, the Company also launched the Vestel White Goods Laboratory at Diyarbakır Burhanettin Yıldız Technical and Industrial High School, under the "Occupational Training Partnership" agreement.

Social Responsibility and the Environment

With regard to CSR, the Company expresses its belief of having a duty to be mindful of all stakeholders who may be affected by its activities, products, services and to protect the environment.

The CSR section of the Company's 2012 Annual Report provides a number of initiatives and progress

updates. When evaluating new projects, the Company considers using less polluting materials; reducing waste and recycling; or conducting activities that raise environmental awareness. To this end, shifting its entire product line towards A+ and above devices with high energy efficiency, Vestel has cut the power consumption of its products by 50 percent and their water consumption by 26 percent over the last five years.

Committed to continuous improvement in its environmental protection efforts, the prevention of pollution, and full compliance with environmental and administrative legislation, Vestel adopted the following principles: (i) considering environmental factors in the assessment of new products and operations; (ii) reducing hazardous materials in product design and production processes in line with national communiqués and relevant EU directives; (iii) conducting research on materials that generate less pollution; (iv) minimizing the use of the six heavy metals which are hazardous to people and the environment (i.e. lead, mercury, cadmium, Chrome+6, PBB, PBDE); (v) reducing waste, reusing and recycling materials; (vi) increasing productivity through the use of new technologies in order to conserve energy, water and natural resources; (vii) using recycled packaging materials whenever possible; and (v) organizing events to raise environmental awareness.

Within the frame of the policies and targets that are mentioned above, the Company achieved the following results during the 2012 financial year on a year-on-year basis: (1) 17 percent decrease in electricity consumption; (2) 24 percent decrease in water consumption; (3) 26 percent decrease in heating energy consumption; and (4) 42 percent decrease in plastic raw material consumption. Furthermore, the Company decreased hazardous waste by-products resulting from its production activities by a considerable amount.

Vestel was awarded for its efforts in environment, with the TS-EN ISO 9001 Standard, TS-EN ISO 14001 Environmental Management System Certificate, and ISO 18001 Occupational Health and Safety Management System Certification. With regard to certifications, it should be noted that the Company became the first Turkish company to obtain an ISO 50001 Energy Management System Certification. Vestel became the first company in Turkey to implement the RoHS directive on the use of hazardous substances, and restructured its product line to comprise only goods in the A energy class.

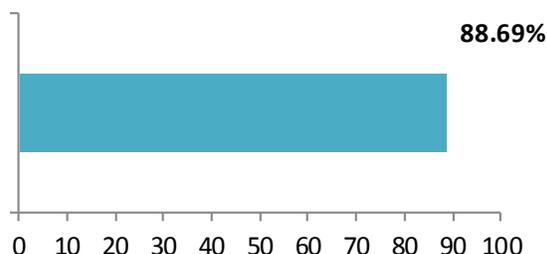
In addition, the parent Group, Zorlu Holding, is a signatory of the U.N. Global Compact Initiative since 2007. In 2012, Vestel Elektronik issued its carbon emissions data on the Carbon Disclosure Project website (www.cdproject.net).

Vestel also makes contributions in the areas of education, sports and culture. Information on the concrete actions carried out can be found in the CSR section of the Company's 2012 Annual Report. During the 2012 financial year, the Company made a total of approximately TL 1.8 million in donations to various foundations and associations. The Company, at the AGM held in June 2013, stated that donations for the 2013 financial year will be limited to 0.05 percent of the Company's net sales. In addition, the Company has disclosed its "Donation and Charity Policy" on its website whereby the following institutions may receive support from the Company: Mehmet Zorlu Foundation; Social Aid Foundations and Associations; Educational Institutions and Organizations; Foundations and Associations carrying out Social Responsibility Projects; and Public Institutions and Organizations.

Finally, ICS notes that no lawsuits were lodged against the Company during the period under review on account of environmental damage.

SECTION IV - BOARD OF DIRECTORS

BOARD OF DIRECTORS



SUMMARY

Vestel attains a score of 8.86 in this category. According to the Company's AoA, the Board should consist of a minimum of five and a maximum of eleven directors. Currently, there are six Board members of which none have executive roles within the Company. This is in line with the CMB Rules.

Looking at the Non-Executive Directors (NEDs), ICS notes that two of them are independent as per the criteria stipulated by the CMB. Having two independent NEDs on the Board is in line with the CMB Rules considering Vestel's size. In addition, ICS notes that the compositions of the Board's key Committees also are in line with the CMB Rules. Also, the suggested separation of the Board Chairman and the CEO is followed. The only deviation from the CMB Rules is the fact that two Board members sit on more than one Board Committee; however, considering the Board's size ICS does not feel this to be a key issue.

The Company's AoA clearly describes both the duties and working principles of the Board. Board members have prepared explicit declarations of compliance with internal and external regulations. This is in accordance with the CMB Rules.

Each Board member has one vote without any privileges. Attendance at Board meetings is encouraged and all Board members need to be present in-person at meetings where important matters concerning the operations of the Company

are going to be discussed. Vestel has a rule that imposes resignation on members who do not attend three consecutive board meetings.

GOVERNANCE FOCUS
+ The board plays an active role in the Company's strategic planning
+ The Company does not lend money to board members or executives
+ Each board member is entitled to one vote
+ A secretariat has been established to support the board
+ CEO and Chairman positions are separately held
+ Efficient risk management and internal control mechanism in place
+ The board has two independent directors
+ The board has one woman director
- Board members are not restricted to accept other positions outside the Company
- Disclosure surrounding remuneration is limited
- The Company does not have a formal induction program
- Two Board members sit on more than one Board Committee
- The performance evaluation of the Board and its key Committees have not been disclosed

There are risk management and internal control systems in place at Vestel, which has been made more robust over the years and the Company has kept pace with regulations on this regard

Certain areas for improvement do remain, however. For example, any duty that the board member may accept outside the Company is not subject to certain rules and limited. It should be noted, however, that no Board member had any related party transactions for under the period of this review. In addition, the AoA does not appear to contain a provision that would impose sanctions on employees that obstruct flow of information to the board. Specifically on this issue, the Company continues to rely on market and labour law.

4.1 PRINCIPLES OF ACTIVITY, DUTIES, AND RESPONSIBILITIES OF THE BOARD

Vestel's Board appears to fulfill its duties with diligence and meets its responsibilities. As stated in the AoA, the Board defines the mission and vision statements and is thereby leading the Company.

According to the Company's 2012 Annual Report, once a year the Board convenes to conduct an annual review and assessment of the degree to which the Company accomplished its objectives and of its activities in light of previous years' performance. In the conduct of this review and assessment, the Board debates the degree to which objectives have been accomplished, the effectiveness of the Company's activities, past performance, and the Company's strategies. More information on this review could be provided by the Company in future years.

Board meetings are held at least once a month and in order to increase attendance at meetings, the meeting dates are determined at the beginning of the year and Board members are notified. In addition, the Company added the following clause to its AoA with the aim of increasing board attendance: "The Board membership of a Board member who fails to participate in three consecutive meetings without the Board's permission is deemed to be null and void."

During the 2012 financial year, 54 resolutions were adopted by the Board unanimously and the remaining 35 by majority. A board resolution requires that differences of opinions arising at Board meetings be supported with reasonable and detailed justifications for dissenting votes be entered into the record. However, to date, there has never been an instance of this according to Vestel. The minutes taken by the Board's secretariat also include any questions that members ask and the responses that are made to them.

A high level of interaction is achieved between the Board, the Corporate Governance Committee, and

the IR Unit. Regular meetings between the aforementioned parties continue to take place. The mechanism in place provides that the Corporate Governance Committee interacts with the IR Unit on the one side and with the main Board on the other. The Head of the IR Unit attends the Corporate Governance Committee meetings.

According to the Company, the flow of information is continuously improved. Information is provided to Board members upon request. Moreover, executives may be invited to take part in meetings of the Board to explain matters that are on the agenda so that Board members become better informed about specific issues.

Board members in theory have no restrictions before accepting outside duties. It should be noted that the holding of outside positions by Board members is not a serious concern in Turkey, as long as they can dedicate sufficient time for board meetings. Nevertheless, as suggested by the CMB Rules, the AoA provides guidance to the issue of board members engaging in business or competitive activities with the Company. Accordingly, such activities have to be approved by three-fourths of the Company's shareholders at the AGM.

The 2012 Annual Report states that no board member engaged in any business or competed with the Company during the 2012 financial year. During the 2012 financial year, there were no related party transactions outside the scope of the Board resolution dated 17 October 2012 and numbered 2012/65, and/or significant transactions within the scope of Corporate Governance Principles Article 1.3.10.

Turkish Law foresees the joint liability of the Board. In accordance with this, the AoA states that the Board should perform and carry out its duties in accordance with the provisions of the Capital Markets Law, Turkish Commercial Law and the AoA.

There are no sanctions foreseen for employees that obstruct the flow of information to board members, apart from the ones foreseen in Turkish Labour Law. Vestel may consider including those in internal regulations or in the AoA.

Vestel does not disclose the details of a formal training/compliance program for new Board members. The 2012 Annual Report states that to date there has been no need for a training or compliance program for its Board members, but that if such a program does become necessary, it will be carried out by the Corporate Governance Committee.

In addition, according to the Company, there is no formal induction program for new Board members. However, when new members join the Board they will be introduced to senior executives and have regular one-to-one meetings with the executives to be informed on the Company's business.

4.2 BOARD STRUCTURE

Vestel's Board is composed of six members of whom none are Executive Directors (EDs). From the Non-Executive Directors (NEDs), two are deemed to be independent as per the independence criteria stipulated by the CMB.

Pursuant to the current AoA, Board members are elected for a period of maximum three years, with re-election possible at the end of term. The director age limit is 75; any member over such age is required to resign as a Board member.

The Board's current composition as follows:

Name	Role	Independent
Mr. Ahmet Zorlu	Chairman	
Mr. Ali Akın Tarı	Vice-Chairman	x
Mr. Mümin Cengiz Ultav	NED	
Mrs. Selen Zorlu Melik	NED	
Mr. Mehmet E. Zorlu	NED	
Mr. Hacı Ahmet Kılıçoğlu	NED	x

The suggested separation of the Board Chairman and the CEO is followed. ICS notes that the CEO is actually not on the Board. The Chairman of the

Board also acts as co-Chairman of the Zorlu Group. This underscores the strong family ownership that is common in Turkey. The Board is, however, comprised of two independent NEDs, which is in line with CMB Rules. Individual independence statements by each single independent Board member are now provided.

Mrs. Selen Zorlu Melik continues to serve on the Board and is the Company's only woman Board member. Although not a mandatory clause under the CMB Rules, the Company needs to adopt a general diversity policy that specifies a target (not to be less than 25 percent of the Board) and a target date for reaching such goal.

Appointed Board members at Vestel seem to be highly qualified and show a high level of knowledge and experience, reflected in their career backgrounds. Vestel's Board can draw on a wealth of expertise in the industry sector but also other areas as law, public sector, and business. All Board members have university studies except for the Board Chairman Mr. Ahmet Zorlu.

Finally, no lawsuits were brought against Board members with regard to the Company's activities during the 2012 and 2013 financial years.

4.3 BOARD COMMITTEES

4.3.1 General

Vestel has established an Audit Committee and a Corporate Governance Committee. The Company most recently also formed an Early Detection of Risk Committee; in line with the CMB Rules. The Audit and Corporate Governance Committee meetings were attended in full.

According to the CMB Rules, each Board Committee should be composed of at least two members. This is the case at Vestel. Based on the CMB Rules, no Board member should serve on more than one Board Committee but we note that Mr. Ali Akın Tarı serves on both the Corporate Governance and Audit Committees. Mr. Hacı Ahmet Kılıçoğlu serves on the Early Detection of Risks and Audit Committees. Upon engagement, the Company confirmed that Mr. Hacı

Ahmet Kılıçođlu and Mr. Ali Akın Tarı serve on two Committees given the Board's size.

4.3.2 Audit Committee

The Audit Committee, reporting directly to the Board, oversees the financial and operational activities of the Company. The Audit Committee scrutinizes the effectiveness and adequacy of the internal control and audit. The Audit Committee is also responsible for ensuring that measures are taken such that internal controls are transparent. The Committee's charter is accessible through the Company's website.

The Chairman of the Audit Committee, Mr Ali Akın Tarı, is considered to have the required financial expertise to serve on such committee. The Audit Committee's current composition, which is in line with the CMB's Rules, is as follows:

Name	Role	Independent
Mr. Ali Akın Tarı	Chairman	x
Mr. Hacı Ahmet Kılıçođlu	Member	x

According to the charter disclosed on the Company's website, the Audit Committee meets at least four times a year. The Audit Committee met four times during the 2012 financial year.

The external audit firm is invited to the meetings of evaluation of the financial statements if the Audit Committee members consider that its presence could help clarify issues.

4.3.3 Corporate Governance Committee

A Corporate Governance Committee was established in 2005. This Committee's function is to assist the Board in creating and improving the Company's governance structure and practices. The Committee's charter is accessible through the Company's website in Turkish and English.

In June 2012, the Board decided that the Corporate Governance Committee also act as the Company's Nomination Committee and Remuneration Committee. The Corporate Governance Committee's composition is as follows:

Name	Role	Independent
Mr. Ali Akın Tarı	Chairman	x
Mr. Mehmet E. Zorlu	Member	

Mr. Ali Akın Tarı is the Chairman and is an independent Board member, which is in line with the CMB Rules. Finally, the CEO does not take part in this Committee.

The Corporate Governance Committee is to meet at a minimum of three times a year according to the charter disclosed on the Company's website. This Committee met three times during the 2012 financial year.

4.3.3 Early Detection of Risks Committee

In line with the CMB Rules, Vestel established an Early Detection of Risks Committee.

In addition to performing all of the duties that are spelled out under the responsibility of the Committee in accordance with the TCC and the CMB Rules, this Committee has also been tasked with additional responsibilities. This includes but is not limited to; (i) identifying risk that may jeopardize the existence, development and continuity of the Company's operations; and (ii) adopting necessary measures against the detected risk.

The risk management system is audited at a minimum once a year and appropriate suggestions to risk management is communicated to the Board as whole annually in the form of an annual risk report.

The Early Detection of Risks Committee is currently comprised of Mr. Hacı Ahmet Kılıçođlu (Chairman) and Mrs. Selen Zorlu Melik.

According to the Committee's charter, it is to meet at a minimum of three times a year. In 2013 the Committee met three times.

4.4 EXECUTIVES

The day-to-day running of the Company is assigned to the senior management team.

The duties of the Executive Committee are not stated in Vestel's public documents. The authorities

and responsibilities of the Company's Board members continue to be spelled out in the AoA and published on the Company's website.

Below is the list of the Company's senior management team:

Name	Role
Mr. Enis T. Erdoğan	CEO
Mr. Cem Köksal	Head of Finance
Mr. İhsaner Alkım	Head of TV Products Group
Mr. Necmi Kavuşturan	Head of Human Resources
Mr. Özer Ekmekçiler	Head of Digital Products Group
Mr. Nedim Sezer	Head of White Goods
Mr. Ahmet Süha Erol	Head of Foreign Trade

Previous correspondence with the Company revealed that the Financial Analysis and Reporting Department in collaboration with the Marketing and Manufacturing prepare a monthly report on operational and financial performance of the Group. This report, in turn, is presented to the Board on a monthly basis. This suggests that the senior management team keeps the Board informed on key issues in a timely manner.

Once again, no issues have been revealed that would cause doubt about the transparent, reliable and accountable work of the executives during the 2012 financial year. The executive team reports to the Board and the Company's results are scrutinized in comparison to the budget.

Penalties to be applied in cases of losses arising from the failure or underperformance of managers serving in the technical and administrative organization have not been specified in the Company's public documents. However, upon engagement, the Company confirmed that there are a number of actions that can take place which include termination of employment (depending on the severity of the situation).

From previous engagement, the Company confirmed that it has Directors & Officers liability insurance.

4.5 FUNCTIONING OF THE BOARD

In order to ensure adequate preparation, the agenda and relevant documentation are provided to Board members a week in advance. These documents are delivered by mail, fax, and e-mail.

A Board secretariat has been established in order to prepare and assist the Board meetings as well as to ensure convenient access to information for Board members.

Board meetings are held whenever deemed necessary and in any case, at least once a month at the Company's headquarters in Istanbul, Turkey. Board meetings are called by the Chairman and in his/her absence by the Vice-Chairman. Executives have to attend meetings of the board whenever necessary and requested.

Vestel pays special attention to the functioning of the Board. For instance, 89 Board resolutions were made during the 2012 financial year and 58 resolutions were made in 2013. Although all Board members are required to attend meetings in person, the Company provides the provision to attend the meetings by using any technological methods that would provide remote access. The opinions of the Board members, who are not able to attend the meeting but present their opinions in writing, shall be submitted for the information of the other members. According to the Company, travel and meeting expenses of the board are paid out of the Company's general budget.

The Board and majority decision quorum are both stated in the AoA. Each Board member is entitled to one vote without any preferential voting or veto rights. The Board shall convene in the presence of at least one more than half the number of its membership, decisions shall be taken unanimously. In case of parity of votes, the subject is re-discussed in the next Board meeting. If no change occurs in parity in this meeting, then the proposal is assumed to have been rejected.

Overall, Board meetings appear to be conducted in an open manner. There is a clear definition of the duties of the Board and its secretariat; and Article 16 of the AoA provides basic rules about the procedures for administrating the meetings.

4.6 INTERNAL CONTROL & RISK MANAGEMENT

Vestel has defined and implemented a risk management mechanism and an internal control system.

In order to early detect the risks that could compromise the Company's existence, development and continuity, to take the necessary measures against these risks, and to engage in more effective risk management, the Enterprise Risk Management Department of Zorlu Holding started to operate as a support function to the Company from the first half of 2012 onwards. As a result, Zorlu Holding's Risk Policy, Procedure and Enterprise Risk Management Framework were issued and became applicable in all Zorlu Holding companies, including Vestel. These efforts concern the management of not only financial risks, but also operational, environmental, technological, and other non-financial risks. The Early Detection of Risk Committee was also formed on 15 March 2013.

In the Company's 2012 Annual Report, the main risks and measures taken against them have been disclosed. The Company's financial risks include: (1) liquidity risk; (2) capital risk; (3) foreign exchange/ interest rate risk; (4) financial risk; and (5) economic risks. In addition to the financial risks, the Company has provided the list of non-financial risks, which include: (1) strategic risks; (2) business continuity risk; (3) competitive risks; (4) operational risks; and (5) legal/political risks.

At Vestel, since 2000, the internal audit function is under the responsibility of the Internal Audit Department of Zorlu Holding. The Internal Audit Department conducts audit activities based on International Internal Audit Standards in accordance with audit programs pursuant to legal requirements

and approved by the senior management. The Department shares the audit reports issued after conducting each audit, as well as annual reports on the audit results for the entire year, with the Holding's Board, the Audit Committees of individual companies and the Sector Heads. In addition to the Internal Audit Department, the Financial Audit and Taxation Department was established in 2011 in order to conduct financial audits across all Group companies and it started audit activities during the 2012 financial year. In addition, the Information Technology audit under the Internal Audit function will continue in 2013.

The objective, authority, responsibilities, operating principles and structure of the internal audit function are outlined in the "Internal Audit Regulation" and "Internal Audit Operating Principles" documents, which were approved by Zorlu Holding's Board and shared with the individual companies.

Under the risk-based annual audit program approved by the Board, Audit Committee and Sector Heads, process audits are conducted to ascertain the efficient and productive use of resources, compliance with applicable laws, regulations, in-house policies and rules, as well as information accuracy, reliability and security. Whenever deemed necessary, at the Internal Audit Department and its Operations start of each audit, the Department meets with the senior management to make risk assessments; the companies' targets and the risks that could jeopardize these targets are analysed and positioned in the risk matrix according to their effects and probabilities.

During the audit field work, tests are carried out to evaluate the internal controls which manage risks with significant effects and high probabilities. The results of observations are shared with the company management as a draft report; and then a final report, including the opinions of the management, is sent to Zorlu Holding's senior management. As a result, the Department offers consultancy services with a reasonable assurance level, and at the same

time capitalizes on group synergy to highlight the best practices. One month after the issue of the final report, the actions taken are shared with the Board of Zorlu Holding.

In the periodic meetings held between the Internal Audit Department and Audit Committee; the activities carried out in internal audit such as audit, consultancy, special investigations are assessed, the findings are shared, the follow-up plans as to the actions taken in response to these findings are evaluated and the plans for the upcoming period are reviewed.

4.7 REMUNERATION

The Company disclosed its Remuneration Policy on its website, in English and Turkish. At the Company's AGM in June 2013, the compensation for each Board member was set at TL 90,000. No other benefits are provided to the Board members.

Finally, to avoid conflicts of interest Vestel strictly adheres to the principle not to grant loans in any way to Board members or executives.

Board Members

According to the Company's Remuneration Policy document, remuneration is commensurate with the practices of the peer companies in the sector as well as based on the time required for the Board meetings, experience of the Board members, pre-meeting and post-meeting preparations and the performance of duties. Board members' expenses in relation to their duties are compensated by the Company.

No performance-based payment is made to the independent Board members. This has remained unchanged again during the period under review.

Executive Directors

The Company's remuneration packages for its executive officers consist of the following: (i) basic salary; (ii) annual bonus; and (iii) benefits. The salary levels are reviewed annually by the Board in order to reflect market trends and the individual's qualifications and performance. A bonus is paid at

the end of the financial year taking into account the Company's financial performance and the contribution of the executive to such performance.

While developing the Company's remuneration policy a number of criteria is taken into account, such as: (1) production and sales activities carried out; (2) area of coverage; (3) international operations; (4) the number of employees; (5) structure of the affiliates and their weight in the total; (6) the level of knowledge to ensure sustainability of the operations; (7) the structure of the sector the Company operates in; and (8) the wage levels in similar companies.

Equity for senior managers and other employees at every level is not available at the Company. Through engagement, the Company stated that it may consider implementing one in the future.

The Company states in its remuneration policy document that all aspects of the wage are private and confidential. It is only within the knowledge of the employee, his/her executive and HR Department.

The financial benefits provided to the Company's Chairman, Board members, CEO, general coordinators and assistant general managers are outlined in the footnotes of the financial statements in the Company's 2012 Annual Report. In this regard, the total salaries and fees paid during the 12 months ending on December 31, 2012 was TL 12,647,000.