



Corporate Governance Rating Report

# VESTEL

21 February 2018

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## Rating and Executive Summary

### Vestel Elektronik Sanayi ve Ticaret A.Ş.

 SAHA  
Corporate Governance Rating:

**9.55**



MAIN SECTIONS: **Avg. 95.50**

Shareholders: **94.89**



Public Disclosure & Transparency: **97.93**



Stakeholders: **98.09**



Board of Directors: **93.09**



0 10 20 30 40 50 60 70 80 90 100

### EXECUTIVE SUMMARY

This report on rating of Vestel Elektronik Sanayi ve Ticaret A.Ş.'s ("Vestel") compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the Company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Vestel is rated with **9.55** as a result of the Corporate Governance study done by SAHA. The Company's corporate governance rating has shaped up as above in consideration with the importance given by Vestel to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Vestel is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 can be accessed at <http://www.saharating.com>.

Vestel is rated with **9.49** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Vestel carries out the investor relations obligations through "Investor Relations Department". All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed consistent dividend policy of the Company. There are no restrictions on transfer of shares. On the other hand, the rate of minority rights in the Company's articles of association is adopted as prescribed for public joint stock companies (%5). The Company has constituted a policy on donations and grants and disclosed it to the public on its corporate web site.

Vestel attained **9.79** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul A.Ş. (BIST) rules and regulations. The annual report is also comprehensive and informative. Ultimate controlling individual shareholders with a share over 5% in the Company's capital structure are disclosed on the Public Disclosure Platform (PDP), and the corporate web site. Benefits provided to board members and senior management are mentioned collectively in the annual report, but a list on an individual basis is essential as per the Principles.

On the topic of **Stakeholders**, Vestel scored **9.81**. Vestel guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and prompt compensation. Models have been developed to support the participation of employees and stakeholders in management and these models are incorporated in internal regulations of the Company. The Company has an efficient and comprehensive human resources policy. Code of ethics is publicly available through the corporate web site. Various social responsibility and sustainability projects are implemented.

From the perspective of the principles regarding the **Board of Directors**, Vestel's tally is **9.31**. There is a well communicated Company mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board of directors and the general manager is not the same person. The board consists of six members, with two independent and no executive members. Each member is entitled to a single vote. CMB criteria are complied with for the appointment of independent members who have each signed a declaration of independence. There is one female member on the board. Achieving the minimum 25% female board membership rate is among the medium term targets of the Company. Corporate Governance, Audit, and Early Detection of Risk Committees are established within the board of directors. The working principles of the Committees are disclosed to the public. Principles of remuneration of board members and senior executives are available on the corporate web site. Potential losses that may be caused by the misconduct of board members during the execution of their duties have been insured with an amount exceeding 25% of the Company's capital. Remuneration of board members and managers with administrative responsibility as well as all benefits provided are mentioned collectively in the annual report. As far as principles are concerned a list on an individual basis is essential.

## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

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

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

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


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

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

Shareholders: **25%**  
Public Disclosure and Transparency: **25%**  
Stakeholders: **15%**  
Board of Directors: **35%**

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

## Company Overview

| <b>Vestel Elektronik Sanayi ve Ticaret A.Ş.</b>   |   |
|---|---|
|    | <b>Chairman of the Board</b><br>Ahmet Nazif Zorlu<br><b>Chairman of the Executive Committee</b><br>Enis Turan Erdoğan                             |
| Levent 199 Büyükdere Cad.<br>No:199 34394 Şişli- İstanbul<br><a href="http://www.vestel.com.tr">www.vestel.com.tr</a><br><a href="http://www.vestelyatirimciiliskileri.com">www.vestelyatirimciiliskileri.com</a> | <b>Investor Relations Director</b><br>Serap Mutlu<br>Tel: (0212) 456 3456<br><a href="mailto:yatirimci@vestel.com.tr">yatirimci@vestel.com.tr</a> |

Vestel Elektronik Sanayi ve Ticaret A.Ş. ("Vestel") and its subsidiaries conduct all manufacturing and commercial activities in the fields of consumer electronics and domestic household appliances, including production, marketing, sales and after-sales services. Since its acquisition by the Zorlu Group in 1994, Vestel's mission is to create products that reflect the changes and innovations in the field of technology. Today the Company is one of the world's leading manufacturers in home appliances (including TVs and white goods) and digital products segments.

The Vestel Group of Companies, which consists of a total of 26 companies in the fields of electronics, domestic household appliances and digital and mobile products, is taking firm and decisive steps with sustainable growth. Today Vestel is among Turkey's 10 best-known and prestigious brands and leads the sector with its products meeting customer expectations and service quality.

Vestel's manufacturing facilities are located in Manisa. Established on an area of 1.1 million square meters, Vestel City is one of the largest industrial complexes in Europe producing in a single locale.

The Company shares are traded under "VESTL" ticker at Borsa Istanbul and Vestel is a constituent of BIST 100-30 / BIST METAL PRODUCTS, MACHINERY / BIST 50 / BIST ALL SHARES / BIST INDUSTRIALS / BIST CORPORATE GOVERNANCE / BIST STARS / BIST 100 and BIST SUSTAINABILITY indices.

Company's registered share capital is TL 1,000,000,000.-(one billion) divided into 100,000,000,000 (one hundred billion) bearer shares, each with a nominal value of 1 Kuruş. The registered capital ceiling permission given by the Capital Markets Board is valid between 2016 and 2020 (5 years). Even if the permitted registered capital ceiling is not achieved at the end of 2020, in order for the board of directors to be able to pass a decision on capital increase after 2020; it must be authorized by the general shareholders' meeting for a new period not exceeding 5 years, by obtaining permission from the Capital Markets Board for the previously permitted ceiling or a new ceiling. In the event that the entitlement is not accorded, the capital increase cannot be realized with the decision of the Board of Directors.

Latest status of the issued share capital distribution of Vestel is given below.

| <b>Capital Structure</b>       |                         |                |
|--------------------------------|-------------------------|----------------|
| <b>Shareholder</b>             | <b>Share Value (TL)</b> | <b>Share %</b> |
| Zorlu Holding A.Ş.             | 216,053,592             | 64.41          |
| Zorlu Holding A.Ş (Free Float) | 44,047,712              | 13.13          |
| Other (Free Float)             | 75,354,971              | 22.46          |
| <b>Total</b>                   | <b>335,456,275</b>      | <b>100.00</b>  |

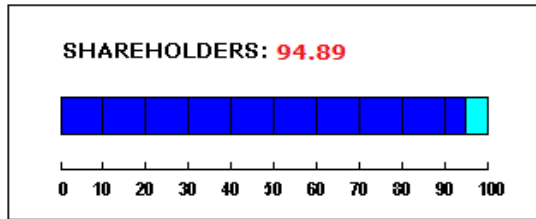
According to the Central Securities Depository (CSD) data dated December 31, 2017, the free float rate of the Company to the capital is 21.06%.

The board of directors of Vestel is composed as follows:

| <b>Vestel Board of Directors</b> |  |
|----------------------------------|--|
| <b>Name</b>                      | <b>Title</b>   |
| Ahmet Nazif Zorlu                | Chairman of the Board  |
| Ali Akın Tarı                    | Vice-chairman<br>Independent Board Member<br>Audit Committee Chairman<br>Corporate Governance Committee Chairman |
| Selen Zorlu Melik                | Board Member<br>Early Detection of Risk Committee Member   |
| Mehmet Emre Zorlu                | Board Member<br>Corporate Governance Committee Member  |
| Olgun Zorlu                      | Board Member   |
| Hacı Ahmet Kılıçoğlu             | Independent Board Member<br>Audit Committee Member<br>Early Detection of Risk Committee Chairman                 |

Chairman of the Board or the Vice-chairman are selected from among independent members as per the Company's articles of association.

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

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

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

An Investor Relations Department is established in order to carry out shareholder relations activities. The department manager, Ms. Serap Mutlu is the holder of Capital Market Activities Advance Level and Corporate Governance Rating Specialist licenses. Ms. Mutlu is also a member of the Corporate Governance Committee.

The Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in

particular the right to obtain and review information, and its duties are as follows:

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

The main activities carried out by the Investor Relations Department on behalf of the Company are summarized below:

- Two investor conferences organized in Turkey and abroad by the brokerage houses were attended to.
- A total of 129 meetings were held with investors and analysts either face-to-face or through teleconferences.
- Nearly 200 enquiries received through e-mails and telephone calls were responded to fully and in a timely fashion.
- A total of 52 material event disclosures were made within the



scope of public disclosure under CMB regulations. All the material event disclosures were published simultaneously on the Company web site.

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

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

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

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

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

### **1.3 Minority Rights:**

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

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

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

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting held on May 9, 2017 was performed through all means of communication available to the Company on April 14, 2017 in accordance with the Corporate Governance Principles.

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

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

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

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

- a. The total number of shares and voting rights reflecting the Company's shareholding structure as of the date of

disclosure, privileged share groups within the Company capital, voting rights and nature of such privileges.

- b. Information about the fact that there were no changes in management and activities of the Company and its subsidiaries in the previous fiscal year, or planned for the upcoming fiscal period which can significantly affect the Company operations.
- c. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the Company and its related parties, whether they are independent or not, and information on similar issues.

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

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions.

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

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

The Company has established a policy on donations and grants and submitted it to the general shareholders' meeting for approval. Shareholders were informed of donations made within the reporting period and the cap for the upcoming period was approved.

There is no clause in the articles of association on permitting the attendance of stakeholders and media to the general shareholders' meetings with no voting rights.

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

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

There are no voting privileges at Vestel.

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

The dividend policy of Vestel is clearly defined and was submitted to the shareholders at the general shareholders' meeting and was incorporated in the annual report and disclosed on the Company web site.

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

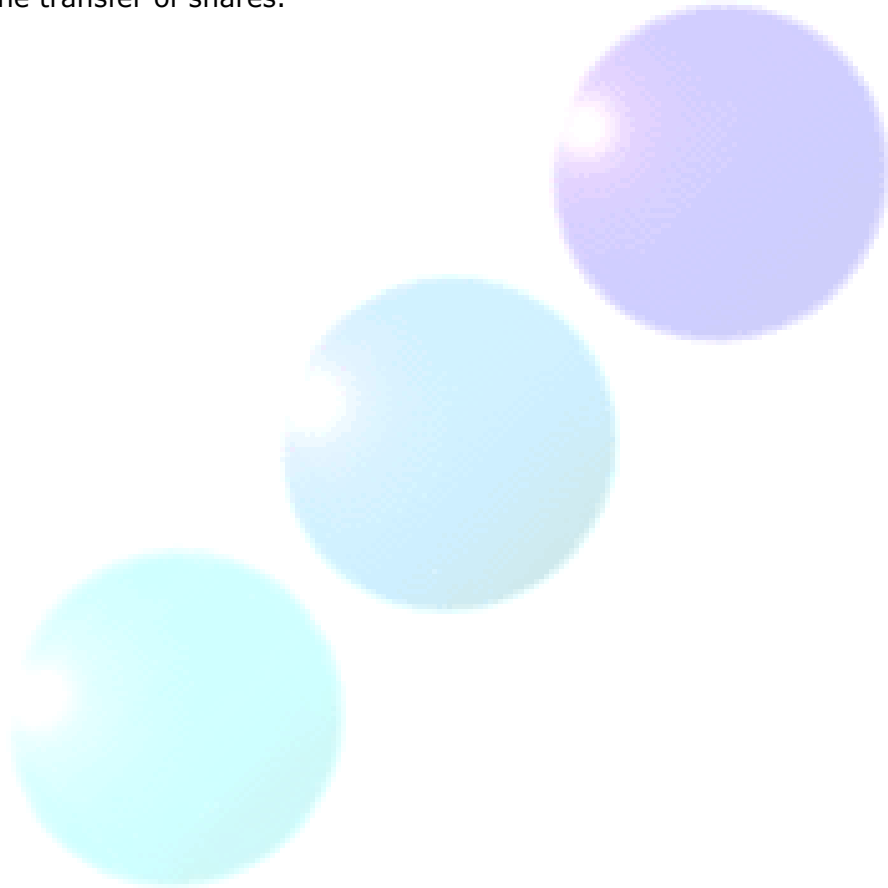
Shareholders were informed at the Ordinary General Shareholders' Meeting held on May 9, 2017 that the profit of the year 2016 would not be

distributed due to the losses of the previous years.

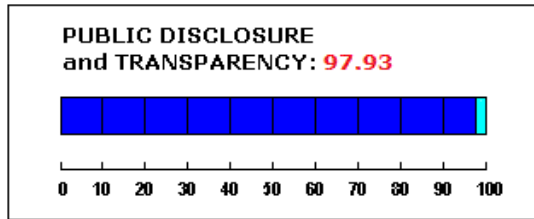
The articles of association of the Company contain a provision on advance dividend payments.

### **1.7. Transfer of Shares:**

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



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

|   |  |
|---|--|
| + | Disclosure policy established and disclosed to public on the corporate web site                          |
| + | Comprehensive web site, actively used for public disclosure  |
| + | Annual report complies with the legislation, comprehensive and informative                               |
| + | Important events and developments disclosed in accordance with the legislation                           |
| + | Individual shareholders with a share higher than 5% within the capital structure are disclosed on PDP    |
| + | English version of the web site for the benefit of international investors                               |
| + | Remuneration policy established and disclosed to public on the corporate web site                        |
| + | Dividend distribution policy disclosed to public via corporate web site                                  |
| = | Benefits provided to board members and senior executives are mentioned collectively in the annual report |

### 2.1. Corporate Web Site:

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

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

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

The Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public through the PDP and the corporate web site.

The information contained on the web site is also available in English for the benefit of international investors and is identical to the Turkish content.

The Company's web site also includes; the donation policy, working principles of the committees, material

disclosures, important board resolutions, information on dividend payments and capital increases for the last 5 years, general shareholders' meeting internal guidelines, studies on sustainability, information on senior management, financial data, main ratio analysis, web site privacy/security policy, timetable on events and developments which may interest investors, and the human resources policy.

## **2.2. Annual Report:**

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

- a. Period covered by the report, the title of the Company, trade register number, contact information.
- b. Names of the chairman and members serving on the committees and the board within the reporting period.
- c. The sectors in which the Company's subsidiaries operate and information on their position in their sectors.
- d. Qualifications of the Company's departments, general explanations related to their activities and performances, and yearly developments.
- e. Progress on investments, the eligibility status on incentives.
- f. Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.
- i. The Company's organization, capital and ownership structure.
- j. Information on external duties of the board members, with intra/out Group distinction and within the scope of permission granted at the general shareholders' meeting.

k. Research and development activities.

- l. The dividend distribution policy.
- m. Basic ratios on the financial position, profitability and solvency.
- n. Company's financing resources and risk management policies.

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

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

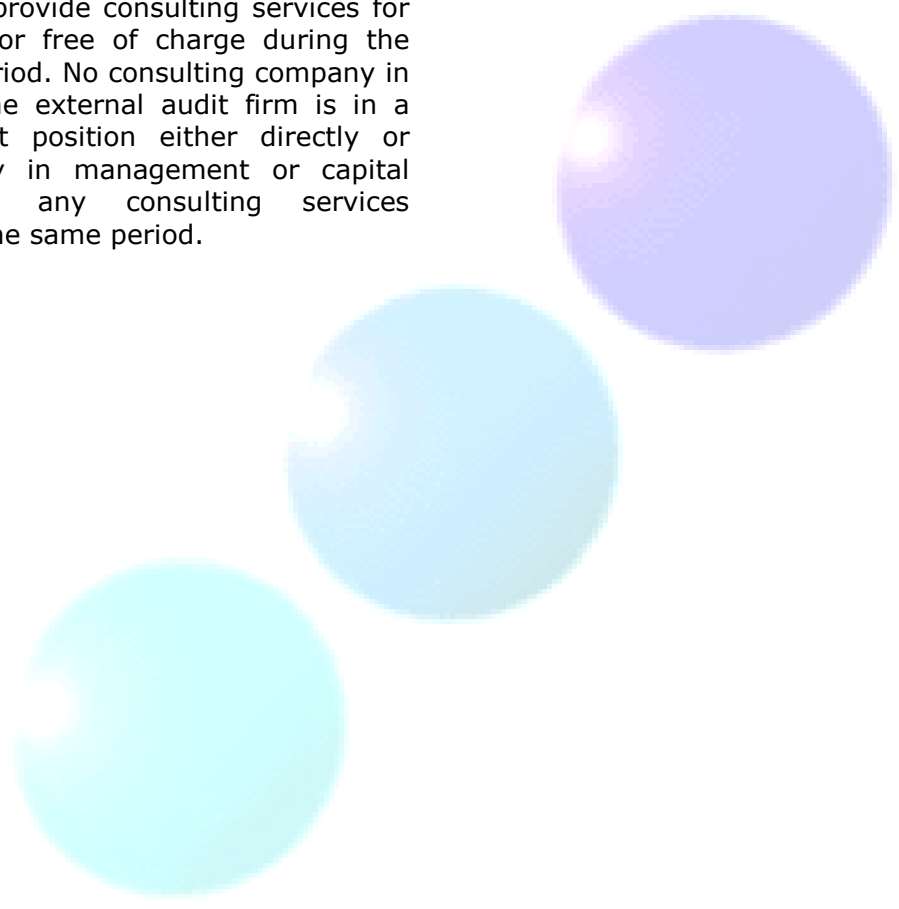
On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

## **2.3. External Audit:**

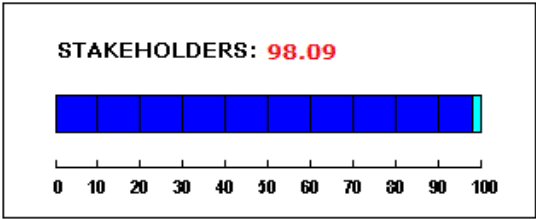
The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

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

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



# SECTION 3: STAKEHOLDERS



| SYNOPSIS |  |
|----------|--|
| +        | Measures to safeguard stakeholders' rights are facilitated   |
| +        | Effective Human Resources Policy   |
| +        | Stakeholders' views are taken on important decisions   |
| +        | Code of ethics disclosed to the public   |
| +        | Company is socially and environmentally sensitive and respectful   |
| +        | A written donation policy established and disclosed to public on the corporate web site  |
| +        | Social responsibility projects implemented   |
| =        | No provision in the articles of association regarding the participation of stakeholders in the management of the Company despite the existence of certain incentive models |

### 3.1. Company Policy Regarding Stakeholders:

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

expeditious compensation is provided in case of violation of the rights. Stakeholders are consistently informed within the framework of the Company's disclosure policy.

Employees and management take part in periodic meetings held to keep employees actively informed about the Company. Attention is given to ensure two-way communication with information flowing upward to management from employees as well as downward from management to employees. The Company adheres to an open door policy to keep channels of communication open between management and personnel. In addition, employees are kept continuously informed by means of the corporate intranet.

Periodic meetings are held with customers and suppliers and all customers and suppliers are kept informed about Company-related issues that may be of concern to them. Vestel regularly organizes meetings for its dealers in order to measure customer satisfaction. When deemed necessary, additional one-on-one and group meetings are also held.

The stakeholders can report Company's transactions violating legislation or not compliant with ethical rules to the Corporate Governance Committee, Audit Committee or Investor Relations Department by accessing them via telephone and/or e-mail.

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

Vestel has developed models for stakeholders, particularly employees to participate in management without

impeding the operations of the Company, and such models are included in the internal regulations of the Company.

Furthermore, two independent members serving on the Board of Directors guarantee that shareholders and other stakeholders are represented in management.

The Executive Committee Member responsible for Human Resources represents the employees, one of the Company's largest stakeholder groups, on the Executive Committee.

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

On the other hand, such models and applications are not included in the articles of association.

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

The Company's human resources operations are carried out by the Vestel Human Resources Department, which reports to the Zorlu Holding Human Resources Group. The Directorate was structured under 4 main organizations including Industrial Relations Directorate, Recruitment and Talent Management Directorate, Training and Personnel Development Directorate and Administrative Affairs Directorate. The Head of Zorlu Holding Human Resources Group is also a member of the Executive Committee of the Vestel Group of Companies which ensures regular provision of information on employee related matters to the top management.

The Company's human resources policy is set forth in writing and covers all issues related to hiring, promotion, dismissal, compensation, career

planning, performance evaluation system, linking performance results to remuneration, and training policies.

The employees have been informed of their job definitions and division of tasks, as well as performance and compensation criteria through the Human Resources Policy.

The following are implemented within the scope of the Human Resources Policy:

- Recruitment, promotion and dismissal criteria are documented in writing. Recruitment and promotion criteria are detailed in the Recruitment Regulation and Promotion Regulation, respectively.
- Vestel Group has in place a performance evaluation system which is based on individual performance, but is also linked to departmental and Company-wide results, and is aimed at contributing to the individual development of employees and the corporate development of the organization. The outcomes from the performance evaluation system are used as an input for remuneration, training and career development.
- Job evaluation has been performed according to the criteria of the Hay Group Grade system, and the employees were assigned to grades. The remuneration policy has been determined taking into consideration the said grading system and a remuneration system has been established, which is updated in line with the changing conditions.
- Comprehensive training programs are held for employees. While the training process is centrally handled for all the Vestel Group of Companies, the whole process takes place on the intranet. Training programs are developed in a comprehensive scope and in a manner to facilitate advancement of employees in their careers. Employees are provided the opportunity to choose training



programs in line with their career plans and needs.

- Vestel Technology Academy is established mainly for Vestel Group's engineering staff. The Academy provides masters and PhD level educational opportunities to nearly 300 employees. Additionally, the "Management Trainee" and similar programs are planned and implemented on a yearly basis in order to cultivate qualified managers.

- Two separate career development structures have been set up: promotion and horizontal advancement. The system is run at periods specified in the regulation.

- Employee orientation programs are being carried out. Individual programs are designed specifically for each department and vary in terms of duration and content.

- Periodic information provision to employees is carried out using the corporate portal and the e-mail system. Each unit holds internal meetings at certain intervals. These are production meetings (every morning at factories), departmental meetings (every Monday), happy hour gatherings (on Fridays), quality management meetings (once in every two months), budget meetings (every month), and R&D new product meetings (every month).

- All employees are treated equally and without any discrimination based on ethnic background, religion, language, race, gender, and the like whatsoever in all matters involving training, career development and promotion.

- Measures are taken to prevent any practices which might cause discrimination among employees and all personnel are treated equally without any distinctions. There were no complaints from the employees related to discrimination.

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

Vestel Elektronik pays utmost attention to the monitoring and evaluation of the customers' suggestions and complaints. In this context, after-service satisfaction surveys are conducted with the customers and satisfaction messages are sent via phone in order to instantly measure the customer satisfaction.

In addition to surveys and visits, customers can also communicate their complaints and suggestions to Vestel Customer Services through the 7/24 serving Vestel Call Center, the corporate web site, or the Company's mobile application. All suggestions and complaints are handled by Vestel Customer Services' complaint management system, which is certified by the ISO 10002 Customer Satisfaction Management System Certificate. Incoming complaints are recorded and followed by the complaint tracking number. Evaluation and resolution of the complaints and communication of solutions and feedback to and from the customers are undertaken in line with the standards of the system. In order to prevent complaints and to ensure customer satisfaction, projects intended to eliminate the root causes of complaints as well as improvement studies are carried out. The system is intended to be constantly improved via the conduct of trainings, system audits, complaints management and satisfaction analyses.

For Vestel Elektronik, the development of its suppliers is also of importance. Training programs are organized for the suppliers for them to effectively use systems such as the Supply Network Collaboration (SNC) and the Supplier Life Cycle Module, whose infrastructure was developed and implemented to improve the processes of suppliers within the scope of the

Supply Chain Excellence Project. In addition, if needed by the Supply Chain Officers working at Vestel's Far East office, immediate support is provided to the Company's overseas suppliers.

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

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

Vestel's code of ethics has been set forth in writing and published on the corporate web site pursuant to the public disclosure policy. Utmost care is taken to ensure that the code of ethics, which is formulated for the Company, the board and the employees, is complied with in full.

Vestel undertakes social efforts in the form of contributions to services in education, sports and culture offered by Zorlu Holding, and as direct initiatives taken on by the Company under its social responsibility principle. Zorlu Group, of which Vestel is a member, took a major step in bringing a global social responsibility dimension to the principles and values espoused since its foundation, by signing the United Nations Global Compact in 2007. Since signatory companies to the compact commit themselves to issuing annual progress reports outlining their activities and gains in this scope, Vestel published its progress report on the web site "unglobalcompact.org" via Zorlu Holding.

In support of responsible and ethical business practices, the Company is a Class B member of SEDEX (Supplier Data Ethical Exchange), and a registered supplier with the BSCI (Business Social Compliance Initiative). In addition to the SEDEX and BSCI social responsibility audits,

the Company also undergoes periodic FWC (Fair Working Conditions) and ICS (Initiative Clause Social) audits by external audit firms.

Vestel Elektronik deems contributing to the development of social life in the field of sports as one of its social responsibilities. With this understanding, Vestel became the name sponsor of the Sultans League - the highest league of women's volleyball in Turkey - for the 2016-2017 and 2017-2018 seasons and the main sponsor for the Turkish National Volleyball Teams within the scope of the cooperation undertaken with Turkey's Volleyball Federation ("TVF"). Vestel Elektronik also assumed the official sponsorship of "Factory Volleyball", which are the TVF Volleyball Schools which shape the future of Turkish Volleyball and enable hundreds of athletes to grow.

### **3.6. Sustainability:**

Vestel carries out environmental impact reviews of all its operations, production lines, and products. As a result of awareness of health and safety of employees, customers, and the general public who may be affected by its operations, products, and services, the Company obtained TS-EN ISO 14001 Environmental Management System Certification in 1998.

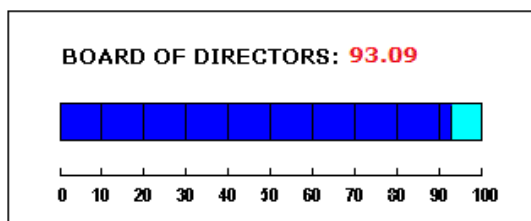
The Company closely monitors its compliance with all the mandatory regulations throughout a product's life cycle. Legal compliance issues are dealt with in accordance with both ISO 14001 Environmental Management System and ISO 50001 Energy Management System standards. In order to safeguard the human and environmental health and safety, Vestel Elektronik has established many procedures on the basis of the mandatory regulatory requirements and Management Systems Policy and

ensures that its operations abide strictly by such procedures and requirements.

Under the Environment and Energy Management Systems, the Company manages energy consumption and related processes in tandem with the Total Productive Maintenance (TPM) model, corporate business plans and the key performance indicators methodology. The Company ensures sustainability by successfully implementing the TPM Management System. Vestel has successfully completed the first phase of the TPM Management System and on January 11, 2013, became eligible for receiving the "TPM Excellence Award".

Furthermore, the Company has assigned an energy officer and energy management representative to ensure that the Energy Management System is operated efficiently. Vestel passed all the required audits in 2012 and obtained TS EN 50001 Energy Management System Certification and ensures its sustainability.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

|   |  |
|---|--|
| + | The Company's vision, mission and strategic goals are defined  |
| + | The board works efficiently and staffed with qualified members   |
| + | Two independent members on the board   |
| + | Audit, Corporate Governance, and Early Detection of Risk Committees are established and functional   |
| + | Principles of remuneration of board members and senior executives established and disclosed to public  |
| + | Each member has a right to a single vote   |
| + | Meeting/decision quorums are included in the articles of association   |
| + | One female member on the board   |
| = | Any potential losses incurred by the Company and third parties as a result of misconduct by executives are insured with an amount exceeding 25% of the Company's capital |
| - | Benefits provided to board members and senior executives are not explained on an individual basis  |

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

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return

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

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

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

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

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

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report. Chairman of the board and general manager's executive powers are actually separated, but this separation is not documented in the articles of association.

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

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

Potential losses caused by the misconduct of board members during the execution of their duties are insured with an amount exceeding 25% of the Company's capital.

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

The Company's board of directors is composed of six members and none of them are executive. There are two independent members who have the ability to execute their duties without being influenced under any circumstances.

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

There is one female member on the board. It is among the Company's medium-term targets to reach the minimum 25% ratio set in the

Corporate Governance Principles for female board members.

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

Board meetings are held at the Company headquarters as and when deemed necessary, and at least once a month. Board of directors passed 54 resolutions in 44 meetings held within the year. The meeting attendance rate was 100%, and all the decisions were passed with the unanimous votes of the attendants.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the general manager. Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date.

Each board member is entitled to a single vote.

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

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

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

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

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

Functions of the Committees, their working principles, and members are designated by the board of directors

and disclosed to public on the corporate web site.

All members of the Audit Committee are elected from among the independent board members. Also the chairmen of the Corporate Governance and Early Detection of Risk Committees are elected from among the independent board members. The Corporate Governance Committee has three members, while the other two Committees are composed of two members each. The chairman of the board and the general manager are not on the Committees. With the exception of the "Investor Relations Director" who serves on the Corporate Governance Committee as per corporate governance principles, there are no other executive members on the committees.

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

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

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

recommendations, after taking the opinions of responsible managers of the Company and the external auditor, notifies the board in writing on whether the annual and interim statements disclosed to the public are in accordance with the Company's accounting principles and are accurate and present a true and fair view. The Committee has convened six times during the course of reporting period.

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

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

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

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

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

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

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

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

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

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

The principles of remuneration of board members and senior executives have been documented in writing and

submitted to the shareholders as a separate item in the previous years' general shareholders' meetings. A remuneration policy prepared for this purpose can be found on the corporate web site.

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

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

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

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

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

## Rating Definitions

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



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

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