

# Continuous stream of innovation...

VESTEL ELEKTRONİK ANNUAL REPORT 2012



## **CONTENTS**

### **INTRODUCTION**

- 2 Vestel Elektronik in Brief
- 4 Financial Indicators
- 6 Vestel's Strategy
- 8 Vestel's Global Operations
- 10 Zorlu Group at a Glance
- 12 Message from the Chairman of the Board of Directors
- 14 Board of Directors
- 16 Interview with the Chairman of the Executive Committee
- 20 Executive Committee

### **OPERATIONS IN 2012**

- 24 Production Power
- 26 R&D and Innovation
- 32 Innovative Design and Eco-Friendly Approach
- 34 Products, Patents, Awards and Fair Participation
- 36 Effective Marketing, Extensive Sales and Distribution Network
  - Market and Competitive Strategy
  - Sales Abroad
  - Domestic Sales
  - Corporate Brand and Communications Strategy
  - Vestel's Major Campaigns in 2012
- 40 Sustainability
- 41 Human Resources
- 44 The Environment
- 46 Society
- 48 Occupational Health and Safety

### **REPORTS AND FINANCIAL INFORMATION**

- 49 Risk Management
- 51 Internal Audit Department and its Operations
- 52 Corporate Governance Principles Compliance Report
- 68 Resolution of the Board of Directors
- 69 Statutory Auditor Report Summary
- 70 Profit Distribution Policy
- 71 Independent Audit Report for the Year Ended 31 December 2012
- 128 Investor Information

**Turkey's leading consumer electronics, white goods and information technologies company, Vestel Elektronik has become one of the country's largest private industrial enterprises as a result of a series of ambitious breakthroughs. The Company has expanded its achievements beyond Turkey's borders: Vestel is one of the top players in the European LCD market and ranks among the top 10 producers in Europe's white goods market.**

**Under the Movement of Enhancing Opportunities and Improving Technology (FATİH) Project, Vestel Elektronik won the tender for the manufacture of 49 thousand tablet PCs, in addition to the first phase of the digital interactive (smart) board tender for 85 thousand units, as the Company continued to move forward in 2012.**

# From the very beginning, Vestel has embraced innovation as a cornerstone of its business philosophy.

Vestel's mission has been to incorporate technological advances and innovations into its products since joining Zorlu Group in 1994. Today, Vestel is one of the world's leading producers in consumer electronics, white goods and digital products. Comprised of 25 companies, 17 of which are located abroad, Vestel Group of Companies powers ahead with bold and determined steps, thanks to its sustainable growth drive. As one of the top 10 best known and highly reputable brands in Turkey, Vestel leads the sector with products that meet consumer expectations and with its excellent service quality.

High production capacity, and a wide and powerful sales and distribution network enables Vestel to bring together customers in a wide geographic area with its quality and innovative products. Thanks to its high quality human resources and R&D investments, Vestel not only closely monitors the latest advancements in technology, but also sets the technological standards for the industry.

Vestel's manufacturing facilities are located in Manisa, Turkey. The Company enjoys economies of scale which result in productivity, efficiency, and cost advantages by undertaking the majority of its manufacturing within Vestel City, the largest industrial complex in Europe in a single location, with an area of 1.1 million square meters. Vestel's other key competitive advantages include flexible production capabilities, logistical advantages

due to its proximity to the European market compared to its competitors in the Far East, and low labor costs compared to Europe.

Vestel's sales strategy is two-pronged; in the European market, where it realizes most of its sales, the Company relies heavily on ODM services in addition to sales with its own well-known regional brands; and in Turkey, CIS and the Middle East, the Company sells under its own brands, including the well-known Vestel brand.

Vestel accounts for a significant proportion of Turkey's exports. Further strengthened with the newly restructured Vestel Ticaret A.Ş.'s deeply rooted and well-experienced team, the Company has expanded its activity in electronics and white goods markets to 140 countries and regularly adds new markets to its distribution network.

As one of the three major players in the LCD TV and white goods markets in Turkey, Vestel continues to expand its high quality product line with new offerings designed to appeal to all consumer groups, by using a "multiple brand strategy" and concept stores. The ever growing effective and swift sales, distribution and service network includes 1,114 Vestel stores, 726 Regal dealers, an E-Store for online sales, and 350 service centers spread all across Turkey.

The strategic importance placed on R&D has played the biggest role in Vestel's development and in giving the Company the competitive edge it enjoys today. Not



**Vestel Elektronik was deemed worthy of the “The Best Corporate Governance-Turkey” award by World Finance magazine, an indicator of the Company’s long term vision.**

only undertaking production for its own brands but also manufacturing for the world’s major electronics and white goods producers in its facilities, Vestel Elektronik continuously improves its superior production technology and design development capability through its team of 900 engineers at the Company’s six global R&D centers. Parallel to this, Vestel’s ratio of R&D expenditures to total sales amounted to 1.4% in 2012.

Vestel has for many years embraced innovation as a cornerstone of its business philosophy and thus offers trend setting products to its customers. After manufacturing the first locally designed color TV in Turkey in 1988, the Company followed with many more breakthroughs: Vestel Elektronik launched the first local digital TV, internet TV and LED TV. In 2012, the Company sustained its track record of innovation by adding such pioneering products as Smart Plus, Smart TV, Smart Center, TwinJet Plus -a washing machine that is an energy saving leader- and a special interactive smart board.

Placing its “Friendly Technology” concept at the center of its brand culture, the Company strengthens its innovative power with consumer and environmentally friendly approach. Underlying Vestel’s unique, pioneering designs and innovative product range is the Company’s mission to leave a habitable world for future generations while envisioning the technology of the future.

Keen to become a player which shapes not only the domestic but also the global market, Vestel was listed in Deloitte’s “Global Powers of the Consumer Products Industry 2012” report and climbed to the 193<sup>rd</sup> position on the “Top 250 Consumer Products Companies” list.

As a company that places great importance on corporate governance, Vestel is among the first Turkish firms to implement corporate governance best practices. In recognition of its efforts in this area, Vestel Elektronik received the “The Best Corporate Governance-Turkey” award from World Finance magazine, yet another confirmation of the Company’s long term, strategic and forward-looking vision.

#### **Vestel on the Stock Market**

Vestel Elektronik Sanayi ve Ticaret A.Ş. shares have been trading on the BIST\* National Market since 1990 under the ticker symbol VESTL. In addition, the Company’s global depository receipts, which have been trading on the London Stock Exchange since 2000, began trading on the London Over-the-Counter market (OTC market) as of January 3, 2011. Following an initial public offering in 2006, 31.5% of the shares in Vestel Beyaz Eşya A.Ş., a subsidiary of Vestel Elektronik, started trading on the BIST\* under the ticker symbol VESBE. At the end of 2012, the Company’s shares were included on the BIST Corporate Governance, BIST All Shares, BIST All Shares-100, BIST National, BIST Industrials and BIST Metal Products indices.

\* The legal entity of the Istanbul Stock Exchange (ISE) was dissolved on April 3, 2013 upon the establishment of Borsa İstanbul A.Ş. (BIST) when the new Capital Market Law took effect.

## Financial Indicators

Despite the ongoing recession in global markets, Vestel's ratio of exports to total sales reached 72% in 2012.

### Major Financial Indicators (USD million)

	2012	2011
Net Sales	4,192	4,178
Exports/Sales	72%	77%
Operating Profit/(Loss)	(30)	243
EBITDA	75	352
Net Profit/(Loss)	(63)	(21)
Investments	173	111
R&D Expenditure/Sales	1.4%	1.3%
Total Assets	2,758	2,731
Shareholders' Equity	753	599
Net Financial Debt	372	163
Net Financial Debt/Equity	49.5%	27.2%
Gross Profit Margin	12.1%	18.0%
EBITDA Margin	1.8%	8.4%

### Vestel Elektronik's Corporate Credit Ratings

S&P	B-/Stable
Fitch Ratings	B/Stable
Moody's	B2/Stable

### Corporate Governance Rating Score

Subcategories	Weight	2013 Score	2012 Score
Shareholders	0.25	9.13 (91.38%)	8.83 (88.39%)
Public Disclosure and Transparency	0.35	9.28 (92.87%)	8.80 (88.02%)
Stakeholders	0.15	9.08 (90.85%)	9.04 (90.40%)
Board of Directors	0.25	8.78 (87.85%)	8.74 (87.41%)
<b>Total</b>	<b>1.00</b>	<b>9.09 (90.94%)</b>	<b>8.83 (88.32%)</b>

### Share Price Summary (TL)

	2012
Number of Shares	335,456,275
Free-float	119,402,683
High	2.31
Low	1.73
Year-end	1.89
Market Capitalization*	634,012,360

\*As of December 31, 2012



# Vestel targets to further diversify its ODM customer base and product range while also growing with its own brands.

### Strategic Goals of Vestel

Vestel's strategic vision is to generate value for shareholders and investors by increasing revenues and profitability through sustainable growth. In line with this vision, Vestel focuses on its major fields of operation and also targets growth in new business lines with significant market potential that it invests in.

### Growth Strategy in the Major Fields of Operations

Vestel's growth strategy in its major fields of operations, namely consumer electronics, white goods and digital products, includes four components:

- improving market diversity;
- increasing customer and product diversity;
- branded sales growth; and
- gaining market share in new growing areas of usage.

In line with this four-pronged strategy, Vestel conducts its operations with a balanced business portfolio.

### Improving Market Diversification

Vestel also aims to be an active player in markets outside its major export market Europe, where it is one of the leading ODM providers. Vestel evaluates investment, partnership and contract manufacturing opportunities in these regions to facilitate the Company's access to these markets and ensure future growth.

### Increasing Customer and Product Diversity

Vestel targets expanding its market share by increasing its A brand level customer base in ODM services and improving product diversity. To this end, the Company aims to increase the production of TVs with larger screen size which have higher profit margins in consumer electronics while meeting all the product-based needs of its A brand customers by widening the product range in white goods.



**One of Vestel's strategic priorities is achieving growth in products with similar technology but different areas of usage.**

### **Brand-Centered Growth**

Vestel targets to increase its OEM/ODM customer and product diversity while also growing with its own brands. In the domestic market, Vestel plans to increase its market share with its own brands, by improving its brand image, distribution power and service quality. The Company also aims to reinforce its market position in countries in the surrounding region, which are expected to be drivers of global economic growth, by improving its operations again with its own brands. In the European market, Vestel pursues branded growth opportunities by acquiring regional brands. Accordingly, by the end of 2012, the Company acquired brands with high consumer awareness.

### **Gaining Market Share in New Areas of Usage**

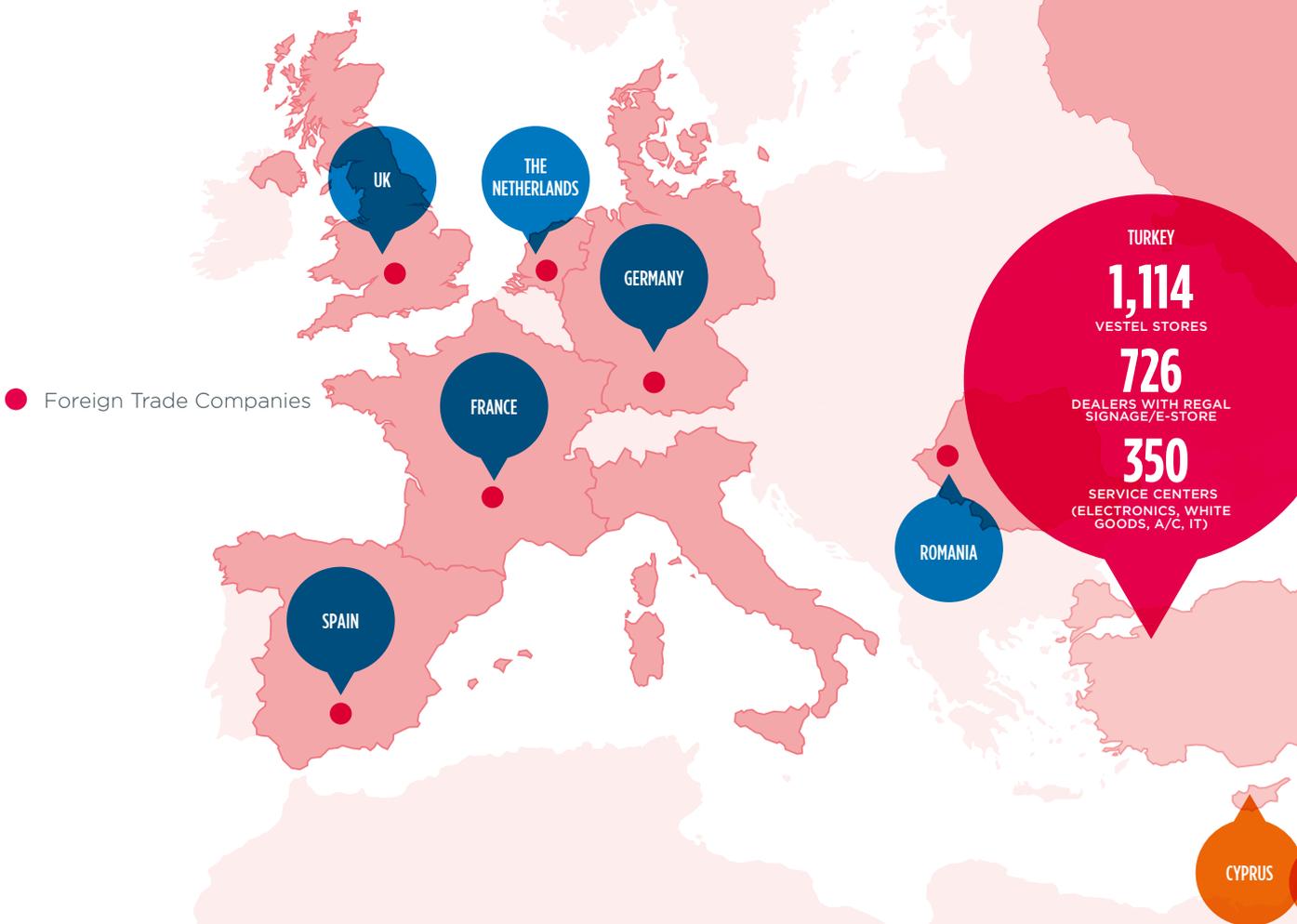
One of Vestel's strategic priorities is achieving growth in products with similar technology to those it manufactures and sells but which have different areas of usage. Moving into products other than TVs in the consumer electronics and digital products sectors, and developing smart boards and tablets under the

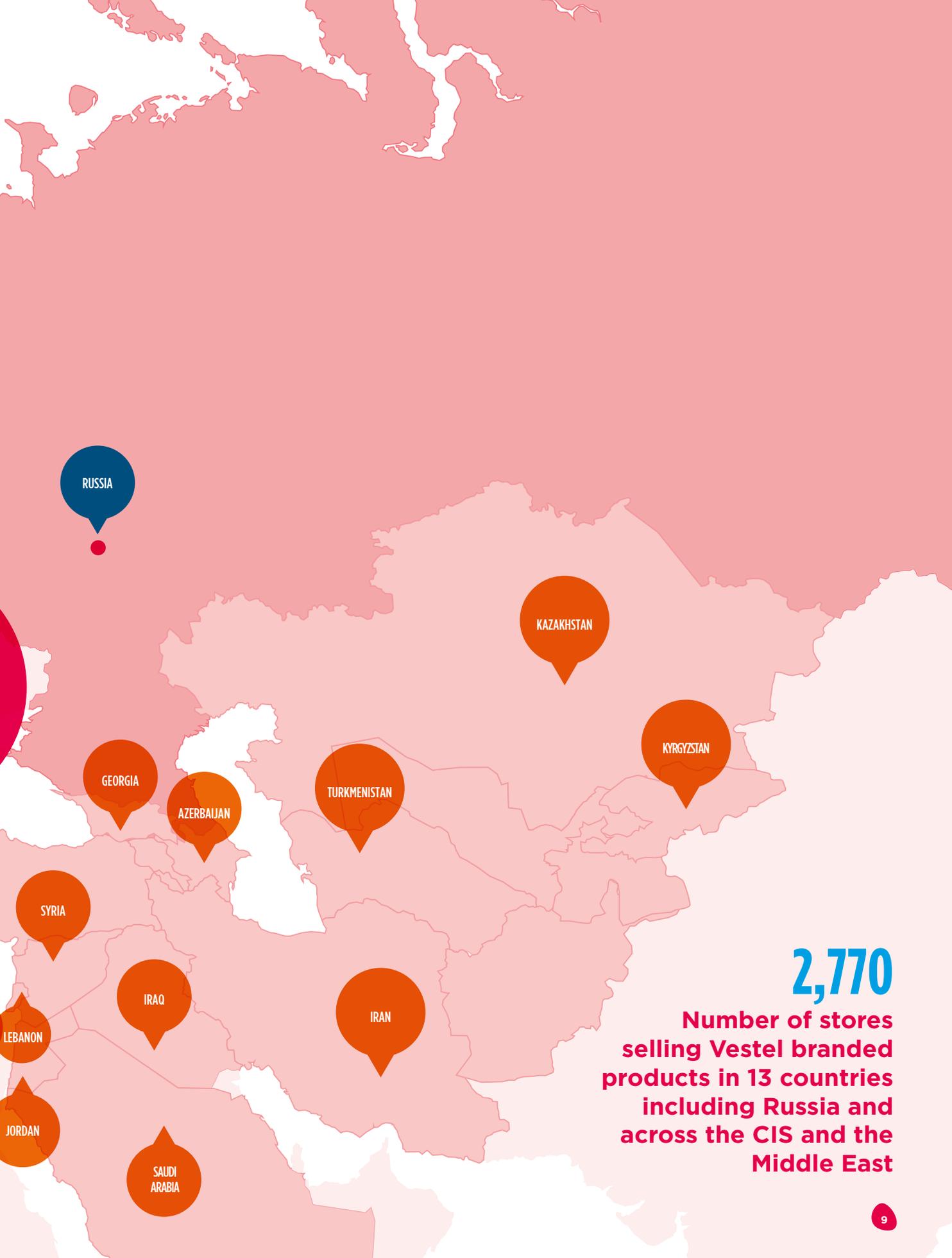
FATİH Project, the first tender of which was won by the Company; are all Vestel's significant initiatives to grow in markets which open up new areas of usage. In these areas, Vestel targets to gain significant market share by capitalizing on its technological know-how, economies of scale and purchasing power. In the coming period, Vestel aims to focus more on institutional sales given the customer profile for these products.

### **Growth Strategy in New Business Lines**

In 2011, Vestel entered into the LED lighting sector through a strategic cooperation with Cree, one of the leading players in this market. As a result, Vestel strengthened its leadership in energy efficiency solutions by including LED lighting in its product portfolio, on top of the Company's market leadership in energy efficient home appliances. With the technological know-how provided by Cree and the local production and distribution power provided by Vestel, the Company aims in this high potential market to gain significant market share and increase its revenues in regions such as Turkey and CIS countries.

Vestel added two new countries to its distribution network in 2012, bringing the total number of its export destinations up to 140.





RUSSIA

KAZAKHSTAN

KYRGYZSTAN

GEORGIA

AZERBAIJAN

TURKMENISTAN

SYRIA

IRAQ

IRAN

LEBANON

JORDAN

SAUDI  
ARABIA

**2,770**  
Number of stores  
selling Vestel branded  
products in 13 countries  
including Russia and  
across the CIS and the  
Middle East

# Zorlu Group at a Glance



## HOME TEXTILES, POLYESTER YARN

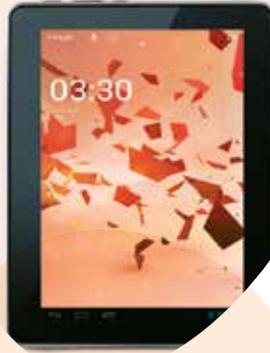
### KORTEKS-ZORLUTEKS

The largest integrated manufacturer and exporter of polyester yarn in Europe and the Middle East.

Europe's leading home textiles company.

**SALES REVENUE\***  
(USD MILLION)

728



## ELECTRONICS, INFORMATION TECHNOLOGIES AND CONSUMER DURABLES

### VESTEL

One of the leading ODM providers of TVs, white goods, and digital products for the European Market.

One of the major players in the European LCD TV market with a growing market share.

Production facilities in Manisa.

One of the top three players in the domestic LCD TV and white goods market through its well-known Vestel brand.

**SALES REVENUE\***  
(USD MILLION)

4,192



## ENERGY

### ZORLU ENERGY GROUP

One of the leading players in the domestic market with 771 MW of installed capacity.

Ongoing investments in Pakistan and Israel as well as in Turkey.

Active in electricity and natural gas trade, natural gas distribution, "turnkey installation" of power plants including the project development process, and long term maintenance and operations services.

**SALES REVENUE\***  
(USD MILLION)

590

\*2012 figures



## REAL ESTATE

### ZORLU REAL ESTATE AND DEVELOPMENT

Zorlu Real Estate Group was established in 2006 to develop, sell, lease and operate high quality residential and office complexes, business centers, shopping centers, hospitals, hotels or mixed-use real estate projects at prime locations in Turkey and abroad.

The Group's ongoing projects: Zorlu Center and Zorlu Levent Office.

Turkey's first mixed-use real estate development project with five different functions, Zorlu Center, consists of a performing arts center, hotel, offices, shopping center and residences. Located on Istanbul's Büyükdere Caddesi, Zorlu Levent Office is a 40-storey, 161-meter high A+ office building.

### TOTAL PLANNED INVESTMENT FOR THE ZORLU CENTER AND ZORLU LEVENT OFFICE PROJECTS (USD MILLION)

# 2,800



## MINING

### META NIKEL KOBALT

Objective: To become a major regional supplier in nickel and cobalt.

Nickel-cobalt investment projects in Gördes, Eskişehir and Uşak.

The Gördes project has 300 thousand tons of proven reserves, with total planned investment of about USD 300 million.

### INVESTMENT TO DATE (USD MILLION)

# 100



## FACTORING

### ZORLU FACTORING

Established in Istanbul in November 2012 to offer domestic and factoring services abroad. Zorlu Factoring plans to provide services all across the country by expanding its branch network all over Turkey in the coming period.

Zorlu Factoring targets medium and large size firms, as well as leading companies with a wide supplier and dealer network.

### TARGET TOTAL ASSET SIZE \*\* (USD MILLION)

# 140

\*\* As of year-end 2013

## Message from the Chairman of the Board of Directors



**In 2012, we received a total of 92 awards from prestigious domestic and international institutions for the Company's smart and innovative products featuring superior designs.**

Esteemed Shareholders, Business Partners and Employees,

We have left behind a year which was globally much more turbulent than usual in terms of both political and economic developments. Due to delayed and insufficient efforts to tackle the problems of the Euro Zone in particular, the management of the world economic crisis remained atop the global agenda throughout 2012. The failure of the policies implemented in the major developed countries, especially in the US, to restore confidence in the medium-term and the ongoing uncertainty surrounding the Euro crisis which is a critical issue for the world economy led the global market players continue to maintain their cautious positions.

Turkey has managed to escape the damage of the financial crisis despite the country's geographic proximity to and strong commercial ties with the Euro Zone; although having lost its growth momentum in the last two years, the Turkish economy maintained its stable structure founded on fiscal discipline in 2012. The Central Bank of Turkey's policies to promote savings resulted in a partial contraction of domestic demand; however, these policies also brought about a significant reduction in the current account deficit, widely seen as the soft underbelly of the Turkish economy. The successful export performance of Turkish firms was not only the primary driver of GDP growth, but also boosted the gross reserves of the CBT.

Today, Vestel ranks among the world's leading electronics, white goods and digital products manufacturers and exports its products to 140 countries. The current position that Vestel enjoys is a source of pride not just for the Vestel family, but for all of Turkey. Despite the contraction in the European market, Vestel reinforced its presence in the region by increasing sales in both the LCD TV and white goods segments as a result of its technological proficiency, sales power, and geographic proximity. As for the domestic market, Vestel continued to open new stores in order to establish closer contact with customers.

The main factor underlying Vestel's current strong market position is the immense importance placed on product and process innovation by its large R&D team. According to a European Commission report on R&D investment, Vestel is one of three Turkish companies among the top 1,000 list of global companies with the highest R&D spending. The innovative products we developed and the high value added projects we participated in during 2012 are the clearest indication of how Vestel raises the bar in this area. Our standard-setting position in LCD

TV technology and Vestel's becoming known as a pioneer energy saving brand in white goods were strong incentives which encouraged us to expand our know-how into new areas.

In recent years, we, at Vestel, have focused on manufacturing monitors and products with professional applications, initially smart boards, as well as entering the LED lighting sector. By implementing our R&D strength, production capacity and experience into these areas, we aim to reach our targets rapidly also in these segments. We are proud to have equipped 3,700 classrooms with our smart boards in 2012; in addition, we also won the tender for a pilot project for 49 thousand tablet PCs under the FATİH Project and thus assumed a significant responsibility in this new product category. With the belief that Turkey's future development depends on the country's progress in IT, Vestel is keen to sell smart tablets and interactive digital boards (smart boards), designed 100% by Turkish engineers, to the world. In 2013, when Zorlu Holding will celebrate its 60<sup>th</sup> anniversary, we plan to launch our own smart phone, following our smart board, tablet and TV products.

While bringing comfort to people's lives with our extensive product range, we also embraced our social awareness and responsibility to future generations through the slogan "Friendly Technology." In support of this approach, we started to roll out LED lighting products in 2012 thanks to our cooperation with Cree. We at Vestel view the lighting business not just as a new channel for selling our products, but also as an important opportunity to raise awareness about energy efficiency in Turkey.

We operate in a sector in which differentiation is critically important, where all manufacturers produce goods at similar technology levels. Therefore, we are mindful that grasping constantly changing market dynamics, as well as consumer and technological trends, are all key to gaining a competitive edge. We rank among Turkey's top 10 most popular and prestigious brands and among the world's leading electronics and white goods manufacturers, as a natural result of our efforts to comprehend the technology of the future. At Vestel, we will remain loyal to the principle of the Zorlu Group in 2013, and do our utmost to stand out among our peers and make tremendous impact in the face of global competition with our products and services.

I would like to take this opportunity to express my gratitude to our customers and shareholders for their unfaltering support, and to our employees for enabling us to achieve all of our targets in 2012.

**Ahmet Zorlu**  
Chairman



## Board of Directors\*

### **Ali Akın Tari** Vice Chairman

(1943 - Koruköy) After graduating from Istanbul University, Faculty of Law, Ali Akın Tari served as Public Accountant and later Chief Public Accountant at the Ministry of Finance, between 1972 and 1986. In 1986, he was appointed Vice President of the Board of Public Accountants and in 1989 Istanbul Group Head, a position he maintained until becoming a Board Member at the Banking Regulation and Supervision Agency in 2001. That same year, Mr. Tari was also appointed Board Member of the Savings Deposit Insurance Fund. In 2004, when his term of office at Banking Regulation and Supervision Agency ended, he was appointed Undersecretary to the Minister at the Ministry of Finance, and remained at this post until 2007. Mr. Tari left the public sector in 2007 of his own volition to become active

in the private sector. In 2008, he became Board Member and Audit Committee Member at Dilerbank; in addition, he assumed the position of Board Member at Diler Holding in 2011. He continues to serve in these positions.

### **Ahmet Nazif Zorlu** Chairman of the Board

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family-owned textiles business. He set up his first company, Korteks, in 1976. In the years that followed, he continued to undertake new investments in the textiles industry and founded Zorlu Holding in 1990. Mr. Zorlu purchased the rights to the Vestel trademark in 1994. He is currently the Chairman of the Board and Board Member of numerous

Zorlu Group companies active in different sectors, including Vestel Beyaz Eşya San. ve Tic. A.Ş. and Vestel Elektronik San. ve Tic. A.Ş.

### **Hacı Ahmet Kılıçoğlu** Board Member

(1956 - Giresun) Hacı Ahmet Kılıçoğlu received his bachelor's degree in economics in 1977 from the University of Essex and his master's degree in 1978. He started his professional career in 1979 at the Ministry of Industry and Technology and in 1980 became Assistant Specialist at Türkiye İş Bankası. After completing his military service, Mr. Kılıçoğlu worked in the private sector, before assuming administrative positions at the UNDP and the F-16 project from

\* All six members of the Board of Directors are non-executive members. The Board Members Ali Akın Tari and Hacı Ahmet Kılıçoğlu are independent members in compliance with the independence criteria stated in Capital Markets Board's Corporate Governance Principles.



1984 onwards. In 1987, he took office at Türk Eximbank and served in various positions. He later served at the bank as CEO and Board Member between 1998 and 2010, during which period he also worked as Board Member at the Turkish Banks Association. In 2001, Mr. Kılıçoğlu was elected President of World Eximbanks Union (The Berne Union). From 2008 until 2009, he worked as Consultant to the President at the Islamic Development Bank. In 2010, he became Vice Chairman at Denizbank. Currently Mr. Kılıçoğlu also serves as Board Member at Doğan Yayın Holding and Vice President at the Turkish Education Association.

**Selen Zorlu Melik**  
Board Member

(1975 - Trabzon) Selen Zorlu Melik is a graduate of Uludağ University, Faculty of Economic and Administrative Sciences, Department of Business Administration. She started her professional career in 1998 at

Denizbank. After an internship at Denizbank's Bursa Branch, she participated in the Management Training (MT) program of the same bank in 1999. After assuming various positions at the Denizbank Head Office, she participated in the Marketing Certificate Program at the University of California at Berkeley in 2001. In 2002, Ms. Zorlu Melik started to work at the Korteks Yarn Factory and became Board Member in 2004. Since 2005, she has served as Vice President of the Zorlu Energy Group, Board Member at Zorlu Enerji Elektrik Üretim A.Ş., and Board Member at various Zorlu Group companies. As of April 2012, Mrs. Zorlu Melik acts as Deputy President of Zorlu Energy Group.

**Mehmet Emre Zorlu**  
Board Member

(1984 - Istanbul) Mehmet Emre Zorlu graduated from Koç University, Department of Electrical and Electronic Engineering in 2006. Subsequently, he received a master's degree in Innovation and Technology Management from the University of Essex in the United Kingdom from 2007 to 2008.

Mr. Zorlu began working for Vestel Group of Companies in 2009. In addition to his position as Board Member at Vestel Elektronik, Mr. Zorlu also serves as Board Member at Zorlu Holding and affiliated companies.

**Cengiz Ultav**  
Board Member

(1950 - Eskişehir) Cengiz Ultav graduated from Middle East Technical University with BSc and MSc degrees in Electronics Engineering. He began his professional career at the International Philips Institute and subsequently served in the IT and R&D departments of various electronics companies in Turkey and abroad. Mr. Ultav joined Vestel in 1997 as President responsible for Technology. As of June 30, 2011, he stepped down from his position as Member of the Executive Committee responsible for Strategic Planning and Technology. Mr. Ultav currently serves as Board Member at Vestel Elektronik Sanayi ve Ticaret A.Ş.

# The development that made us most proud in 2012 was the launch of the first tablet PC produced entirely by Turkish engineers.

### How did Vestel perform in the year 2012?

Although the crisis affecting Europe has yet to subside completely, Turkey has managed to differentiate itself from this bleak picture, thanks to its proximity to key export destinations and an increasingly competitive structure. As for durable consumer goods, despite falling demand, domestic manufacturers strengthened their market presence by expanding their export volumes by 13% in white goods and 11% in TVs. At Vestel, we continued to increase our market share in Europe by capitalizing on our vast production capacity and flexible production capabilities, superiority in R&D and design, as well as our extensive and robust distribution network. As the Company's total sales reached USD 4,192 million, the exports accounted for 72% of total sales. Despite solid volume growth, profit margins continued to be under pressure as a result of depressed pricing conditions, mainly due to weak consumer sentiment in Europe, hence a tough competitive environment, and declining Euro/\$ exchange rate.

This reporting year was a period full of action for Vestel. Some of the main items on Vestel's busy 2012 agenda were the Company's pivot to digital technologies such as smart boards and tablet PCs through investment in R&D, thus raising the bar in consumer electronics and white goods, and the improvement of after sales services to increase customer satisfaction. In addition, Vestel Elektronik increased its proficiency of rolling out high tech goods at an even faster clip by acquiring its wholly owned subsidiary Vestel Dijital.

### How would you summarize Vestel's 2012 performance in terms of product groups?

In 2012, we reinforced our leading position in the TV sector by launching the Vestel Smart TV, a miracle of new generation technology and design. Vestel Smart LED TVs come complete with standard features such as internet connectivity, quick access to social media sites, application downloading, and the ability to play the desired content anytime you want – features that were simply unimaginable just a couple of years ago. As for the TV products group, the Company's 2012 flagship product, 3D Smart LED TV, made its appearance at industry fairs including the IFA, Anga Cable and ISE, showcasing its shiny monitor design which optimizes the viewing experience. We also joined forces with the global media giant Warner Bros. to develop the Cartoon LED TV designed with cartoon characters popular among all age groups, a product that drew much interest from consumers. In 2012, we raised our capacity utilization rate in LCD TVs from 79% to 84%. These factors, coupled with our ability to develop world-class technology and design, increased our overall LCD/LED TV exports in 2012.

Vestel also attracted much attention from across the world by launching interactive products such as smart boards under Turkey's educational reform program, the FATİH Project. In 2012, we showcased our smart boards at all of the trade fairs we attended and immediately started to receive purchase orders. In this product group, we added the Netherlands, Germany, the UK, Czech



**In 2012, we also continued to break new ground in energy efficiency with our electronic and white goods products, while at the same time we raised consumer awareness on energy conservation with effective communications campaigns.**

## Interview with the Chairman of the Executive Committee

Republic, Romania, Slovenia, Macedonia, Argentina, Mexico, Egypt, South Africa, Morocco, Tunisia, Algeria and TRNC, as well as Japan to our target export destinations. In order to open up new horizons with regards to the use of new technologies such as our smart boards in education, we joined forces with Doğa College and succeeded in translating our smart school project into practice in 2012.

Another development that made us proud in 2012 was the launch of a tablet PC designed entirely by Turkish engineers. By winning a tender for 49 thousand tablet PCs in a pilot scheme under the FATİH Project, we deepened our investments in this area. In addition, we set best practices for the entire sector by enabling interaction between our Smart TVs and tablets via the Smart Center technology.

As for LED lighting products, we undertook additional investments in Europe's biggest "plastic injection" plant in Manisa, used for manufacturing TVs and white goods. We restructured our metal press lines to make them compatible with the manufacturing of lighting and fixture products, and rolled out the resulting goods. We also started exporting our lighting products to Europe.

At present, our capacity increase and factory investments in white goods are complete. In 2012, we continued our strategy of expanding beyond our main export destination Europe, toward new markets such as Australia, North Africa and Southeast Asia. In the coming period, we are utterly confident that our presence in these markets will continue to increase.

### **What can you say about Vestel's environmental approach?**

The Zorlu Group made its environmental commitments binding by signing the United Nations Global Compact in 2007. We became the first company in Turkey to implement the RoHS Directive on the Use of Hazardous Substances, and restructured our product line to comprise only goods in the A energy class. We believe that these proactive efforts go a long way in demonstrating our approach to environmental matters.

In 2012, we also continued to break new ground in energy efficiency with our electronic and white goods products, while at the same time we raised consumer

awareness on energy conservation with effective communication campaigns. We tried to underline that we see Turkey's future in LED technologies, by continuously promoting our lighting solutions which reduce the energy consumption of white heat lamps by 80% and that of fluorescent lamps by 50%. In white goods, with no surprise to us, we became the first Turkish company to obtain ISO 50001 Energy Management System Certification.

### **Did Vestel's sales and marketing strategy and practices undergo changes in 2012?**

In the last quarter of 2012, in order to render our sales and marketing operations more efficient, Vestel Dış Ticaret A.Ş. -in charge of the Group's international sales and marketing operations- acquired Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş., the domestic sales and marketing company. After the acquisition, the Company which was named Vestel Ticaret A.Ş., became responsible for the entire sales and marketing operations of the Vestel Group.

Keenly aware of the role played by the size of the distribution network in competition, the Company continued to open new stores in 2012, raising the number of its domestic sales points up to 1,114. We also continued to renovate our current stores to make our sales points even more appealing, and to establish interactive technologies to offer a more pleasant shopping experience. Outside of Turkey, the number of the Company's sales points reached 2,770.

We made another breakthrough in expanding our store chain, which is a reflection of our strong competitive edge, by recreating our store concept. Vestel's store at the Istanbul shopping center İstinye Park became the first location where this new concept was rolled out.

In 2012, our after-sales services also gained considerable momentum as well as our sales and marketing services. In order to reinforce the bonds between the brand and consumers, we set up the General Office of Customer Services. Composed of teams who interact with and provide support to customers, and also offering further assistance such as appointments and emergency services outside of regular business hours, this special office is soon expected to serve the entire nation.

**Never separating product functionality, durability and design from one another, Vestel has been recognized with numerous awards at various competitions for adding comfort to the lives of consumers.**

To further raise the bar in after-sales services and boost customer satisfaction, Vestel launched the “Services from A to Z” initiative. Including all of the 350 authorized Vestel service centers by year-end 2013, this project aims to ensure that consumers are given a service appointment within two hours, that the first service visit takes place within a maximum of 24 hours, and that the problem is identified and resolved at the first attempt. Under this initiative, all service processes were outlined in a manual called “The Red Book” and a total of 1,800 after-sales employees have now received relevant training.

#### **What awards did Vestel win in the year 2012?**

Never separating product functionality, durability and design from one another, Vestel has been recognized with numerous awards at various competitions for adding comfort to the lives of consumers. In 2012, Vestel continued to extend its long list of prizes, by receiving 92 awards in total from world-renowned design competitions including the IF Product Design Award, Red Dot Design Award, Plus X Award, Good Design Award, A Design Award and Design Turkey. In Deloitte’s annual “Global Powers of Consumer Products” report, we climbed from 210<sup>th</sup> to 193<sup>rd</sup> position in the list of the world’s top 250 companies.

#### **What are some of Vestel’s corporate citizenship activities?**

As in all Zorlu Group companies, social advancement is a key component of Vestel’s strategy of sustainability. By undertaking comprehensive projects in this area, we once again confirmed that corporate social responsibility is central to our operations. To address the education issue, which we see as Turkey’s foremost concern, Vestel has participated in the FATİH Project and assumed more and more responsibilities, high profile efforts that did not go unnoticed by the general public. Another initiative we were immensely pleased to implement in 2012 was the launch of the Vestel White Goods Laboratory at Diyarbakır Burhanettin Yıldız Technical and Industrial High School, under the “Occupational Training Partnership” agreement.

One of the undisputed leaders of design in Turkey, Vestel reinforced its pioneering position in this area by becoming a co-sponsor of the first edition of the Istanbul Design Biennial. Vestel held product design workshops for university students prior to the biennial

and the resulting products were exhibited at our İstinye Park store to encourage the creativity of our youth. In 2012, Turkey’s first interactive arts exhibition, “The Great Masters,” organized under the main sponsorship of Vestel, drew high attendance. At the exhibition, art lovers could experience the masterpieces of the leading names of the Renaissance including Michelangelo, Leonardo da Vinci and Raphael via interactive screens and digital displays.

One of the issues that Vestel pays immense attention to is our corporate governance approach. We are among the first companies to proactively launch corporate governance best practices in Turkey; for example, we were one of the first five companies to join the BIST Corporate Governance Index. As confirmation of our focused efforts, Vestel’s corporate governance score was upgraded from 8.50 to 9.09 on February 2013 by ISS Corporate Services Inc., which has provided us rating services for seven years. Additionally, World Finance magazine also confirmed our superior performance in corporate governance with their “The Best Corporate Governance-Turkey” award.

#### **What are Vestel’s expectations for the year 2013?**

In the coming year, we expect the global economy to start to grow under the leadership of emerging markets including Turkey. In parallel, we expect that demand in domestic market and markets abroad will pick up. We plan to continue appearing in millions of new homes all across the world with our brand which embraces customer satisfaction as its primary target and offers superior product qualities under favorable conditions.

I wholeheartedly believe that we will reach this target together with our customers and shareholders who trust us, our Board of Directors who provide us their unwavering support, and our employees who expend significant efforts to ensure the Company’s success.

#### **Enis Turan Erdoğan**

Chairman of the Executive Committee

## Executive Committee



### **Enis Turan Erdoğan**

#### **Chairman of the Executive Committee**

(1955 - Mersin) Enis Turan Erdoğan graduated from Istanbul Technical University, Department of Mechanical Engineering in 1976 and completed a master's degree in Production Management at Brunel University in the UK in 1979. After serving in a number of different managerial positions for various firms in Turkey, he joined Vestel in 1988. Since 1988, he has served in various managerial positions at the Company, and was appointed Chairman of the Executive Committee of the Vestel Group of Companies as of January 1, 2013. Between 2002 and 2006, Mr. Erdoğan served as President of TURKTRADE (Turkish Foreign Trade Association). Additionally, he is the first Turkish citizen to be appointed Board Member to Europe's largest ICT Association, DIGITALEUROPE, a position he has held since 2010.



### **İhsaner Alkım**

#### **Executive Committee Member**

(1954 - Kırcaali) İhsaner Alkım graduated from Istanbul Technical University, Electronics and Communications Engineering Department in 1977. After assuming various posts in the communications and electronics sectors, he joined the Vestel family in 1988. Mr. Alkım has served in various R&D related positions in Vestel. Appointed in 2005 as Executive Committee Member, Mr. Alkım continues to hold this position as Member in charge of the TV Products Group.



### **Cem Köksal**

#### **Executive Committee Member**

(1967 - Ankara) Cem Köksal graduated from Boğaziçi University, Department of Mechanical Engineering in 1988 and received his master's degree from Bilkent University in 1990. He served in various positions in the banking industry between 1990 and 2001, becoming Assistant General Manager of Denizbank in 1997. Mr. Köksal joined Vestel in 2002 as the President of Finance. Currently, he serves as the Executive Committee Member in charge of Finance.



### **Özer Ekmekçiler**

**Executive Committee Member**

(1957 - Izmir) Özer Ekmekçiler graduated from Middle East Technical University, Department of Industrial Engineering. After serving in senior executive positions in a number of sectors, he was appointed CEO of Vestelkom in 2000. Appointed in 2005 as Executive Committee Member, Mr. Ekmekçiler continues to hold this position as Member in charge of the Digital Products Group.



### **Necmi Kavuşturan**

**Executive Committee Member**

(1956 - Gaziantep) Necmi Kavuşturan graduated from Ankara University, Faculty of Political Sciences in 1979. After serving in various positions in the banking sector, he was appointed Assistant General Manager in Denizbank Management Services Group in 1997. In 2003, Mr. Kavuşturan was appointed Human Resources Coordinator for Zorlu Holding. He has been a Member of the Executive Committee responsible for Human Resources at Vestel Group since 2005.



### **Nedim Sezer**

**Executive Committee Member**

(1958 - Tekirdağ) Mr. Sezer graduated from Istanbul Technical University, Department of Mechanical Engineering in 1982. In 1990, he completed his master's degree at Istanbul University, Institute of Business and Economics. After serving in various Turkish companies, he took office as Plant Manager at Vestel Beyaz Eşya's Washing Machine Factory in 1998. Since 2012, he has served as General Manager as well as Vestel Executive Committee Member.



### **Ahmet Süha Erol**

**Executive Committee Member**

(1957 - Izmir) Ahmet Süha Erol graduated from Middle East Technical University, Department of Electrical Engineering in 1979. He worked as a foreign trade executive in Algeria, the UK and Turkey at various companies, before joining Vestel in 1998. He started his career at Vestel as Procurement Manager from 1998 until 2000, before serving as Assistant General Manager - Foreign Trade between 2000 and 2006, and General Manager at Vestel Dış Ticaret A.Ş. from 2006 to 2013. Since January 1, 2013, he has served as Executive Committee Member in charge of Foreign Trade at Vestel Group of Companies.





## OPERATIONS IN 2012

**Embracing innovation as a cornerstone of its business philosophy, Vestel has set the trends in the sector with revolutionary products for many years. Since introducing Turkey's first locally designed color TV in 1988, Vestel has launched many other groundbreaking and innovative products.**

# Vestel is capable of diversifying its product range in line with changing customer needs.

### **Environmentally Friendly Plants Producing World-Class Technology**

Vestel organizes the manufacturing processes at its plants in Manisa, Turkey in line with its vision of green production.

Manisa Vestel City provides:

- Efficiency, productivity and cost advantages as a result of being the largest industrial complex in Europe; to undertake production activities under a single roof, with a total area of 1.1 million square meters;
- Logistics and related cost advantages thanks to procurement from the well-developed supplier industry in Manisa;
- Logistical advantage, compared to Far East competitors, due to close proximity to the European market;
- Low labor cost per unit compared to Europe.

Having produced the first domestic digital TV, internet TV and LED TV, Vestel has become one of the key players in the European consumer electronics and white goods markets thanks to its superior production power.

### **Increasing Operational Efficiency and Falling Production Costs Thanks to Economies of Scale**

As a leading TV manufacturer and one of the fastest growing white goods producers in Europe, Vestel benefits greatly from its economies of scale and, as a result, the Company realizes cost advantages in the procurement of components and operational efficiency in production, as it produces for a vast geographic area.

### **Maximum Flexibility in Production and Product Customization Capabilities**

Vestel's flexible production capability allows the Company not only to deliver high quality products at low cost, but also to quickly respond to customer demands and to easily reflect changes in customer preferences in its products.

Understanding that each customer has unique needs, Vestel can diversify its product range according to the varying needs of different customer segments. Its flexible production capability allows the Company to customize production on an order basis. Vestel's ability to develop products based on customer needs, geographic conditions or socio-cultural requirements is one of the key competitive advantages of the Company.



**With the principle of developing solutions according to different customer needs, Vestel continues to diversify its portfolio in line with global sectoral trends.**

# Vestel is one of three Turkish firms in the list of the top 1,000 global companies with the highest R&D spending.

### Vestel's R&D Investments

In line with its vision of becoming a strong global competitor, Vestel has placed R&D efforts at the center of its production strategy. The Company is capable of designing products that respond to diverse customer demands from all over the world, thanks to its design and testing infrastructure that can rapidly adapt to technological changes, and to its highly skilled specialist engineering team. The importance placed on transforming ideas into products is clearly demonstrated in that the Company's R&D function is represented by a member on the Executive Committee of the Vestel Group of Companies and that the ratio of R&D expenditures to total sales reached 1.4% in 2012. This level of investment has also placed Vestel among the world's top 1,000 corporate R&D spenders.



In addition, Vestel Beyaz Eşya's R&D Center placed first in the patents category at the First Annual R&D Centers Summit held in 2012, confirming yet again the Company's focus on innovation.

Vestel is one of the first companies whose R&D department is accredited as an "R&D Center" by the Turkish Ministry of Science, Industry and Technology under Law No. 5746. The 900 engineers working at the Company's R&D centers fully embrace the work dynamics and innovation-centered philosophy of the Company. Vestel makes exemplary investments to achieve sustainable development thanks to its engineering staff, cutting-edge technological equipment and systems, joint initiatives with universities as well as domestic and international project partners.

### R&D Centers of Vestel Elektronik

- White Goods R&D Center, Television R&D Center 1, Television R&D Center 2, Digital R&D Center in Manisa.
- Vestek at Istanbul ITU Teknokent and Ankara METU Teknokent, which focus on software development for IPTV, 3D algorithms and TV interaction.
- Cabot UK in Bristol, United Kingdom, where middleware is developed for digital broadcasting (DVB T/T2, C, S/S2).



### **R&D Activities**

Vestel conducts its R&D activities on a project basis in six main groups:

- Hardware Design;
- Software Development;
- Industrial and Mechanical Design;
- Power Card Design;
- Testing and Approval;
- Compliance Certification for International Directives and Standards.

Vestel Elektronik monitors all cost items, not only components, but also design and production, in a meticulous way in order to stay ahead of the competition. Through its successfully implemented “Design for Manufacturing” program, the Company pursues an approach focused on minimizing production costs by such efforts as production-centered design development.

Vestel Elektronik develops and implements comprehensive research projects under university-industry partnerships. These initiatives result in obtaining new patents and expanding the country's patent pool. The San-Tez Program, implemented by the Ministry of Science, Technology and Industry, supports scientific and academic theses oriented toward the needs of industry.

Additionally, under the coordination of Özyeğin University, Vestel Group has established “Vestel Technology Academy”, which is designed to help Vestel engineers enhance their technical know-how in specific areas and in emerging technologies.

## R&D and Innovation

In this academy, the aim is to create an educational program which ensures that employees educated in various engineering disciplines overcome their deficiencies in critical areas for Vestel, receive master's degrees in their undergraduate disciplines, and even complete their PhDs following their master's degrees.

These Vestel R&D Center initiatives have resulted in significant synergy between academia and industry, by organizing joint projects with the relevant departments of various universities. The transformation of the research conducted by universities into technology at our R&D centers therefore becomes a driving force for sustainable development. The software and hardware developed at these specialized R&D centers have significantly shortened the time required to design and launch new products. Accordingly, the Company has gained an additional competitive edge vis-à-vis its international rivals.

Vestel Elektronik contributes to the efforts to render Turkish information technologies and electronics sectors globally competitive and to mobilize their innovation potential. For this purpose, the Company takes an active role in the TÜBİTAK-supported Western Anatolian Information and Electronics Regional Innovation Center (BATIBINOM) project, that was founded to improve companies' R&D and innovation power; in addition, Vestel participates in the external consultancy committees of local universities to assist in the transformation of research into applied technology. Vestel Elektronik has also sponsored the establishment of the Electronic Equipment Research and Application Center (EMUM) at Dokuz Eylül University.

### Vestel R&D's Innovations in 2012

Vestel Elektronik's R&D units worked on over 200 projects in 2012 and made significant progress as to transforming those projects into innovative products and processes, with the highest contribution to sustainability. The most important of these included:

- Connected TV/Smart TV products;
- Imaging technology research and development projects;
- Development of boxes for different decoding technologies;

- Reliability and energy efficiency projects;
- Design of electronic cards for white goods;
- Development of informational technology applications;
- Tablet PCs;
- Interactive smart boards.

### Vestel R&D's Innovations in 2012

Vestel Elektronik's R&D units worked on over 200 projects in 2012 and made significant progress as to transforming those projects into innovative products and processes, with the highest contribution to sustainability. The most important of these included:

#### LCD TV

- Designs between 15 - 84 inches
- Slim and Ultra Thin LCD TV
- 1080P Full HD
- 1080i HD
- 100Hz
- 100Hz + Full HD + ME/MC
- USB + 4 HDMI
- Wireless LCD TV with Memory Card Reader
- LCD TV with Wi-Fi Support
- iPod TV
- Eco TV with Green Label
- Interactive Hotel TV
- LED TV
- Pixcell Digital TFT TV
- Connected TV
- Rating TV
- LCD TV Powered without Cables
- 3D LED TV
- Bluetooth TV
- 3D Smart LED TV
- Follow Me LED TV
- TV with 3D Video Conference Support
- Compact TV
- LCD TV with V-by-one Technology Support
- 21.9 Cinema TV
- A+++ TV
- Vestel Matrix TV
- South American TV Design
- All-in-one TV

#### LCD IDTV

- DVB-T MHEG-5
- DVB-C
- MPEG-2 DVB - T/C
- MPEG-4 DVB - T/C
- MPEG-4 DVB - TMHP + CI+

### **LCD TV with Hard Disk/DVD Reader**

- PVR IDTV
- DVD + IDTV LCD TV

### **IPTV**

- Patient Bed-Side Monitor TV
- Hotel TV
- Billboard TV
- Digital Board
- Interactive Information Touchscreens
- Arm-based Interactive Information Touchscreens
- Android-based Information Screens with Internal Internet Card
- Windows-based Information Screens with Internal Computer Card

### **Pixelence LCD TV**

- Pixelence Motion TV
- Pixelence HD TV
- Pixelence ASIC

### **Digital Broadcasting Receiver Box**

- Landline digital broadcast receiver (DVB-T, DVB-T2)
- Digital satellite receiver (DVB-S, DVB-S2)
- High definition digital broadcast receiver (HD DVB-T and HD DVB-S)
- Mobile SCART landline broadcast receiver
- Vestel OTT Platform
- Wireless Touchscreen Set-Top Box Design
- Android-based Set-Top Box Design
- PVR Set-Top Box with Portable Hard Disk
- IP Box

### **Digital Broadcast Receiver Module**

- DVB-T Module
- DVB-C Module
- MPEG-2/MPEG-4 DVB-T/C Module

### **IT Products**

- 65 inch Multiple Touch-Operated Smart Board
- 84 inch Ultra High Definition Smart Board with Tablet PC Interactivity
- Interactive Information Touchscreens
- Hospital Information Screens
- Android-based Information Screens with Internal Internet Card
- Windows-based Information Screens with Internal Computer Card

### **Tablet PCs**

- Kiosk Products
- 19-82 inch LCD Screens
- Totem Information Screens
- Meeting Room Information Screens

### **Module Designs**

- LCM Module Design
- Backlight Module Panel Design
- LGP (Light Guide Plate) Design

### **LED Lighting Designs**

- LED Interior Lighting Design
- LED Road Lighting Design
- Edge-Type Interior Lighting Design
- LED Outdoor Lighting Designs
- U-Type Waterproof Fixture
- Linear lighting

### **White Goods Electronic Control and Power Card Designs**

- Electronic Card Design for Refrigerators
- Electronic Card Design for Washing Machines
- Electronic Card Design for Dishwashers
- Electronic Card Design for Inverter Air Conditioners
- Electronic Card Design for Smart Air Conditioners
- Electronic Card Design for Induction Cooktops
- Electronic Card Design for Water Heaters

### **Connected TV/Smart TV**

Vestel is the first Turkish firm to conduct studies on new generation consumer electronics products which support the "Smart TV" concept, or IP-Internet Protocol. The first ever smart TV produced in Turkey, Vestel Smart LED TV allows viewers to connect to the internet and watch any content anytime, play any TV programs missed via the catch-up service, access social media sites such as Facebook and Twitter, monitor the weather, sports events and daily news reports, enjoy games, and watch films with the "watch and pay" system. The new generation 3D Smart TV that Vestel launched in 2012 transforms traditional TV broadcasts into 3D, thus enriching the television viewing experience.

## R&D and Innovation

The interactive smart screen technology developed by Vestel in 2012, Smart Center, allows the interaction of Vestel 3D Smart TV and Vestel Smart Tablet, blending TV with the internet. The result is a transferrable viewing experience for the consumer. Vestel Smart Center stands out among its peers with such unique features as “Vestel Follow Me”, which transfers digital TV broadcasts to the tablet PC in order to free the consumer from sitting in front of the television set, as well as applications that allow for calls to be made via the TV screen.

### Imaging Technologies

In line with the changing consumer electronics perceptions of end-users, Vestel strives to bring image quality ever closer to reality by investing in panel technologies. In 2012, the Company continued to work on the development of 3D image algorithms and ever thinner LED TVs. The thin and sleek GlassON TV was added to the product line; this innovation replaces the conventional plastic front frames with those of glass and metal, to simulate the experience of sitting before an unbounded screen for consumers.

**Vestel Smart Center stands out among its peers with such unique features as “Vestel Follow Me”, which transfers digital TV broadcasts to the tablet PC to free the consumer from sitting in front of the television set, as well as applications that allow making phone calls via the TV screen.**

Vestel Terranova LED TVs, developed by Vestek, illustrate a perfect case in point for Vestel’s efforts to reach an image quality close to the reality; the Pixellence image processing technology and the 600 Hz Super Motion Rate (SMR) were firstly applied to the LCD TVs and then LED TVs and 3D TVs.

### Boxes for Different Decoding Technologies

Vestel also devoted many R&D hours to develop digital TV and box-type products that receive and display cable, satellite and landline digital broadcasts, as well as to OTT technology projects, which provide end-users unlimited access to various online content. Showcased by Vestel at the IP&TV World Forum 2012, the OTT (over the top) set-top box, Beesmart IPTV set-top box and HD DVB-S2 HD + Smart TV set-top box possess numerous interactive features and stand out in this segment .

### Energy Efficiency

In 2011, Vestel capitalized on its know-how in vertical integrating with panel technologies to design mechanical, optical and power cards for LED lighting fixtures, in a technological cooperation with Cree, a leading firm in this area. In 2012, the Company geared up these efforts to launch the much acclaimed and economical LED lighting products that result in up to 80% energy saving and have an operating life of over 35 thousand hours. These activities bolster Vestel’s transition to energy efficient A+ and above products in its entire product range from electronics to white goods.

### Electronic Card Designs for White Goods

Vestel takes crucial steps to expand its eco-friendly product range in line with its environmentally friendly approach; the Company devises technologies and platforms that enable the production of interactive product groups that respond to consumer needs and current trends.

In order to meet the increasing demands of the white goods sector in a fast and quality-oriented way, Vestel Elektronik has started to work on the design of the power and control cards of various products including induction cooktops, refrigerators, washing machines, ovens, and air conditioners. The

Company has developed the electronic card designs requested by Vestel Beyaz Eşya, strengthened its test and design team dedicated to this operation, and created a significant competitive edge. TÜRKAK accreditation efforts for these design activities, EMC and safety tests were expanded to include white goods testing.

### **Projects Based on Informational Technologies**

As a result of efforts to enhance digital signage technologies to provide information to a mass audience or to promote products, as well as digital boards used for entertainment, informational and advertising purposes, Vestel Elektronik developed products such as the IP-based Interactive Hotel TV and Plasma Videowall System in 2012. These products allow for the operation of the information screens from a single center, connection to the internet to watch TV broadcasts, and transfer data in an interactive fashion. Thanks to these efforts, Vestel has established videowall systems of its own design shopping malls, airports, hospitals, hotels, theaters and conference halls in Turkey and abroad.

### **Tablet PC**

Designed by the Vestel R&D units and manufactured in the Company's plants, a new 10.1 inch tablet PC was rolled out in 2012. Equipped with a capacitive touchscreen, perception capabilities from 10 different points, with usage functions of a finger or stylus and the property of discerning the palm of the hand, the Vestel tablets, which have a double-core processor and 32 GB memory, also feature Wireless and Bluetooth access. Thanks to its compatibility qualities, this tablet PC can be used in interaction with other smart and interactive Vestel products such as Smart Center and smart boards.

### **FATİH Project and Smart Board**

For Vestel, 2012 was a year that the Company won the first phase of the digital interactive board tender for 85 thousand units, under the FATİH Project launched by the Ministry of National Education, and the Company continued to gear up its development efforts in this area.

The Vestel smart boards with 65-inch touchscreens allow users to print, organize video conferences and send e-mail. A PC card attached on the back of the LED touchscreen enables interactive education with the students. Additionally, the device can transform handwriting into a digital format, communicate with student PCs via the screen, control computers, record the classes and send the recordings to student PCs. Vestel also developed 80- and 65-inch Office Boards with similar capabilities for the business world and showcased these innovative offerings at prestigious events in Turkey and abroad.

In the final quarter of 2012, Vestel Elektronik won the tender for a pilot program under the FATİH Project for the manufacture of 49 thousand tablet PCs. In December 2012, the Company signed an agreement with the Ministry of Transport, Marine Affairs and Communications.

Also during 2012, Vestel and Doğa College joined forces to launch the groundbreaking "Smart School" initiative in Turkey. Under this partnership, numerous campuses of Doğa College will be equipped with Vestel smart boards and Vestel technology labs will be established at new campuses. In addition, the R&D units of Vestel and Doğa College will formulate new solutions to adapt technology for educational purposes.



# Vestel's For You series of TVs and refrigerators with colorful frames have enabled consumers to change the atmosphere of their home interiors.

## **Vestel Design: Where Technology Meets Aesthetics**

With the belief that industrial design adds not only technical and functional qualities but also great value to the product, Vestel's activities in this area are carried out by a professional team within the Company. With new and distinctive product designs, the Industrial Design Department enables Vestel to address customer demands and needs from all markets, and mainly from abroad, The Department constantly hones the Company's highly competitive skills base by developing original and target-oriented high quality industrial designs. Almost all of Vestel's design work is driven by the team, which implemented 25 industrial design projects in 2012. Seeing design as not simply a superficial issue of decoration and trends but an integral part of its product development process, Vestel launches truly original designs, 92 of which were awarded with prestigious prizes from well-known domestic and international competitions.

One of Vestel's key design efforts in 2012 was the introduction of colorful products in the TV and white goods segments. Produced only by Vestel in Turkey, the For You series of TVs and refrigerators with color frames allows consumers to freely express their personal tastes and thus to change the atmosphere of their home interiors. Vestel's colorful refrigerators come in four different colors; red, orange, green and beige versions, meanwhile, LCD and LED TVs come in five different color options, including red, light blue, white, purple and pink.

## **Eco-Friendly Products**

Vestel initiated a full-scale eco-mobilization in 2012 by adding new products to its portfolio, implementing innovative campaigns and launching effective communications initiatives.

Designed to slash energy consumption to increase savings at home and across the country, Vestel LED lighting products have a lifetime of over 35 thousand hours. Vestel LED lamps consume up to 80% less energy than white heat lamps and up to 50% less energy than standard energy-efficient lamps.



**Understanding that 24% of the electricity produced in Turkey is consumed by households, and that white goods, air conditioners and TVs account for 71% of this overall figure, the Company has slashed the energy use of its products by 50% and water consumption by 26% over the last five years.**

Understanding that 24% of the electricity produced in Turkey is consumed by households, and that white goods, air conditioners and TVs account for 71% of this overall figure, the Company has slashed the energy use of its products by 50% and water consumption by 26% over the last five years. The air conditioners and washing machines manufactured by Vestel offer more energy efficiency compared to A+ products. Vestel's TwinJet Plus washing machine, especially, is considered a pioneer in terms of energy efficiency by running on 40% less energy than A+++ class machines. Meanwhile, Vestel's LED TVs use 80% less energy than LCD TVs.

In commercial lighting products, Vestel joined forces with Cree in 2011, one of the sector's leaders, as the Company believes the future lies in energy-efficient, high intensity LED lighting technology. The Company's 100%-recyclable Vestel LED lighting products rolled out in 2012 have lifetimes of around 35-40 thousand hours, and are mercury-free. Longer lifetimes decrease waste, while the lack of hazardous metals prevents the pollution of water and soil. For general lighting purposes, Vestel LED lamps consume up to 80% less energy than white heat lamps and up to 50% less energy than the so called "energy efficient" fluorescent lamps. These products also cut

carbon dioxide emissions by up to 80%. In addition, Vestel plans to support its LED lighting operations with relevant social responsibility projects in the coming period.

Through the month of December, the Company implemented a discount campaign of up to 50% for energy-efficient white goods, in order to support the Ministry of Energy and Natural Resources' "Campaign for Transition to Energy-Efficient Products." Meant to encourage the use of energy-efficient technologies in households, this campaign helped Vestel to increase its white goods sales by a significant margin.

# As of year-end 2012, Vestel has been granted 39 patents in total.

The products rolled out by Vestel during the year brought the Company one step closer to its target of becoming a leading global player, thanks to their functionalities that meet consumer needs, esthetic designs that add color to everyday life, and their energy efficient performance.

The main products launched by Vestel in 2012 include:

- The new generation, multiple award winning LED TV series Terranova, which stands out with its thinness, modern design and superior image quality;
- The new Maxisound LED TV which received much acclaim for its internal sound system, sleek design and Pixellence Full HD image quality;
- The Vestel washer-dryer machine, which integrates washing and drying functionality, and completes the whole cycle in just 35 minutes thanks to the Wash & Use program;
- Vestel Puzzle refrigerator, which can easily switch between cooling and freezing functions, and offers 14 different usage modes thanks to its multi-purpose chambers;
- Vestel Smart Center, which enables interaction with Vestel's other smart products;
- Vestel Art TV, which combines esthetic design with advanced technology;
- Vestel TwinJet Plus washing machine consumes 40% less energy than the A+++ class, and its quality design has been recognized with international awards;

- The all-time fastest dishwasher Vestel Jetwash F18, which can make dishes spotlessly clean in just 18 minutes thanks to its time saving functions;
- Vestel Cartoon TV, whose design features the most popular cartoon characters in the Warner Bros. pantheon;
- The over the top set-top box, which allows users to access TV broadcasts, films, television series, music and other online content, as well as social media applications via the internet;
- Highly energy efficient and eco-friendly LED lighting products;
- The For You series of TVs and refrigerators with colorful frames, which enables consumers to change the atmosphere of their home interiors, and is manufactured exclusively by Vestel in Turkey;
- The Cool Plus and Inverter series of air conditioners that promise quieter summers with more savings and no stress.

## **Patents and Intellectual Property**

During 2012, Vestel Elektronik filed 156 patent applications that fully meet the requirement criteria of the Turkish Patent Institute. As of end-2012, the Company has been granted a total of 39 patents. In recognition of its efforts to launch new technologies, Vestel White Goods R&D Center was deemed worthy of the first prize at the First Annual R&D Centers Summit.

### **Numerous Prizes Confirm Vestel's Innovative Power...**

Vestel's 92 awards received in renowned international competitions during 2012 were the direct result of the Company's investment in technology and design development.

#### **Good Design Award 2012**

- Nine design awards: for five LED TV's, two set-top boxes and two remote controls

#### **If Product Design Award 2012**

- Four awards: for one LED TV, one washing machine, one air conditioner and one water heater

#### **Design Turkey**

- Nine awards: for one LED TV, one remote control, three refrigerators, three washing machines and one cooktop

#### **Plus X Award 2012**

- Fifty-nine awards for electronics and white goods products at Plus X Award
- Vestel Beyaz Eşya was named the "Most Innovative Brand in 2012" in the category of consumer durables
- Gleam air conditioner, Ultio washing machine and BGH 414 cooktop were designated the best products in their categories for 2012

#### **A Design Award 2012**

- Five awards for Vestel's LED TV models, including a Platinum Award for GlassOn LED TV

#### **Red Dot Design Award 2012**

- Five awards: for one LED TV, three washing machines and one cooktops

#### **IF Design Award 2012**

- Design award for the BGH 412 cooktop

### **Vestel's Fair Participation in 2012**

In 2012, Vestel continued to participate in the most renowned consumer electronics fairs in Turkey and around the world, showcasing its cutting-edge technology and design, and reinforcing its market position against the competition.

#### **January 2012**

CES: Las Vegas

BETT Education Technologies Fair: London

#### **February 2012**

ISE (Integrated Systems Europe): Amsterdam

CSTB Fair: Moscow

#### **March 2012**

CeBIT Fair: Hannover

#### **March 2012**

IP&TV World Forum: London

#### **June 2012**

Anga Cable Fair: Cologne

#### **August-September 2012**

IFA: Berlin

#### **November-December 2012**

Equip Hotel Fair: Paris

Luxlive (LED Lighting) Fair: London

CeBIT Eurasia: Istanbul

**Vestel's 92 awards received in renowned international competitions during 2012 were the direct result of the Company's investment in technology and design development.**

## Effective Marketing, Extensive Sales and Distribution Network

# In Europe, Vestel sells its products mainly to A-brand manufacturers, retail chains and distributors.

### Market and Competitive Strategy

Expanding its distribution network to cover 140 countries in 2012, Vestel aims to become the leader in all of its markets with a focus on profitability through:

- Its A-brand business partners, retail chains and distributors in Europe to which it provides ODM services in line with its export-oriented growth strategy;
- Well-known regional brands in Europe which it has acquired;
- Vestel and Regal branded products in the Middle East, Russia, CIS countries, Africa and India;
- Its own brands, the strong Vestel brand primarily, as well as well-known global brands which it distributes via its extensive store network, efficient sales and after-sales services, and user-friendly E-Store in Turkey.

In order to manage the sales and marketing operations in a more efficient manner, Vestel Dış Ticaret A.Ş.-in charge of the Group's foreign sales and marketing operations- merged with Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş., the Group's domestic sales and marketing company on November 30, 2012. This merger resulted in the formation of Vestel Ticaret A.Ş., which is now responsible for the entire sales and marketing operations of the Vestel Group.

### Sales Abroad

Vestel accounts for 2% of Turkey's total exports and the Company has been the country's uncontested export champion in electronics for 15 years. Having added Bhutan and Brunei to its distribution network in 2012, Vestel increased the total number of its export destinations to 140 and its export revenues totaled USD 3,095 million.

Vestel realizes sales in Europe, its major export market, by providing ODM services predominantly to A-brand manufacturers, retail chains and distributors.

Vestel also sells products primarily the Vestel brand and other in-house brands to Russia, CIS and the Middle East. Having completed the development of products designed especially for South American markets, the Company is getting ready to start exporting TVs to Argentina, Brazil, Uruguay, Peru, Colombia and Paraguay.

Vestel has further strengthened its presence in global markets by acquiring well-known regional brands. Vestel also signed new brand licensing agreements and boosted its activities in Germany and Eastern Europe. The Company was able to increase its market share in a time of contraction in the TV markets in the UK, Ireland and Scandinavia.



As a result of its extensive product range of A-class energy efficiency in white goods, the Company has not only gained a strong position in the European market, it has also penetrated the markets of India, Australia, North Africa and South America. The key drivers of Vestel's success in foreign trade are the Company's competence in technological development, superior production power and its close watch of global trends.

Another foreign trade breakthrough by Vestel in 2012 relates to smart boards. The Company has forged partnerships in over 10 countries and has held talks with the ministries of education in African and Balkan countries. Furthermore, for the first time ever, the Company sold set-top boxes in countries such as Zimbabwe, Yemen, the Maldives, Albania and Kosovo in 2012.

Vestel Ticaret A.Ş. conducts its international sales and marketing operations via the local sales and distribution network of its subsidiaries in France, Germany, Spain, the UK, the Netherlands, Finland, Russia and Romania. It also sells Vestel branded products via 2,770 sales points (2,507 Vestel, 263 Regal) located in 13 countries that include Russia, CIS countries and the Middle East.

#### **Domestic Sales**

In its own stores and sales channels in Turkey, Vestel places the strong domestic brands of Vestel and Regal side by side with prestigious global brands, offering products that appeal to all customer profiles. The Company implements a successful multiple-brand strategy by adding Vestel reliability to these products via an extensive range of sales and after-sales services.

# Vestel centralizes the management of all its dealers and services to sharpen its competitive edge.

## **The Company sells the following brands in Turkey:**

- Vestel products in its concept stores;
- Regal products through distributors;
- SEG products through retail chains;
- Products from the world's leading brands such as Telefunken at consumer electronics chain stores;

Vestel Ticaret A.Ş. provides extensive sales and after-sales services across Turkey through:

- 1,114 Vestel stores,
- 726 dealers with the Regal signboard,
- E-Store for online sales,
- 350 authorized service centers (electronics, white goods, air-conditioner, IT).

By centralizing the management of all its dealers and services in an enhanced distribution channel network, the Company meets customer demands efficiently and quickly, and sharpens its competitive edge.

In 2012, Vestel pursued its retail network expansion strategy by opening a concept store in Afyon. This 500-square meter location is the 360<sup>th</sup> concept store of Vestel, which has a network of 1,114 retail stores in Turkey. The Company also refreshed its concept store format. The İstinye Park location was the first Vestel store to feature this new concept, which was designed to raise brand awareness of consumers and to offer a pleasant shopping experience.

Vestel has also reached out to consumers via the E-Store since 2010 to offer online shoppers the full range of products available in its stores. Offering registered users such advantages as installment payment options, seasonal campaigns and promotions, and shopping with maximum data security, with its user-friendly interface, the Vestel E-Store has increased its membership base to 185,000 as of December 2012.

To further increase the quality and customer satisfaction in after-sales services, Vestel launched the "Services from A to Z" initiative. The project's objectives are to ensure that consumers are given a service appointment within two hours following the first call, that the first service visit takes place within a maximum of 24 hours, and that the problem is identified and resolved at the first attempt.

### **Corporate Brand and Communications Strategy**

Vestel lives up to its promise of “Friendly Technology” by delivering a total quality approach that includes innovative ideas, production, sales and after-sales services. Becoming the first brand to be accepted to Turquality in 2007, which is a branding program supported by the government, proves the importance of brand reputation for the Company.

Vestel holds a very prominent market position in Turkey, Russia, CIS and the Middle East where it offers customers the strong Vestel brand with:

- Eco-friendly and innovative designs and products that the Company always works to differentiate from those of its competitors;
- An extensive sales, distribution and service network;
- Efficient after-sales, call center and technical solution services that prioritize customer satisfaction;
- Promotional campaigns that add value to the brand and deliver Vestel quality to customers at attractive prices; and
- Effective use of print and visual media communications and social media channels that reinforce brand recognition and loyalty and highlight brand value.

### **Vestel's Major Campaigns in 2012**

During 2012, Vestel developed and implemented a number of attractive campaigns designed to meet customers' needs. The Company's most exceptional promotional campaigns are described below:

#### **Vestel - Digiturk Cooperation**

Vestel and Digiturk jointly initiated a campaign that allowed football lovers to watch the Turkish Super League's Super Final games of their favorite team free-of-charge. Everyone who purchased a Vestel 3D Digiturk TV from Vestel sales points therefore enjoyed 3D and free-of-charge broadcasts of Super Final games in the 2011-12 football season.

### **Discount at Vestel E-Store**

As the first consumer durables brand to start online sales, Vestel celebrated the second anniversary of its E-Store with an ambitious discount campaign that ran until March 31, 2012. During the campaign, consumers enjoyed discounts of up to 50% on numerous products from all product categories.

### **Vestel's Great Energy Saving Campaign**

Vestel, the “Friendly Technology,” marked Energy Efficiency Week with the “Great Energy Saving Movement.” Consumers had the opportunity to purchase A-class and higher refrigerators, washing machines and dishwashers at discounts of up to 50%.

### **Vestel Welcomes the Wedding Season with the Dowry Campaign**

Vestel offered a complimentary 106 inch LCD TV to whoever purchases a Dowry Package consisting of a refrigerator, washing machine and dishwasher, such as newlyweds as well as everyone who wanted to replace their old white goods.

### **Vestel Smart TVs Now Feature Tivibu**

Vestel joined forces with TTNET to add Tivibu to its Vestel Smart TV portal, which combines the internet with TV broadcasts to revolutionize the television viewing experience.

### **Father's Day Campaign from Vestel**

On Father's Day, Vestel invited to its stores all those who wanted to make their fathers happy with technology-related gifts. Vestel presented customers ideal gift ideas for fathers, such as the ultra-thin and sleek Terranova LED TV, as well as smart and practical products such as Vestel iDock Aero and Vestel Wake Up Projection from the 'Bi Baksana' (Take a Look) product category.

# The Company invests heavily in its human capital and does its utmost to eliminate all occupational risks in its operations.

The growth strategy of Vestel Group of Companies is based on sustainable values in all of its areas of operation. Focused on manufacturing ecologically harmless, energy efficient and environmentally friendly products, Vestel takes a similar approach to its production processes and works to reduce its ecological footprint every passing day. Making significant investments in its human capital and doing its utmost to eliminate all occupational risks in its operations, the Company provides support to long-term social responsibility projects that add permanent value to society as a responsible corporate citizen.



# To date, 317 engineers have benefited from advanced training opportunities provided by Vestel Technology Academy.

### Human Resources Policy

Vestel's operations are based on the awareness that human resources are key to gaining a competitive edge. As a result, Vestel takes the following measures to become a sought-after employer:

- Provides opportunities to ensure that employees can advance their personal and professional development;
- Places the right person in the right position with a customer-oriented approach;
- Identifies employees with high potential and encourages their further development;
- Evaluates personnel performance and rewards success through the Company's performance management system;
- Closely monitors innovations in human resources management and implements these according to the Group's needs;
- Performs career planning, promotions and lateral transfers and establishes long-term cooperation with employees;
- Upholds and encourages fairness and equal opportunity among employees; and
- Strikes a balance between the Company's targets and employee expectations based on the principle that the Company always comes first.

The Company expects its employees to fully embrace their work and act in keeping with the common values of the Group.

The entire Vestel Group has advanced policies and systems in place related to recruitment, promotion, dismissal, severance pay, training, career planning and performance assessment. Issues related to the basic rights of employees, promotions, career planning, training and discipline are handled by a professional human resources team.

### Career and Performance Management

To meet its organizational staffing requirements, Vestel uses promotion and lateral move systems based on a Group's needs and employee performance, in line with career plans.

The performance management system implemented at Vestel enables employees to determine their goals and priorities and helps them to achieve success in forward-looking plans and projects by directing their focus on clear objectives.

The Company's performance assessment system is based upon five fundamental criteria. Individual performance is evaluated according to the employee's:

- Know-how and qualifications;
- Work contributions and effort;
- Harmony with the corporate culture;
- Effort and demeanor; and
- Outcomes and results.

Thanks to this personnel assessment system, Vestel can not only measure human resource performance and potential, but also take the necessary actions to meet career planning and training needs.

# Vestel's MT Program is designed to train the managers of the future, which will help the Company make a difference on the road to leadership.

## Training and Development

At Vestel, every employee is highly valued. As a result, the Company's training policy is based on developing employee skills and supporting their development areas in order to ensure that employees effectively adapt to innovation and change. Training activities are conducted with impartiality, based on need, in line with the employee's career plan, in accordance with the Company goals and strategies, and in support of the corporate culture.

## Vestel MT Program

Vestel trains its managers in-house through a Management Training (MT) Program. The MT Program prepares participating employees to become managers in the Vestel Family. The intensive program is developed in partnership with Özyeğin University and includes exclusive and strong academic content that aims to prepare participants in both theory and practice for managerial positions. With the MT Program, Vestel also aims to cultivate future managers who will make a difference on the Company's road to leadership.

The second edition of the Vestel MT Program graduated 26 employees in spring 2012. Conducted with academic support from Özyeğin University, the MT Program consists of four months of theoretical training supported with real life applications and simulations, and seven weeks of internship at Vestel companies.

The management trainees who graduate from the MT program assume various positions across the Vestel Group of Companies. The career plans of the Vestel employees who complete the MT Program are designed in a manner that allows them to reach the highest executive levels.

The third edition of the MT Program started on October 2012 with the participation of 27 management trainees, and is scheduled to wrap up in March 2013.



### **Vestel Technology Academy**

Vestel launched Vestel Technology Academy in 2010 in partnership with Özyeğin University in order to enhance the technical knowledge base of its engineers, through a theoretical and practical transfer of emerging technology by trainers from Turkey and abroad, all with an academic background.

The Academy imparts the knowledge and skills needed by engineers working in functional areas such as R&D, quality control and production, through a curriculum specially prepared by Özyeğin University for Vestel. The academic program lasts approximately 2.5 years and comes in two versions: with or without thesis. Vestel presents Academy attendees the convenience of obtaining post-graduate and doctorate degrees certified by The Council of Higher Education (CHE) in the fields of electronic, mechanical, computer and industrial engineering. By meeting all training costs, Vestel has become the first company to bring the university environment to employees. To date, 317 engineers have benefited from the advanced training opportunities at the Academy.

### **Annual Training Plan and Other Training Activities**

In addition to its MT Program and Technology Academy, Vestel develops a yearly training plan for its employees based on the analysis of the training needs identified via the performance measurement system. Each year, the Company develops and conducts training programs that can be tracked through the Training Portal and accessed by personnel through the SAP Portal. Vestel also develops and conducts supplemental in-house trainings based on Group companies' specific needs.

# Vestel has slashed the energy consumption of its products by 50% and water consumption by 26% over the last five years.

As a company with heightened environmental awareness, Vestel signed the United Nations Global Compact in 2007 under the umbrella of the Zorlu Group. The Company fully lives up to the responsibilities it has assumed through this compact, thus confirming its commitment to contributing to a sustainable world in every single operation.

### **Eco-Friendly Products**

Vestel Elektronik's R&D efforts are largely centered around the development of eco-friendly technologies and products which use natural resources in an efficient way, minimize energy and water consumption, and ensure superior hygiene. Vestel continuously strives to minimize the ecological footprint of its new products and increase R&D investments in sustainable innovations.

Shifting its entire product line towards A+ and above devices with high energy efficiency, Vestel has slashed the power consumption of its products by 50% and their water consumption by 26% over the last five years. Vestel's air conditioners and TwinJet Plus washing machine are 50% more energy efficient than A+ products, while Vestel LED TVs save 80% more energy than normal LCD TVs.

Vestel's flagship environmentally friendly products are the Vestel TwinJet Plus, the world's most energy efficient washing machine which consumes 40% less energy than even the A+++ class, and Vestel Jetwash F18, which requires just nine liters of water to clean a load of dishes.

Vestel entered the area of energy efficient LED lighting by joining forces with the industry leader Cree. Vestel's LED lighting products are certified by the Turkey Sustainable Energy Finance Program.

### **Environment- and Human-Friendly Production Processes**

By making its production processes modern and environmentally-friendly and by creating a safe working environment, Vestel not only decreases the environmental impact of its operations but also minimizes production costs and risks.

Saving energy, decreasing waste, reusing and recycling, minimizing hazardous chemicals to prevent pollution are some of the methods the Company employs to avoid any possible environmental damage arising from its manufacturing processes.

As a result of its annual environmental inspections, Vestel has saved considerable amounts of energy and water, thus cutting operational costs by a significant margin while protecting the natural environment.



Thanks to these concerted efforts, the Company managed to reduce its electricity consumption by 17%, water consumption by 24%, heating energy consumption by 26% and plastic raw material consumption by 42%. Furthermore, the Company has decreased hazardous waste by-products resulting from its production activities by a considerable amount.

Vestel became the first Turkish company in the white goods sector to obtain ISO 50001 Energy Management System Certification. Vestel Beyaz Eşya received this certification from the Turkish Standards Institute due to its efforts to protect nature, cut greenhouse gas emissions, use resources in an efficient manner and slash energy expenditures. Integrating its business processes with the Environmental Management System and similar systems to manage energy consumption in a systematic fashion, Vestel Beyaz Eşya did its utmost to comply with the applicable legislation and passed the rigorous certification assessments with success.

**As a result of its annual environmental inspections, Vestel has saved considerable amounts of energy and water, thus cutting operational costs by a significant margin while protecting the natural environment.**

# For Vestel, developing long term, solutions-oriented social responsibility projects is a fundamental principle.

### Hand in Hand with Society

At Vestel, corporate development is equivalent to social development. With this approach, the Company supports social responsibility projects that add value to society with a strong fund base, pioneers new projects in this area, and raises social awareness of its forward-looking and eco-friendly products via product communications.

Doing its utmost to ensure that its corporate social responsibility activities deliver concrete and sustainable benefits to society, Vestel chooses to support not short-lived but rather long-term projects that have the capacity to create their own momentum in the future. At the start of the social responsibility project development process, the Company first identifies areas in which public support is insufficient or lacking. In the social responsibility initiatives it undertakes, Vestel demonstrates the same high performance and meticulousness that its displays in its other operations, never compromising its total quality approach.

### Social Responsibility Activities

Vestel continued to provide support to education in 2012 by opening the Vestel White Goods Laboratory at the Diyarbakır Burhanettin Yıldız Technical and Industrial High School, under the “Occupational Training Partnership” agreement. As part of this partnership with Diyarbakır Burhanettin Yıldız Technical and Industrial High School, a training program was designed for authorized Vestel service centers. After the first stage of this program jointly implemented by the high school's teaching staff and Vestel trainers, a total of 18 Vestel technicians received certification in “Electric Home Appliances” and “Individual and Commercial Air Conditioning Systems”, all approved by the Ministry of National Education.



### Sponsorships

In line with the principle of mobilizing its resources for social development, Vestel has assumed the main sponsorship of or has given strong support to noteworthy events. In 2012, the most important project sponsored by Vestel was the First Istanbul Design Biennial. The Company became the co-sponsor of the Biennial, and organized two different workshops with design students before the official start of the event.

Organized under the main sponsorship of Vestel, Turkey's first interactive arts exhibition The Great Masters brought together the masterpieces of famous Renaissance painters, such as Michelangelo, Leonardo da Vinci and Raphael. In addition to its sponsorship, Vestel supported the exhibition with its products, and installed interactive monitors and digital screening devices to ensure that art lovers fully enjoy the event.

Last year, Vestel sponsored the film "Anatolian Eagles" commemorating the centenary of the Turkish Air Forces, and the screening in Turkey and the region of the immensely popular TV series Terra Nova, co-produced by Steven Spielberg. Vestel also gave the name of the series to its new LED TV model, a veritable esthetic wonder.

In September, the Company assumed the sponsorship of the Izmir leg of the "European Day of Science and Fun," held simultaneously in 284 European cities, and featuring concerts, scientific experiments, exhibitions, round tables and educational games. In another contribution to arts and culture, the Company sponsored a concert by the Berlin Philharmonic Orchestra.

**Organized under the main sponsorship of Vestel, Turkey's first interactive arts exhibition "The Great Masters" brought together the masterpieces of famous Renaissance painters, such as Michelangelo, Leonardo da Vinci and Raphael.**

# Vestel's perfectionist approach to occupational health and safety was confirmed with OHSAS 18001 Occupational Health and Safety Certification.

Vestel gives top priority to providing occupational health and safety, continuously improving working conditions and preventing risks.

As prescribed by Vestel Group Management Systems policies, in all of its activities Vestel strives to:

- Fulfill all of its legal, regulatory and administrative requirements, comply with the rules of the organizations of which it is a member and ensure that international standards, new technologies, and employee suggestions are incorporated into its policies and practices concerning such issues for improvement.
  - Perform occupational health and safety risk analyses; develop and implement plans aimed at preventing work-related accidents and illnesses.
  - Provide fire safety, extend preventative and protective measures and raise awareness at all levels, based on ordinances and internationally accepted standards in all its activities.
- Ensure that all levels of its personnel are aware of their responsibilities in occupational health and safety, and provide continuous training on health and safety risks to instill appropriate actions and behaviors.
  - Eliminate or at least minimize work-related accidents, unsafe conditions, and unsafe activities within the workplaces in order to prevent or reduce work-related accidents; frequently review working conditions and take appropriate measures when problems are identified; ensure that such measures are provided with sufficient resources; and review occupational health and safety policies and practices in light of changing conditions and requirements.

# Risk Management

In order to early detect the risks that could jeopardize Vestel Elektronik Sanayi ve Ticaret A.Ş.'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 was issued and became applicable in all Zorlu Holding companies. These efforts concern the management of not only financial risks, but also of operational, environmental, technological, and other non-financial risks.

The Early Detection of Risk Committee was established with a resolution dated March 15, 2013 of the Board of Directors.

According to the risk inventory undertaken, the main risks and the measures taken against them are as follows:

	<b>Risk Type</b>	<b>Explanation</b>
<b>Financial Risks</b>	<b>Liquidity Risk</b>	The Company conducts periodic analyses to manage possible liquidity risks such as failure to provide sufficient cash and securities to ensure business continuity, failure to generate sufficient funds to balance the cash flow and the weakening of the capability to close open positions.
	<b>Capital Risk</b>	The Company endeavors to ensure the continuity of business in context of capital management processes by using the debt to total capital ratio in the most efficient manner.
	<b>Foreign Exchange/ Interest Rate Risk</b>	The Company can be exposed to foreign exchange risk due to changes in the rates used for exchanging its assets and liabilities in foreign currency for TL. In order to avoid these risks, the Company pursues hedging policies such as buying and selling in the same foreign exchange. In addition, the Company is affected by interest rate changes in domestic and international markets since it uses different funding sources to balance the cash flow. The Company also implements various hedging policies to minimize this risk.
	<b>Financing Risk</b>	Currently, the Company does not have long term investments. The Company funds its operational requirements by means of short term bank loans. In line with its overall operating philosophy, the Company takes care not to assume financial debts which cannot be repaid with highly liquid assets.
	<b>Economic Risks</b>	The negative impacts of economic instabilities (recession, crisis, inflation, devaluation), changes in foreign exchange and interest rates, fluctuations in the prices of inputs such as labor, raw materials and electricity are important sources of risk in the investment and operation stages. Sensitivity analyses are used to measure the effects of these changes and to take the correct action in every single case.

	<b>Risk Type</b>	<b>Explanation</b>
<b>Non-Financial Risks</b>	<b>Strategic Risks</b>	Strategic risks arise from issues that may jeopardize business continuity, such as competitive challenges for the market share, changes in customer demand and product/service development. These risks are managed through such methods as diversifying investments in various countries, grasping changes in every segment in a timely and accurate manner, and operating the decision-making mechanisms duly.
	<b>Business Continuity Risk</b>	Strategically, the Company prepares and periodically revises emergency plans in order to save critical systems, rescue technical infrastructure and facilities through alternative means and locations, and regain functionality, during or in the aftermath of a disaster, an unexpected situation, or emergency.
	<b>Competitive Risks</b>	With a view to preserving and enhancing the Company's domestic and international competitive edge, efforts are expended to thoroughly analyze the customer portfolio, accurately identify changes in customer demand, ensure the longevity of commercial relations, and maximize price advantages and quality.
	<b>Operational Risks</b>	With on site and timely interventions, the Company minimizes the impact of operational disruptions such as systemic problems, mechanical breakdowns and theft along the product and distribution lines, whether caused by human error or environmental factors (natural disasters, terrorism, and the like). Additionally, the Company takes out insurance policies with comprehensive coverage to minimize any material damage due to such disasters.
	<b>Legal/Political Risks</b>	The Company can face risks such as bureaucratic delays, changes in regulations, lawsuits, taxation disputes, violation of intellectual property rights, unfair competition, contracts with shareholders, customs problems and political tensions, which are controlled by means of close and timely monitoring.

# Internal Audit Department and its Operations

At Vestel Elektronik San. ve Tic. A.Ş. and other Zorlu Group companies, 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 of Directors, 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 in 2012.

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 have been approved by the Board of Directors and shared with the individual companies.

Under the risk-based annual audit program approved by the Board of Directors, 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

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 analyzed 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 the 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 Directors, in line with the 4T approach (Treat, Terminate, Transfer and Tolerate).

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. In 2012, five meetings were held between the Internal Audit Department and Audit Committee.

# Corporate Governance Principles Compliance Report

## 1. Statement of Compliance With Corporate Governance Principles

In parallel with the Corporate Governance related activities initiated in late 2004 in Vestel Elektronik San. ve Tic. A.Ş., the corporate governance principles are now implemented within the Company.

For the last seven years, the Company has been provided rating services by ISS Corporate Services Inc. (ISS), a leading international rating agency, in order to have the relevant practices examined independently and to ensure their public disclosure. On the basis of the monitoring carried out in the first months of 2013, ISS increased our Company's Corporate Governance rating to 9.09 (90.94%) on a scale of 10. This high score earned yet again attests to the importance Vestel Group places on corporate governance and to its commitment to achieve further progress in this area.

The efforts undertaken to further improve compliance with Corporate Governance Principles at Vestel Elektronik San. ve Tic. A.Ş. in 2012 are summarized below.

- The Articles of Association were revised in parallel with the Capital Markets Board's Corporate Governance Principles and submitted for the review of investors at the General Meeting for the year 2011.
- Résumés of Board Members were included in the information document distributed prior to the General Meeting. The information document was shared with the general public four weeks before the General Meeting via the Public Disclosure Platform (PDP) and the Company's website.
- At the General Meeting for the year 2011, the independent Board Members whose terms of office expired were replaced with new members. The statements of independence of the new independent Board Members were collected.
- Upon the selection of Selen Zorlu Melik as Board Member, the structure of the Board of Directors has come to comply with the CMB's Corporate Governance Principles, Article 4.3.10.
- At the General Meeting for the year 2011, all the new Board Members were selected from among non-executive candidates.
- Pursuant to Corporate Governance Principles Article 4.6.2, the "Remuneration Policy for the members of Board of Directors and Senior Executives" was set down in writing and submitted for the review of shareholders at the General Meeting.
- Pursuant to Corporate Governance Principles Article 1.3.11, the "Donation and Charity Policy" was set down in writing and submitted for the review of shareholders at the General Meeting.
- Pursuant to Corporate Governance Principles Article 4.5.2, the "Corporate Governance Committee Working Principles" and the "Audit Committee Working Principles" were set down in writing, and disclosed to the general public via the Public Disclosure Platform and the Company website.
- Pursuant to Corporate Governance Principles Articles 4.1.1, 4.2.3 and 4.2.4, Zorlu Holding's Enterprise Risk Management Department commenced activities from the first quarter of 2012 onwards to detect the risks which could jeopardize the existence, development and continuity of Vestel Elektronik, to take action against the risks identified and to manage these risks. To these ends, the Company issued the Corporate Risk Management Framework, Policies & Procedures document and initiated the Vestel Elektronik Corporate Risk Management Project.
- Pursuant to Corporate Governance Principles Articles 4.5.1 and 4.5.12, preparations to establish the Early Detection of Risk Committee started. The Committee was established upon a Board of Directors resolution dated March 15, 2013, and the shareholders were informed of working principles of the committee via the Public Disclosure Platform and the Company website.

- In line with the efforts to comply with the Turkish Commercial Code and Turkish Accounting Standards, the structure and tasks of the audit function under the Vestel Group of Companies was redefined. The audit function was divided into the two main categories of Internal Audit, and Financial and Tax Audit. Long established, the Internal Audit Department will from now on be responsible mainly for operational and compliance audits, and audits demanded by the management. Meanwhile, the Financial and Tax Audit Department will audit the accuracy of all financial statements (external reports and management reports), and give assurance to the Board of Directors in this area. In addition, the Information Technology audit under the Internal Audit function will also continue in 2013.

In the implementation of Corporate Governance Principles, certain principles that do not conform with the Company's structure and that are regarded as potential obstacles to its operations were excluded. These principles and the reasons for opting not to comply are summarized below:

- The definition of the appointment of a special auditor as an individual right in the Articles of Association: The right to demand the appointment of a special auditor is already granted by the Turkish Commercial Code, Article 438. Since this right is already stipulated by law, it is not mentioned in the Company's Articles of Association.

These activities on the part of Vestel Elektronik show its commitment to achieve compliance with Corporate Governance Principles and that it is aware of its responsibilities to all its stakeholders. Acknowledging the contributions of the Corporate Governance Principles to the Company, Vestel Elektronik's goal is to attain even greater compliance with those principles with the involvement of all its employees and of the senior executives.

## PART I: SHAREHOLDERS

### 2. INVESTOR RELATIONS UNIT

- Vestel Elektronik maintains relations with shareholders via the Investor Relations and Corporate Finance Department of the Zorlu Group of Companies. Information on the unit that handles Vestel Elektronik San. ve Tic. A.Ş.'s relations with shareholders is presented below:

Department Director	: Figen Çevik
Department Manager	: Başak Dalga
Address	: Vestel Şirketler Grubu Zorlu Plaza, 34310 Avcılar – İstanbul
Phone	: +90 212 456 22 00
E-mail	: <a href="mailto:yatirimci@vestel.com.tr">yatirimci@vestel.com.tr</a>

- The main activities carried out by the Investor Relations and Corporate Finance Department on behalf of Vestel Elektronik in 2012 are summarized below:

- Nearly 70 one-on-one meetings were held with investors and analysts.
- During the reporting period, more than 80 requests for information were responded to by e-mail and about 90 such requests were answered by telephone.
- The Department participated in four conferences organized by brokerage houses.

### 3. SHAREHOLDERS' EXERCISE OF THEIR RIGHT TO OBTAIN INFORMATION

- During 2012, shareholders requested information from the Company on various issues. These queries were responded to via telephone, e-mail or postal mail, in writing or verbally, as demanded by investors. The responses to these information requests were open, clear, and in detail, in accordance with the Company's disclosure policy, and all inquiries except those related to trade secrets were responded to in a satisfactory manner.
- Material event disclosures made via the Public Disclosure Platform (PDP) and Vestel Elektronik's website were the tools used in 2012 for the disclosure of developments that might have an impact on the shareholders' exercise of their rights.
- To facilitate the exercise of the critical right of shareholders to obtain information, the corporate Investor Relations website was redesigned and its content was enriched in 2011 to give domestic and international investors quick access to as much timely, accurate, complete, and easily understandable information as possible. All the information required by the CMB's Corporate Governance Principles is published on the corporate website. Updating and monitoring the website is the responsibility of the Investor Relations and Corporate Finance Department.
- The right to request the appointment of a special auditor is not laid out in the Articles of Association. Since this right is already granted to each shareholder of joint stock companies by Turkish Commercial Code Article 438, it is not mentioned specifically in the Articles of Association. The Company received no requests for the appointment of a special auditor in the reporting period.

### 4. INFORMATION ON GENERAL MEETINGS

- Vestel Elektronik held its ordinary General Meeting for 2011 on June 19, 2012 at 10:00 AM at the address of Zorlu Plaza, Avcılar-Istanbul.
- The announcement for the meeting, including the meeting date and agenda, was made within due time in accordance with legal requirements and the Company's Articles of Association by being published in the Turkish Trade Registry Gazette issue 8076 dated May 25, 2012, in the Milliyet newspaper and Dünya newspaper, both dated May 25, 2012, and on the Company's website [www.vestel.com.tr](http://www.vestel.com.tr). To facilitate attendance at the General Meeting, announcements were published in these two Turkish newspapers with high circulation. In addition, all relevant information relating to the General Meeting including the announcement was posted on the corporate website.
- Before the General Meeting, the annual report, financial statements, Articles of Association and the General Meeting Information Document prepared as per Capital Markets Board regulations were all made available for the review of shareholders at the Company's headquarters. All this information was also published on the corporate website together with the General Meeting announcement and the agenda.
- Prior to the General Meeting, the shareholders, Capital Markets Board and/or other relevant public agencies and institutions did not demand to add any items on the meeting agenda.
- Out of 33,545,627,500 shares corresponding to the Company's total capitalization of TL 335,456,275.00; 26,350,849,459 shares representing TL 263,508,494.56 in capital were present in person at the meeting. The General Meeting thus convened with an attendance ratio of 79%.

- The Company's Articles of Association contain no provisions concerning the participation of stakeholders or the media at the General Meeting. However, participation is possible provided that the Company is informed beforehand. Only shareholders attended the General Meeting for 2011 and no other stakeholders or media representatives attended.

- Shareholders were allowed to pose questions at the General Meeting. All questions from the shareholders were responded to in detail. Shareholders introduced no motions during the meeting.

- At the General Meeting, shareholders were informed about the donations amounting to TL 1,121,200 made during the 2011 accounting year. The Company's "Donation and Charity Policy" issued in compliance with CMB's Corporate Governance Principles was also submitted to the shareholders' approval in a separate agenda item at the General Meeting for 2011.

- The minutes of the General Meeting are made available for the examination of shareholders at the Company's headquarters. All announcements, documents, and other materials related to General Meetings are accessible to shareholders and all other stakeholders on the corporate website.

## 5. VOTING RIGHTS AND MINORITY RIGHTS

- All Vestel Elektronik San. ve Tic. A.Ş. shares enjoy the same rights. There is no privilege concerning the voting right. This is stipulated in the Company's Articles of Association.

- The Company's subsidiaries do not have any shareholding interests in Vestel Elektronik Sanayi ve Ticaret A.Ş. For this reason, there are no cross-shareholding interests and therefore no need to disclose the impact on General Meeting votes.

- According to the Articles of Association, the minority rights shall be exercised by the shareholders representing at least 5% of the paid-in capital.

- Minority shareholding interests are not represented in management. However, two independent members were elected to the Board of Directors to represent the interests of all shareholders and stakeholders, especially those of minority shareholders.

## 6. DIVIDEND RIGHTS

- There are no privileges concerning the participation in Company's profits. Each share of stock is entitled to an equal dividend.

- Each year, the Company's Dividend Distribution Policy is presented to the shareholders as a separate agenda item at the General Meeting. The Dividend Distribution Policy is also disclosed to the general public via the Company's website and the annual report.

- Since no profit will be distributed as the financial statements prepared in accordance with the Capital Market Law and related communiqués showed a loss, shareholders were informed about the loss at the General Meeting for 2011 by the reading out of the Board of Directors' resolution dated May 18, 2012 and numbered 2011/26.

- In accordance with the Dividend Distribution Policy established at the Board of Directors meeting held on March 19, 2007, the Company decided to distribute dividends corresponding to a minimum 25% of the distributable profit in cash or in the form of bonus shares to the shareholders, including 2006. The amount of dividends to be distributed shall be proposed by the Board of Directors each year at the Ordinary General Meeting depending on national and global economic conditions and the Company's growth plan.

### 7. TRANSFER OF SHARES

- The Company's Articles of Association contain no provisions restricting the transfer of shares.

## PART II: PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. DISCLOSURE POLICY

• Vestel Elektronik's Public Disclosure Policy has been formulated in line with the CMB Corporate Governance Principles. In 2010, the policy was revised and approved by the Board of Directors. The revised disclosure policy was presented for the information of shareholders and participants at the 2009 Ordinary General Meeting held on May 26, 2010. The Company's disclosure policy has also been publicly disclosed on the corporate website.

- Vestel Elektronik's public disclosure policy addresses the following issues:
  - Ensures that public disclosures are made in a complete, fair, accurate, timely, comprehensible manner and are made equally and easily accessible to all;
  - Individuals authorized to handle the development, implementation and improvement of the disclosure policy and individuals responsible for public disclosures;
  - Methods and tools of disclosure;
  - Public disclosure of financial reports and authorized individuals;
  - Public disclosure of material events and authorized individuals;
  - Written/verbal statements-press releases-conferences and individuals authorized to make public disclosures;
  - Disclosure of forward-looking information;
  - Prohibited disclosure/quiet period;
  - The corporate website;

- Following up on news, rumors, and speculations;
- Criteria used in the designation of individuals with administrative responsibility;
- Confidentiality protection procedure for insider information.

• The Public Disclosure Policy has been developed and approved by the Board of Directors, which is the responsible body for its implementation, development and oversight. The monitoring and follow-up of all kinds of issues related to public disclosure is under the responsibility of executives in charge of financial management and reporting, and the Investor Relations Department. These executives perform their duties in close cooperation with the Corporate Governance Committee, Audit Committee and Board of Directors.

### 9. THE CORPORATE WEBSITE AND ITS CONTENTS

- The Company has an active and easily accessible website. The website was set up to ensure that shareholders, stakeholders and the general public are kept informed in an open, clear and simultaneous fashion. Information presented on the website is updated regularly.
- The corporate website contains the required information as stipulated in Article 2.2.2 of Section II of CMB's Corporate Governance Principles.
- The website also features pages in English to provide information to international investors.
- The website is accessible at [www.vestel.com.tr](http://www.vestel.com.tr).

## 10. ANNUAL REPORT

- The annual report contains the required information stipulated in Article 2.3.2 of Section II of CMB's Corporate Governance Principles.

## PART III: STAKEHOLDERS

### 11. KEEPING STAKEHOLDERS INFORMED

- Stakeholders are continuously informed in accordance with the Company's Public 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 also 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. The Company 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.
- Stakeholders can report any Company transactions that may violate applicable law or ethical rules to the Corporate Governance Committee or Audit Committee by accessing the Investor Relations Unit via telephone and/or e-mail.

### 12. STAKEHOLDER PARTICIPATION IN MANAGEMENT

- No model has been developed to include stakeholders in the Company's management. However, the two independent members on the Board protect and represent the interests of all stakeholders as well as those of the Company's shareholders.

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

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

### 13. HUMAN RESOURCES POLICY

- The Company's human resources processes are managed by the Vestel Human Resources Department, which reports to the Zorlu Holding Human Resources Coordinator. The Department includes a Human Resources and Training Unit, and an Industrial Relations Unit. Transactions related to the administrative affairs and recruitment functions are carried out under the direct supervision of the Human Resources Director. The Zorlu Holding Human Resources Coordinator is a member of Vestel Group's Executive Committee as well. Thus, providing information regularly to the management on any employee related issue is ensured.
- The Company's Human Resources Policy is set down 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 Human Resources Unit is responsible for the development and implementation of this policy. This unit keeps track of employee-related entitlements, promotions, career progression, training, and disciplinary action. At regular intervals but not less than once a year, the Unit also conducts employee evaluations in line with specified performance criteria.

- Training programs are regularly conducted to improve employee productivity. Personnel may also be sent to take part in external training programs.
- Vestel Technology Academy was founded expressly for the benefit of the engineering staff of the Vestel Group. The Academy provides masters and PhD level educational opportunities to around 200 employees. Additionally, the “Management Training” and similar programs are regularly planned and implemented every year in order to cultivate qualified managers.
- 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.
- There were no complaints received from employees related to discrimination. Measures are taken to prevent any practices that might cause discrimination among staff members and all personnel are treated equally without any distinctions being made among them.

### 14. CODE OF ETHICS AND SOCIAL RESPONSIBILITY

- Vestel Elektronik San. ve Tic. A.Ş.’s Code of Ethics has been set down in writing and published on the corporate website within the framework of the Public Disclosure Policy. Utmost care is taken to ensure that the Code of Ethics which is formulated for Company, the Board Members, and the employees is complied with in full.
- Vestel Elektronik 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 Elektronik 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, in 2012 Vestel Elektronik published its progress report for the year 2011 on the website [unglobalcompact.org](http://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 Sociale) audits by independent audit firms.
- Assuming the responsibilities of being a global player in consumer electronics, Vestel Elektronik San. ve Tic. A.Ş. carries out environmental impact reviews of all its operations, production lines, and products. Vestel believes that it has a duty to be acutely aware of the health and safety of employees, customers, and the general public who may be affected by its activities, products, and services and to protect the environment and nature for the good of future generations. Vestel demonstrated its commitment to this area by obtaining TS-EN ISO 14001 Environmental Management System Certification in 1998. The Company has pledged itself to continuously improve its performance on environmental issues, prevent pollution, strictly obey all environment-related laws, regulations, and administrative provisions, and allocate sufficient and proper resources in its efforts to:
  - Take environmental factors into account when evaluating new product projects and operations;
  - Reduce the use of harmful materials in its product design and production processes and to investigate the use of materials that are less polluting;

- Reduce, reuse, recycle, and recover waste
- Make the most economical use possible of energy, water, and natural resources by encouraging productivity increases and the use of new technologies;
- Use recycled/recyclable packaging materials whenever feasible;
- Conduct activities aimed at fostering environmental awareness.

• Vestel Elektronik systematically evaluates the energy efficiency of its operations and implements various projects related to this area. The Company's main objective is to reach a high level of production with low energy consumption. Accordingly, we review the energy consumption of our production processes and strive to obtain better results in terms of productivity and quality.

Under the Environmental Management System, 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. Senior executives regularly monitor and duly assess the relevant performance results. The Company has assigned an energy officer and energy management representative to ensure that the Energy Management System is operated efficiently. Our factory passed all the required audits in 2012 and obtained TS EN 50001 Energy Management System Certification.

The main energy improvement projects completed include the following:

- Heat Jacket Project for Injection Machines, which yielded annual energy saving of 1,321,920 kWh;
- External Oil Cooling Pump Project for Injection Machines, which yielded annual energy saving of 912,384 kWh;
- Air Suction Conditioning Project for Free Cooling Groups, which yielded annual electric energy saving of 324,000 kWh;
- Project to Merge Plastic Factories, which yielded annual energy saving of 12,811,968 kWh;

- Free Cooling Application Project for Plastic Injection B1 Region, which yielded annual electric energy saving of 740,930 kWh;
- Energy Saving Project for Chassis Factory Automatic Composition Furnaces, which yielded annual energy saving of 17,376 kWh;
- Pump Automation Project for Plastic Injection and Steam Injection Cooling Towers, which yielded annual electric energy saving of 144,525 kWh;
- Steam Injection Saving via Styrofoam Production Steam Chamber Optimization, which yielded annual steam saving of 2,347 tons.

Vestel Elektronik San. ve Tic. A.Ş. also began the replacement of its fluorescent fixtures with LED fixtures, starting in its new R&D and training areas. At the first stage of this new initiative, 125,000 kWh in energy saving will result and fluorescent lamp waste of 2,250 mg of mercury will be avoided. In time, the initiative will be expanded across all Vestel Elektronik departments as planned.

• In 2012, Vestel Elektronik issued its carbon emissions data on the Carbon Disclosure Project (CDP) website [cdproject.net](http://cdproject.net). The CDP was initiated in 2000 to encourage companies, investors and governments to collect and publish emissions-related information that could help in the fight against climate change.

The companies which replied to CDP from Turkey were also rated according to the CDP's methodology, with the support of Ernst & Young Turkey. In 2012, a total of 32 Turkish companies participated in the CDP. Of these, four were not subjected to the domestic evaluation process since they responded via their global headquarters. Although Vestel Elektronik participated in the initiative for the first time, the Company ranked seventh out of 28 companies in the Carbon Transparency Performance category, according to the 2012 results.

- As for biodiversity, the green space surrounding Vestel facilities covers an area of about 40,000 m<sup>2</sup> and the Company plans to further expand these green areas. This space is currently home to around 110 different species of plants and trees.
- At the Vestel Group of Companies (“Vestel”), of which Vestel Elektronik is a part, corporate development is equivalent to social development. With this approach, the Company firmly supports social responsibility initiatives that add value to society, pioneers new initiatives in this area, and raises social awareness of its forward-looking and eco-friendly products via media communications.
- Vestel does its utmost to ensure that its corporate social responsibility activities deliver concrete and sustainable benefits to society. As a result, the Company chooses to support not short-lived but rather long-term projects that are designed to create their own momentum in the future. At the start of the social responsibility project development process, the Company first identifies areas in which the public presence is insufficient or lacking. In the social responsibility initiatives it undertakes, Vestel demonstrates the same high performance and meticulousness that its displays in its other operations, never compromising its total quality approach.
- Vestel continued to provide support to education in 2012 by opening the Vestel White Goods Laboratory at the Diyarbakır Burhanettin Yıldız Technical and Industrial High School, under the “Occupational Training Partnership” agreement. As part of this partnership with Diyarbakır Burhanettin Yıldız Technical and Industrial High School, a training program was designed for authorized Vestel service centers. After the first stage of this program jointly implemented by the high school’s teaching staff and Vestel trainers, a total of 18 Vestel technicians received certification in “Electric Home Appliances” and “Individual and Commercial Air Conditioning Systems.”
- In line with the principle of mobilizing its resources for social development, Vestel has assumed the main sponsorship of or given strong support to noteworthy events. In 2012, the most important project sponsored by Vestel was the First Istanbul Design Biennial. The Company became the co-sponsor of the Biennial, and organized two different workshops with design students before the event started.
- Turkey’s first interactive arts exhibition, “The Great Masters,” organized under the main sponsorship of Vestel, brought together the masterpieces of famous Renaissance painters, such as Michelangelo, Leonardo da Vinci and Raphael. In addition to its sponsorship, Vestel supported the exhibition with its products, and installed interactive monitors and digital screening devices to ensure that art lovers fully enjoy the event.
- In September, the Company assumed the sponsorship of the Izmir leg of the “European Day of Science and Fun,” held simultaneously in 284 European cities, and featuring concerts, scientific experiments, exhibitions, round tables and educational games. In another contribution to arts and culture, the Company sponsored a concert by the Berlin Philharmonic Orchestra.

## PART IV: THE BOARD OF DIRECTORS

### 15. STRUCTURE AND COMPOSITION OF THE BOARD OF DIRECTORS; INDEPENDENT BOARD MEMBERS

Name	Position	Term of Office	Classification
Ahmet Nazif Zorlu	Chairman	1 year	Non-executive Member
Ali Akin Tari	Vice Chairman	1 year	Independent Member
Selen Zorlu Melik	Board Member	1 year	Non-executive Member
Mehmet Emre Zorlu	Board Member	1 year	Non-executive Member
Mümin Cengiz Ultav	Board Member	1 year	Non-executive Member
Hacı Ahmet Kılıçoğlu	Board Member	1 year	Independent Member

#### **Ahmet Nazif Zorlu - Chairman of the Board**

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family-owned textiles business. He set up his first company, Korteks, in 1976. In the years that followed, he continued to undertake new investments in the textiles industry and founded Zorlu Holding in 1990. Mr. Zorlu purchased the rights to the Vestel trademark in 1994. He is currently the Chairman of the Board and Board Member of numerous Zorlu Group companies active in different sectors, including Vestel Beyaz Eşya and Vestel Elektronik.

#### **Ali Akin Tari - Vice Chairman**

(1943 - Koruköy) After graduating from Istanbul University, Faculty of Law, Ali Akin Tari served as Public Accountant and later Chief Public Accountant at the Ministry of Finance, between 1972 and 1986. In 1986, he was appointed Vice President of the Board of Public Accountants and in 1989 Istanbul Group Head, a position he maintained until becoming a Board Member at the Banking Regulation and Supervision Agency in 2011. That same year, Mr. Tari was also appointed Board Member of the Savings Deposit Insurance Fund. In 2004, when his term of office at Banking Regulation and Supervision Agency ended, he was appointed Undersecretary to the Minister at the Ministry of Finance, and remained at this post until 2007. Mr. Tari left the public sector

in 2007 of his own volition to become active in the private sector. In 2008, he became Board Member and Audit Committee Member at Dilerbank; in addition, he assumed the position of Board Member at Diler Holding in 2011. He continues to serve in these positions.

#### **Selen Zorlu Melik - Board Member**

(1975 - Trabzon) Selen Zorlu Melik is a graduate of Uludağ University, Faculty of Economic and Administrative Sciences, Department of Business Administration. She started her professional career in 1998 at Denizbank. After an internship at Denizbank's Bursa Branch, she participated in the Management Training (MT) program of the same bank in 1999. After assuming various positions at the Denizbank Head Office, she participated in the Marketing Certificate Program at the University of California at Berkeley in 2001. In 2002, Ms. Zorlu Melik started work at the Korteks Yarn Factory and became Board Member in 2004. Since 2005, she has served as Vice President of the Zorlu Energy Group, Board Member at Zorlu Enerji Elektrik Üretim A.Ş., and Board Member at various Zorlu Group companies.

### **Mehmet Emre Zorlu - Board Member**

(1984 - Istanbul) Mehmet Emre Zorlu graduated from Koç University, Department of Electrical and Electronic Engineering in 2006. Subsequently, he received a master's degree in innovation and technology management from the University of Essex in the United Kingdom from 2007 to 2008. Mehmet Emre Zorlu started working at Vestel Group of Companies in 2009. In addition to his position as Board Member at Vestel Elektronik, Mr. Zorlu also serves as Board Member at Zorlu Holding and affiliated companies.

### **Mümin Cengiz Ultav - Board Member**

(1950 - Eskişehir) Cengiz Ultav graduated from Middle East Technical University with BSc and MSc degrees in electronics engineering. He began his professional career at the Philips International Institute and subsequently served in the IT and R&D departments of various electronics companies in Turkey and abroad. Mr. Ultav joined Vestel in 1997 as President of Technology. As of June 30, 2011, he stepped down from his position as Member of the Executive Committee responsible for Strategic Planning and Technology. Mr. Ultav currently serves as Board Member at Vestel Elektronik.

### **Hacı Ahmet Kılıçoğlu - Board Member**

(1956 - Giresun) Hacı Ahmet Kılıçoğlu received his bachelor's degree in economics in 1977 from the University of Essex and his master's degree in 1978. He started his professional career in 1979 at the Ministry of Industry and Technology and in 1980 became Assistant Specialist at Türkiye İş Bankası. After completing his military service, Mr. Kılıçoğlu worked in the private sector, before assuming administrative positions at the UNDP and the F-16 project from 1984 onwards. In 1987, he took office at Türk Eximbank and served in various positions. He later served at the bank as CEO and Board Member between 1998 and 2010, during which period he also worked as Board Member at the Turkish Banks Association. In 2001, Mr. Kılıçoğlu was elected President of The Berne Union. From 2008 until 2009,

he worked as Consultant to the President at the Islamic Development Bank. In 2010, he became Vice Chairman at Denizbank. Currently Mr. Kılıçoğlu also serves as Board Member at Doğan Yayın Holding and Vice President at the Turkish Education Association.

### **Enis Turan Erdoğan - Chairman of the Executive Committee**

(1955 - Mersin) Enis Turan Erdoğan graduated from Istanbul Technical University, Department of Mechanical Engineering in 1976 and completed a master's degree in Production Management at Brunel University in the UK in 1979. After serving in a number of different managerial positions for various firms in Turkey, he joined Vestel in 1988. Since 1988, he has served in various managerial positions at the Company, and was appointed Chairman of the Executive Committee of the Vestel Group of Companies as of January 1, 2013. Between 2002 and 2006, Mr. Erdoğan served as President of TURKTRADE (Turkish Foreign Trade Association). Additionally, he is the first Turkish citizen to be appointed Board Member to Europe's largest ICT association, DIGITALEUROPE, a position he has held since 2010.

- Four of the Board's six members are non-executive members and two are independent members.
- The Chairman of the Board and the Chairman of the Executive Committee are two different individuals: The Chairman of the Board is Ahmet Nazif Zorlu and the Vestel Group of Companies' Chairman of the Executive Committee is Enis Turan Erdoğan.
- Prior to the General Meeting for 2011, two independent candidates were presented to the Nomination Committee. The report dated May 10, 2012 on whether these candidates fulfill the independence criteria was submitted to the Board of Directors. Upon a resolution by the Board of Directors dated May 18, 2012 and numbered 2012/29, it was decided that their names would be submitted to the approval of shareholders at the General Meeting, to become independent Board Members.

- Board Members Hacı Ahmet Kılıçoğlu and Ali Akın Tarı are independent members who satisfy CMB's Corporate Governance Principles pertaining to independence criteria. No circumstances occurred during the reporting period to change the independence status of the independent members.
- No restrictions are imposed on Board Members' undertaking one or more duties outside the Company.

## **16. WORKING PRINCIPLES OF THE BOARD OF DIRECTORS**

- Agendas for Board of Directors meetings are determined in line with the requests of the Chairman and Board Members. Requests coming from Company management are also influential in setting meeting agendas.
- Article 16 of the Company's Articles of Association sets out that Board meetings will be held as and when deemed necessary, and at least once a month. In order to increase attendance at meetings, the meeting dates were determined at the beginning of the year and the Board Members were notified. As a result, Board Members were given the opportunity to shape their schedules according to the meeting dates. As another measure to increase attendance at meetings, the following article was added to the Articles of Association: "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."
- The Board adopted a total of 89 resolutions during the year; of these, 54 resolutions were adopted unanimously and the remaining 35 by majority.
- Invitations to the meetings are made by postal mail, fax, and e-mail. In line with Corporate Governance Principles, a secretariat has been set up within the Company that is responsible to the Board of Directors. This secretariat notifies Board Members of meetings at least a week (seven days) in advance of the meeting date, and provides them with the agenda and documents related to the matters on the agenda.

- A Board resolution requires that differences in opinion arising in the Board meetings and reasonable and detailed justifications for dissenting votes be entered into the record; however, to date, there has never been an instance of this at the Company's Board meetings. The minutes taken by the Board's secretariat also include any questions that members pose and the responses that are made to them.
- No Board Members, including the Chairman, have preferential voting rights or the right to veto Board decisions. Each member, including the Chairman, possesses an equal vote.

- Upon a resolution of Vestel Elektronik San. ve Tic. A.Ş.'s Board of Directors dated October 17, 2012 and numbered 2012/65, the significance threshold requiring the approval of the Board of Directors in common and continuous asset, service and liability transfers between our Company and its related parties was set as 0.5% of the total assets or 0.5% of the net sales in the last 12 months shown in the latest financial statements disclosed to the public as per CMB regulations. Accordingly, transactions exceeding this threshold were approved by the Board.
- In the accounting period ending on December 31, 2012, there were no related party transactions outside the scope of the Board of Directors resolution dated October 17, 2012 and numbered 2012/65, and/or significant transactions within the scope of Corporate Governance Principles Article 1.3.10.

## **17. NUMBER, STRUCTURE, AND INDEPENDENCE OF COMMITTEES ESTABLISHED BY THE BOARD OF DIRECTORS**

- The Company established a Corporate Governance Committee, Early Detection of Risk Committee, and Audit Committee in line with Capital Markets Board's Corporate Governance Principles. The duties, authorities and responsibilities normally assigned to the Nomination Committee and Remuneration Committee are carried out by the Corporate Governance Committee.

- Committee members Ali Akın Tari and Hacı Ahmet Kılıçoğlu sit on more than one committee due to the number of Board Members and in accordance with the committee structure requirements of the CMB's Corporate Governance Principles.

### Audit Committee

- The Audit Committee was set up pursuant to Article 3 of CMB Communiqué Serial X, No: 19 and is responsible for the effective oversight of all financial and operational activities. The objective of the Audit Committee which reports to the Board of Directors, is to oversight the functioning of the Company's accounting and reporting system, the audit and disclosure of the financial data, and the functioning and efficiency of the internal control system.

- Pursuant to the CMB's Communiqué on the Determination and Application of Corporate Governance Principles, the "Audit Committee Working Principles" were revised and approved at the Board of Directors meeting dated June 28, 2012. The revised version of the working principles was disclosed to shareholders via the Public Disclosure Platform and the corporate website.

- The Audit Committee is structured in accordance with Capital Markets Board Corporate Governance Principles and consists of two members.

- The Head of the Committee was elected from among the independent members of the Board and certain criteria were taken into account in the selection process. The Head of the Audit Committee is ensured to have previously served in a similar position, have the knowledge and experience needed to analyze financial statements, and be versed in accounting standards, and otherwise be highly qualified.

- Both Audit Committee members were elected from among independent members. The Head of the Committee is Ali Akın Tari, and the other member is Hacı Ahmet Kılıçoğlu.

- The Audit Committee's Working Principles sets forth that the Committee must meet at least four times a year (once in each quarter). In keeping with this requirement, the Audit Committee met four times during 2012.

The Board of Directors secretariat is responsible for keeping records of the decisions made by the Committee, as well as the minutes of its meetings.

- The Committee carries out its activities in line with the working principles put into writing in detail. In 2012, the Audit Committee:
  - monitored the Company's financial and operational activities,
  - oversaw existing and potential risks,
  - oversaw and approved the accuracy of financial statements, their compliance with applicable laws and transparency,
  - followed-up on the effectiveness and performance of the independent audit activity,
  - supervised the internal audit function and its effectiveness,
  - held meetings with independent auditors,
  - monitored the efficiency and adequacy of the internal control system,
  - assessed the findings obtained on the internal control system and reported to the Board of Directors, and
  - reviewed and approved internal control and internal audit reports.

## Corporate Governance Committee

- The Corporate Governance Committee is established to monitor the Company's compliance with the CMB's Communiqué on Corporate Governance Principles, to make proposals to the Board of Directors and to realize improvements in this area.
- Pursuant to the CMB's Communiqué on the Determination and Application of Corporate Governance Principles, the "Corporate Governance Committee Working Principles" were revised and approved at the Board of Directors meeting dated June 28, 2012 and numbered 2012/48. The revised version of the working principles was disclosed to shareholders via the Public Disclosure Platform and the corporate website.
- The Corporate Governance Committee is composed of at least two non-executive Board Members. The Head of the Committee is Ali Akin Tari, an independent member, and the other member is Mehmet Emre Zorlu.
- The Corporate Governance Committee is required to meet at least three times a year. In keeping with this requirement, the Corporate Governance Committee met three times during 2012.
- The Committee carries out its activities in line with the working principles put into writing in detail. The activities carried out by the Corporate Governance Committee in 2012 are presented below:
  - undertaking efforts to comply with CMB's Communiqué on the Determination and Application of Corporate Governance Principles,
  - revising of the Committee's working principles in line with CMB's Communiqué on the Determination and Application of Corporate Governance Principles,
  - reviewing the activities of the Investors Relations Unit and presenting recommendations in this context,

- identifying and assessing suitable Board Member candidates,
- offering recommendations pertaining to the structure and effectiveness of the Board of Directors,
- evaluating the performance of Board Members and senior executives,
- carrying out efforts to detect the risks which could jeopardize the existence, development and continuity of the Company, adapting measures to counter these risks and managing these risks,
- reviewing of the risk management system,
- setting down in writing the Remuneration Policy of the Board Members and Senior Executives as per the Corporate Governance Principles.

## Early Detection of Risk Committee

- The Early Detection of Risk Committee was set up in line with the Turkish Commercial Code, Articles of Association and CMB's Communiqué on Corporate Governance Principles, in order to identify the risks which could jeopardize the Company's existence, development and continuity, to take measures to counter these risks and to manage these risks, with a Board of Directors resolution dated March 15, 2013.
- The working principles of the Committee have been disclosed to shareholders via the Public Disclosure Platform and the corporate website.
- The Early Detection of Risk Committee is composed of at least two Board Members. In case the Committee has only two members, both of them, and in case it has more than two members, the majority of them, must be non-executive Board Members. The Head of the Committee is the independent Board Member Hacı Ahmet Kılıçoğlu. The other member of the Early Detection of Risk Committee is Selen Zorlu Melik.

### 18. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

- In order to early detect the risks that could jeopardize Vestel Elektronik's existence, development and continuity, to take the necessary measures against these risks, and to manage risks, a Risk Management Department was established under Zorlu Holding. The Company's Board of Directors authorized the Corporate Risk Management Department to define current and potential risks, and to determine policies to counter these risks.
- The Company uses the SAP system to establish internal control. The SAP system boosts the Company's swiftness and productivity by enabling all integrated business processes in its facilities to be operated and recorded via the automated system. This system also helps employees and managers to access all kinds of reports and information within their authorization limits. Additionally, a troubleshooting system was set up inside the Company's intranet and launched successfully. Problems at any level are immediately communicated to the relevant manager, and thus resolved.
- The Company's internal control systems, which generate risk management analysis and/or (with) internal control activities, are evaluated with a risk-focused approach regarding risk reducing actions. The risk management system identifies financial, operational and compliance-related risks, measures risks periodically and determines their level, while the internal control systems manage these risks. The efficiency and effectiveness of these systems are periodically reviewed by the Internal Audit Department according to annually approved plans, and reports are provided to the Board of Directors for the adoption of the necessary measures.

### 19. THE COMPANY'S STRATEGIC TARGETS

- The Board of Directors approves the strategic targets set by the Senior Executives. The Board of Directors or the Senior Executives may formulate opinions on the Company's strategic targets. The Board of Directors always seeks the opinions of managers on the targets they set. The targets set by the managers are first discussed at the relevant management level, then presented to the Board of Directors and finally approved by the Board. Managers can be invited to the meetings on strategic targets. Action to achieve the approved targets is taken as soon as possible. The degree of target achievement is measured according to actual results in financial reporting periods and at the end of the year.
- Each year, the Board of Directors holds two assessment meetings to review the Company's degree of achieving its targets, operations and past performance. At these meetings, the Board of Director's degree of attaining its targets, efficiency of operations and past performances are discussed.

## 20. FINANCIAL BENEFITS

- As stipulated in the Capital Markets Board's Corporate Governance Principles, the "Remuneration Policy for Board Members and Senior Executives" was set down in writing, approved at the Board of Directors meeting dated May 18, 2012 and disclosed to shareholders via the corporate website.
- The attendance fees to be received by the members of the Board of Directors are determined every year at the General Meeting. This fee is determined according to the Board Member's status (whether independent or executive), responsibilities, seniority, know-how, skills and experience.
- Vestel Elektronik San. ve Tic. A.Ş. Board of Directors members were paid a total gross sum of TL 85,000.00 as an attendance fee in 2012, commensurate with the practices of peer companies in the sector. The amounts for 2013 will be decided at the 2012 Ordinary General Meeting. No other benefits are provided to the Board of Directors members.
- There is no rewarding scheme based on performance measurement for the Board Members.
- The salaries of Vestel Elektronik San. ve Tic. A.Ş.'s Senior Executives are determined by the Board of Directors. Senior Executives may also be paid year-end bonuses as approved by the Board of Directors, according to their contribution to the Company's financial performance. The "Senior Executive Remuneration Policy" is determined in accordance with the extent of the Company's production and sales activities; the penetration of its operations; its operations abroad; the number of employees, subsidiaries and their weight; the know-how required to run corporate operations; the characteristics of the sector; the competitive environment; and the level of salaries paid in peer companies.
- The financial benefits provided to the Company's Chairman, Board Members, general manager, general coordinators and assistant general managers are outlined in the footnotes of the financial statements. In this regard, the total salaries and fees paid during the 12 months ending on December 31, 2012 was TL 12,647 thousand (01.01.2011-31.12.2011: TL 17,555 thousand).
- The Company has extended no loans or credits to any Board Member or manager, nor has it lent money under the name of any personal credit means through a third party or given any guarantees such as suretyship in their favor.

# Resolution of the Board of Directors

**RESOLUTION DATE** : 11.04.2013

**RESOLUTION NO.** : 2013/19

**PARTICIPANTS** : Ahmet Nazif ZORLU  
Ali Akın TARI  
Selen ZORLU MELİK  
Hacı Ahmet KILIÇOĞLU  
Mehmet Emre ZORLU  
Mümin Cengiz ULTAV

**MEETING AGENDA** : Vestel Elektronik Sanayi ve Ticaret A.Ş. Financial Statements for the period ending 31.12.2012

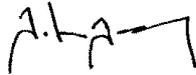
The Board of Directors of VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ convened at the Company's headquarters, presided by Mr. Ahmet Nazif ZORLU;

The Board UNANIMOUSLY resolved to approve the consolidated balance sheets of VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ as of 31.12.2012 and for the Company's consolidated income statements for the period ending on the date, as well as other financial statements and the Board of Directors Annual Report, and to post them as is on the Public Disclosure Platform.

## BOARD OF DIRECTORS



**Ahmet Nazif ZORLU**  
Chairman



**Ali Akın TARI**  
Vice Chairman



**Selen ZORLU MELİK**  
Board Member



**Hacı Ahmet KILIÇOĞLU**  
Board Member



**Mehmet Emre ZORLU**  
Board Member



**Mümin Cengiz ULTAV**  
Board Member

# Statutory Auditor Report Summary

## TO THE GENERAL ASSEMBLY OF VESTEL ELEKTRONİK SAN. VE TİC. A.Ş.

- Name of Company : Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi  
Head Office : Zorlu Plaza Avcılar-İSTANBUL  
- Capital : 335,456,275.- TL  
- Field of Activity: : Production of electronics goods
- Auditor(s) name, term of office, whether partner or company personnel : Şerif ARI - 1 Year Ahmet G. HIZARCI - 1 Year (Neither partners nor employees.)
- Number of Board meetings - Audit Committee meetings attended : 7-12
- Scope, dates and results of the audit made on the accounts, legal books, and documents of the Company : In the audits made on the legal books and documents of the Company, it has been concluded that records are kept fairly and accurately in compliance with generally accepted accounting rules and principles.
- Number and results of the counts performed at the Company's cashier desk in accordance with the Turkish Commercial Code, Article 353 Paragraph 1 Subparagraph 3 : The cashier desk count was performed five times and it was resolved that the stocks are in compliance with the records.
- Audit dates and results have been performed in accordance with the Turkish Commercial Code, Article 353 Paragraph 1 Subparagraph 4 : There are no securities held by mortgage or guarantee or bailment to the Company according to the monthly audits.
- Complaints or frauds reported, and relevant legal proceedings : There are no complaints or frauds or relevant legal proceedings reported to the auditors.

We have audited the accounts and transactions of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi for the period 01.01.2012 - 31.12.2012 in accordance with the Turkish Commercial Code, the Articles of Association, other regulations and generally accepted accounting principles.

In our opinion, the attached balance sheet drawn up on 31.12.2012, the contents of which we acknowledge, fairly and accurately presents the Company's financial position on the date, and the income statement for the period 01.01.2012 - 31.12.2012 fairly and accurately presents the operating results for the period.

We propose that the balance sheet and income statement be approved and that the members of the Board of Directors be released from their fiduciary responsibilities.

19.03.2013



**Şerif ARI**  
Auditor



**Ahmet G. HIZARCI**  
Auditor

## Profit Distribution Policy

In accordance with the Profit Distribution Policy specified at the meeting of the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş. held on March 19, 2007 and numbered 2007/6, and pursuant to the CMB's announcement dated January 15, 2007 and numbered 2007/3, it was decided to distribute at least 25% of the Company's net distributable profits from 2007 onwards to shareholders either in cash or bonus shares. The amount of dividend to be paid will be proposed by the Board of Directors at the annual Ordinary General Meeting each year, depending on the national and global economic conditions and the Company's growth plans.

**VESTEL ELEKTRONİK SANAYİ VE  
TİCARET ANONİM ŞİRKETİ**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
TOGETHER WITH AUDITOR'S REPORT**

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders and Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş.

1. We have audited the accompanying statement of consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret A.Ş. (the "Group") as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes in accordance with the auditing standards issued by Capital Market Board ("CMB").

#### *Management's responsibility for the financial statements*

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with financial reporting standards published by Capital Market Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards published by CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret A.Ş. as of 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting standards accepted by the CMB.

EREN Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.  
Member Firm of GRANT THORNTON International



Nazım Hikmet  
Partner

Istanbul, 12.04.2013

Abide-i Hürriyet Caddesi  
Bolkan Center  
No:211 Kat:3  
34381 Şişli  
Istanbul

<b>CONTENTS</b>	<b>PAGE</b>
<b>CONSOLIDATED BALANCE SHEETS</b>	<b>74-75</b>
<b>CONSOLIDATED STATEMENTS OF INCOME</b>	<b>76</b>
<b>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</b>	<b>77</b>
<b>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</b>	<b>78</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>79</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	
NOTE 1	80
NOTE 2	80-91
NOTE 3	91
NOTE 4	92-94
NOTE 5	95
NOTE 6	95-96
NOTE 7	96-97
NOTE 8	98
NOTE 9	98-99
NOTE 10	100
NOTE 11	101
NOTE 12	101
NOTE 13	102
NOTE 14	103
NOTE 15	104
NOTE 16	104
NOTE 17	105-107
NOTE 18	107
NOTE 19	108
NOTE 20	108-110
NOTE 21	110
NOTE 22	110
NOTE 23	111
NOTE 24	111
NOTE 25	112
NOTE 26	112
NOTE 27	112-114
NOTE 28	114
NOTE 29	115-116
NOTE 30	117-126
NOTE 31	127
NOTE 32	127

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF 31 DECEMBER 2012 AND 31 DECEMBER 2011**

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	<i>Audited</i> 31.12.2012	<i>Audited</i> 31.12.2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	333.008	487.916
Derivative financial instruments	8	681	62.458
Trade receivables	9	1.468.792	1.938.772
Other receivables	10	133.166	90.914
Inventories	11	1.007.022	1.198.436
Receivables from ongoing projects	12	12.024	20.638
Other current assets	19	114.783	62.873
<b>Total current assets</b>		<b>3.069.476</b>	<b>3.862.007</b>
<b>Non-current assets</b>			
Trade receivables	9	2.201	3.202
Other receivables	10	73.780	62.535
Financial investments	6	13.464	7.019
Property, plant and equipment	13	1.266.859	772.512
Intangible assets	14	201.255	153.200
Goodwill	15	202.433	207.603
Deferred tax asset	27	69.559	45.021
Other non-current assets	19	16.948	19.507
<b>Total non-current assets</b>		<b>1.846.499</b>	<b>1.270.599</b>
<b>TOTAL ASSETS</b>		<b>4.915.975</b>	<b>5.132.606</b>

The accompanying notes are an integral part of these consolidated financial statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF 31 DECEMBER 2012 AND 31 DECEMBER 2011**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Note	Audited 31.12.2012	Audited 31.12.2011
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Financial liabilities	7	609.530	583.691
Derivative financial instruments	8	31.636	--
Trade payables	9	2.139.683	2.909.650
Other payables	10	5.756	12.820
Current income tax liabilities	27	361	3.616
Provisions	17	109.520	79.646
Liabilities of ongoing projects	12	882	2.282
Other liabilities	19	120.063	105.192
<b>Total current liabilities</b>		<b>3.017.431</b>	<b>3.696.897</b>
<b>Non-current liabilities</b>			
Financial liabilities	7	387.269	211.559
Other payables	10	20.246	21.166
Provision for employment termination benefits	18	41.529	33.046
Provisions	17	21.735	20.211
Other liabilities		11.810	1.859
Deferred tax liability	27	74.273	15.930
<b>Total non-current liabilities</b>		<b>556.862</b>	<b>303.771</b>
<b>Equity attributable to owners of the parent</b>			
Paid in capital	20.a	335.456	335.456
Adjustments to share capital	20.b	688.315	688.315
Share premium	20.c	79.191	79.191
Revaluation funds	20.d	362.346	746
Currency translation reserve	20.e	27.132	38.508
Restricted reserves	20.f	61.680	55.851
Accumulated deficit	20.g	(175.678)	(172.540)
Net (loss)/income for the year		(112.825)	(35.439)
<b>Non-controlling interest</b>		<b>76.065</b>	<b>141.850</b>
<b>Total equity</b>		<b>1.341.682</b>	<b>1.131.938</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4.915.975</b>	<b>5.132.606</b>

The accompanying notes are an integral part of these consolidated financial statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**  
(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Note	<i>Audited</i> 01.01.-31.12.2012	<i>Audited</i> 01.01.-31.12.2011
<b>Continuing operations</b>			
Revenue	21	7.514.531	6.976.564
Cost of sales (-)	21	(6.602.831)	(5.722.003)
<b>Gross profit</b>		<b>911.700</b>	<b>1.254.561</b>
Marketing, selling and distribution expenses (-)	22	(742.450)	(545.915)
General administrative expenses (-)	22	(174.945)	(182.018)
Research and development expenses (-)	22	(69.737)	(88.354)
Other income	24.a	42.314	84.280
Other expense (-)	24.b	(20.144)	(116.006)
<b>Operating profit (loss)</b>		<b>(53.262)</b>	<b>406.548</b>
Financial income	25	727.663	687.563
Financial expense (-)	26	(828.831)	(1.106.647)
<b>Loss before tax</b>		<b>(154.430)</b>	<b>(12.536)</b>
<b>Tax (expense)/benefit</b>			
Current tax expense (-)	27	(7.428)	(22.319)
Deferred tax benefit	27	35.765	5.258
<b>Net loss</b>		<b>(126.093)</b>	<b>(29.597)</b>
<b>Attributable to:</b>			
Non-controlling interests		(13.268)	5.842
Equity holders of the parent		(112.825)	(35.439)
<b>Loss per share (TL, full)</b>	28	<b>(0,00)</b>	<b>(0,00)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**  
(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	<i>Audited</i> 01.01.- 31.12.2012	<i>Audited</i> 01.01.-31.12.2011
<b>Net (loss)/income for the year</b>	<b>(126.093)</b>	<b>(29.597)</b>
Currency translation differences	(11.414)	27.132
Fair value decrease on financial assets	(194)	(1.476)
Revaluation of plant, property and equipment	361.794	--
<b>Other comprehensive income</b>	<b>350.186</b>	<b>25.656</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>224.093</b>	<b>(3.941)</b>
<b>Net profit (loss) attributable to:</b>		
Non-controlling interests	(13.306)	5.965
Equity holders of the parent	237.399	(9.906)

The accompanying notes are an integral part of these consolidated financial statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**  
(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Revaluation funds					Net income (loss) for the year	Non-controlling interests	Total equity	
	Paid in capital	Adjustments to share capital	Share premium	Revaluation of property, plant and equipment	Fair value gains on financial assets				
Balances at 01.01.2011	335.456	688.315	79.191	--	2.222	11.499	51.375	142.017	1.142.011
Comprehensive income:									
Net (loss)/income for the year	--	--	--	--	--	--	--	5.842	(29.597)
<b>Other comprehensive income:</b>									
Currency translation differences	--	--	--	--	--	27.009	--	--	123
Fair value gains (loss) on financial assets	--	--	--	--	(1.476)	--	--	--	(1.476)
<b>Total comprehensive income (expense) for the year</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(1.476)</b>	<b>27.009</b>	<b>--</b>	<b>--</b>	<b>5.965 (3.941)</b>
Transfer to accumulated deficit	--	--	--	--	--	--	--	38.422	--
Transfer to restricted reserves	--	--	--	--	--	--	4.476	--	--
Dividends paid	--	--	--	--	--	--	--	--	(6.132)
Balances at 01.01.2012	335.456	688.315	79.191	--	746	38.508	55.851	141.850	1.131.938
Comprehensive income:									
Net loss for the year	--	--	--	--	--	--	--	(112.825)	(126.093)
<b>Other comprehensive income:</b>									
Currency translation differences	--	--	--	--	--	(11.376)	--	--	(38)
Fair value gains on financial assets	--	--	--	--	(194)	--	--	--	(194)
Revaluation of property, plant and equipment	--	--	--	361.794	--	--	--	--	361.794
<b>Total comprehensive income (loss)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>361.794</b>	<b>(194)</b>	<b>(11.376)</b>	<b>--</b>	<b>(112.825)</b>	<b>224.093</b>
Transfer to accumulated deficit	--	--	--	--	--	--	--	35.439	--
Transfer to restricted reserves	--	--	--	--	--	--	5.829	--	--
Dividends paid	--	--	--	--	--	--	--	--	(2.066)
Changes in non-controlling interests	--	--	--	--	--	--	--	--	(38.130)
Acquisition of non-controlling interests	--	--	--	--	--	--	--	--	(12.283)
Balances at 31.12.2012	335.456	688.315	79.191	361.794	552	27.132	61.680	76.065	1.341.682

The accompanying notes are an integral part of these consolidated financial statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**  
(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Note	<i>Audited</i> 01.01.- 31.12.2012	<i>Audited</i> 01.01.- 31.12.2011
<b>Loss before tax</b>		<b>(154.430)</b>	<b>(12.536)</b>
Adjustments to reconcile net cash provided from operating activities	31	420.585	279.894
Net cash flow from operating activities before changes in operating assets and liabilities		266.155	267.358
Changes in operating assets and liabilities	31	(232.364)	198.090
Corporate taxes paid		(10.767)	(26.816)
Net cash flows provided by operating activities		<b>23.024</b>	<b>438.632</b>
<b>Cash flows from investing activities</b>			
Changes in financial assets available for sale		(6.688)	8.396
Acquisition of property, plant and equipment	13	(228.735)	(145.663)
Cash provided from tangible and intangible assets		7.996	6.479
Acquisition of intangible assets	14	(80.544)	(73.525)
Net cash used in investing activities		<b>(307.971)</b>	<b>(204.313)</b>
<b>Cash flows from financing activities</b>			
Acquisition of non-controlling interests		(12.283)	--
Proceeds from bank borrowings		1.882.629	1.785.032
Repayment of bank borrowings		(1.691.851)	(1.721.973)
Dividends paid		(2.066)	(6.132)
Interest paid		(117.312)	(54.265)
Interest received		79.151	45.254
Net cash provided by (used in) financing activities		<b>138.268</b>	<b>47.916</b>
Currency translation differences, net		(8.415)	7.982
Net increase (decrease) in cash and cash equivalents		<b>(155.094)</b>	<b>290.217</b>
Cash and cash equivalents at the beginning of the year		<b>487.811</b>	<b>197.594</b>
Cash and cash equivalents at the end of the year	5	<b>332.717</b>	<b>487.811</b>

The accompanying notes are an integral part of these consolidated financial statements.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### NOTE 1- ORGANISATION AND NATURE OF ACTIVITIES

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (“Vestel Elektronik” or “the Company”) and its subsidiaries (together “the Group”), mainly produce and sell a range of brown goods and white goods. The Company’s head office is located at Ambarlı Yolu, Zorlu Plaza, Avcılar/Istanbul- Turkey. The Group’s production facilities are located in Manisa Organized Industrial Zone, İzmir Aegean Free Zone and Russia.

The Company was registered to Capital Markets Board (“CMB”) and its shares have been quoted to Istanbul Stock Exchange (“ISE”) since 1990.

As of 31 December 2012, the shareholders of the Company and their percentage shareholdings were as follows:

	Share %
Collar Holding B.V. (Holland)	64,41
Shares held by public	
Other shareholders	25,19
Collar Holding B.V. (Holland)	10,40
	<b>100,00</b>

As of 31.12.2012, the number of personnel employed was 13.693. (31.12.2011: 12.826).

The consolidated financial statements for the year ended 31 December 2012 (including comparatives) were approved by the Board of Directors on 11.04.2013. The above mentioned consolidated financial statements will be finalized after the approval of the General Assembly.

#### NOTE 2- BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

##### 2.1 Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting and reporting principles issued by the CMB, namely “CMB Financial Reporting Standards”. CMB regulated the principles and procedures of preparation, presentation and announcement of financial statements prepared by the entities with Communiqué XI, No. 29, “Principles of Financial Reporting in Capital Markets”. The Communiqué is effective for the annual periods starting from 1 January 2008. According to the Communiqué, the entities shall prepare their financial statements in accordance with the International Financial Reporting Standards (“IAS”/“IFRS”) endorsed by the European Union (“EU”). Until the differences of the IAS/IFRS as endorsed by EU from the ones issued by the International Accounting Standards Board (“IASB”) are announced by the Turkish Accounting Standards Board (“TASB”), IAS/IFRS issued by the IASB shall be applied. Accordingly, Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS”/“TFRS”) issued by the TASB which are in line with the aforementioned standards shall be considered.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, IAS 29, “Financial Reporting in Hyperinflationary Economies” issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

As the differences of the IAS/IFRS endorsed by EU from the ones issued by the IASB have not been announced by TASB as of the date of the preparation of these consolidated financial statements, the consolidated financial statements have been prepared within the framework of Communiqué XI, No. 29 and related promulgations to this Communiqué as issued by the CMB, in accordance with the CMB Financial Reporting Standards which are based on IAS/IFRS. The consolidated financial statements and the related notes to them are presented in accordance with the formats recommended by the CMB with the announcements dated 14 April 2008 and 9 January 2009 including the compulsory disclosures.

##### 2.2 Going Concern

Group prepared consolidated financial statements in accordance with the going concern assumption.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### 2.3. Functional and presentation currency

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the functional currency of the Company and the presentation currency of the Group. The Company and its Turkish subsidiaries maintain their book of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the Turkish Commercial Code, tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These consolidated financial statements are based on the statutory records with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with CMB Financial Reporting Standards. These consolidated financial statements have been prepared under the historical cost convention except for the financial instruments presented at fair value.

Financial statements of subsidiaries operating in foreign countries are prepared according to the legislation of the country in which they operate and adjusted to the CMB Financial Reporting Standards to reflect the proper presentation and content. Foreign subsidiaries' assets and liabilities are translated into TL from the foreign exchange rate at the balance sheet date and income and expenses are translated into TL at the average foreign exchange rate. Exchange differences arising from the translation of the operating net assets of the foreign undertakings and differences between average and balance sheet date rates are included in "currency translation reserve" under the shareholders' equity.

#### 2.4 Comparatives and restatement of prior periods' financial statements

The consolidated financial statements of the Group include comparative financial information to enable the determination of the balance sheet and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current year consolidated financial statements and the significant changes are explained.

As of 31.12.2011, advances received amounting to TL 37 and deferred incomes amounting to TL 1.822, which were accounted under non-current other payables, were reclassified to non-current other liabilities.

As of 31.12.2011, warranty provision amounting to TL 10.266, which were accounted under current provisions, were reclassified to non-current provisions.

As of 31.12.2011, advances given amounting to TL 10.262, which were accounted under inventories, were reclassified to current others assets.

As of 31.12.2011, long-term order advances given amounting to TL 8.355, which were accounted under tangible assets, were reclassified to non-current other assets.

As of 31.12.2011, receivables amounting to TL 59.075, which were accounted under current trade receivable, were reclassified to non-current other receivables.

As of 31.12.2011, deferred tax assets and liabilities amounting to TL 26.199 were netted-off.

#### 2.5 Offsetting

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realize the asset and settle the liabilities simultaneously.

#### 2.6. Basis of consolidation

The consolidated financial statements incorporate the financial statements of Vestel Elektronik and entities controlled by the Company.

Associates in which the Company has controlling interest equal to or above 20% which are immaterial to the Group financial results or over which a significant influence is not exercised by the Group are carried at cost less any provisions for impairment.

Subsidiaries over which Vestel Elektronik has capability to control the financial and operating policies for the benefit of Vestel Elektronik, either through the power to exercise more than %50 of the voting rights relating to the shares in the companies owned directly and indirectly by itself; or although not having the power to exercise more than %50 of the voting rights, otherwise having the power to exercise control over the financial and operating policies, are consolidated. Subsidiaries in which the Company has ownership interests equal to or above 50% and which are immaterial to the Group are carried at cost less any provisions for impairment. Subsidiaries excluded from the scope of consolidation are disclosed in note 6.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The balance sheet and statement of income of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Vestel Elektronik and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Vestel Elektronik and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Vestel Elektronik and its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively. The non-controlling share in the net assets and results of Subsidiaries for the year are separately classified as non-controlling interest in the consolidated balance sheet and statement of income.

All business combinations have been accounted for by applying the purchase method by the Group. The result of operations of subsidiaries are included or excluded in these consolidated financial statements subsequent to the date of acquisition or the date of disposal respectively.

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership and economic interests as of balance sheet dates:

Consolidated company	Location	31.12.2012		31.12.2011	
		Ownership interest	Economic interest	Ownership interest	Economic interest
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	75,3	75,3	72,6	72,6
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	Turkey	99,4	99,4	99,4	99,3
Vestel Ticaret A.Ş.	Turkey	100,0	100,0	--	--
Vestel Dış Ticaret A.Ş. <sup>(*)</sup>	Turkey	--	--	99,7	99,7
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. <sup>(*)</sup>	Turkey	--	--	100,0	100,0
Vestel CIS Ltd.	Russia	100,0	100,0	100,0	100,0
Deksar Multimedy ve Telekomünikasyon A.Ş.	Turkey	99,9	99,9	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	35,0	35,0	25,0	24,9
Aydın Yazılım Elektronik ve Sanayi A.Ş.	Turkey	60,0	21,0	60,0	15,0
Vestel Iberia SL	Spain	100,0	100,0	100,0	99,7
Vestel France SA	France	99,9	99,9	99,9	99,6
Vestel Holland BV	Holland	100,0	100,0	100,0	99,7
Vestel Germany GmbH	Germany	100,0	100,0	100,0	99,7
Cabot Communications Ltd.	England	90,8	90,8	90,8	90,8
Vestel Benelux BV	Holland	100,0	100,0	100,0	99,7
Vestel UK Ltd.	England	100,0	100,0	100,0	99,7
In liquidation Cabot İzmir Yazılım ve Donanım Sanayi A.Ş.	Turkey	--	--	100,0	100,0
Vestel Dijital Üretim Sanayi A.Ş. <sup>(*)</sup>	Turkey	--	--	99,9	99,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	94,0	94,0	94,0	94,0
Vestel Trade Ltd.	Russia	100,0	100,0	100,0	99,7
OY Vestel Scandinavia AB	Finland	100,0	100,0	100,0	99,7
Deksarnet Telekomünikasyon A.Ş.	Turkey	99,9	99,9	99,9	99,9
Intertechnika LLC	Russia	99,9	99,9	99,9	99,9

Vestel Savunma Sanayi A.Ş. and Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. in which Vestel Elektronik has less than %50 direct and indirect ownership, are consolidated since the Company has significant power to exercise control over their financial and operating policies.

<sup>(\*)</sup> In 2012, Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş., was merged with Vestel Dış Ticaret A.Ş. (note 3).

<sup>(\*)</sup> In 2012, Vestel Dijital Üretim Sanayi A.Ş., was merged with Vestel Elektronik Sanayi ve Ticaret A.Ş. (note 3).

The organisation and nature of activities of the Group companies are summarized below:

- **Vestel Elektronik Sanayi ve Ticaret A.Ş.**  
Vestel Elektronik was established in 1983 and operates in production of televisions.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

- **Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (“Vestel Beyaz Eşya”)**  
Vestel Beyaz Eşya was established in 1997 in Manisa Organized Industrial Zone and is a manufacturer of f refrigerators, room air conditioning units, washing machines, cookers, dishwashers and water heaters.
- **Vestel Komünikasyon Sanayi ve Ticaret A.Ş.**  
Vestel Komünikasyon was established in 1975 and is located in Aegean Free Zone.
- **Vestel Ticaret A.Ş. (\*)**  
Vestel Dış Ticaret was established in 1987 in İstanbul and it currently operates in Manisa Organized Industrial Zone. It carries out all foreign trade activities of industrial products of Group manufacturing companies. After the merger with Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. as of 30 January 2013 , Vestel Dış Ticaret A.Ş. was changed its trade name as Vestel Ticaret A.Ş. As of 30.11.2012 , Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. was merged with Vestel Dış Ticaret A.Ş. and operates as a brunch of Vestel Ticaret A.Ş.
- **Vestel CIS Limited (“Vestel CIS Ltd.”)**  
Vestel CIS was established in 2002 in Vladimir Region, Russia and is a manufacturer of televisions, refrigerators and washing machines.
- **Deksar Multimedya ve Telekomünikasyon A.Ş.**  
Deksar was established in 1999 in İstanbul. Deksar provides satellite communications and infrastructure services.
- **Vestel Savunma Sanayi A.Ş.**  
Vestel Savunma was established in 2003 for the purpose of selling and marketing of defence technology products. Vestel Savunma Sanayi A.Ş. purchased 60% shares of Aydın Yazılım in March 2005.
- **Aydın Yazılım Elektronik ve Sanayi A.Ş.**  
Aydın Yazılım was established in 1990 in Ankara for the purpose of developing unique software in military and civil fields.
- **Vestel Iberia SL**  
Vestel Iberia SL was established in 1998 in Spain for the purpose of selling Vestel products throughout Spain and Portugal.
- **Vestel France SA**  
Vestel France SA was established in 1996 in France for the purpose of selling Vestel products throughout France, Switzerland and Belgium.
- **Vestel Holland BV**  
Vestel Holland BV was established in 1995 in Holland for the purpose of providing raw materials to the Group manufacturing companies and is a wholesaler of their products.
- **Vestel Germany GmbH**  
Vestel Germany GmbH was established in 1995 in Germany for the purpose of selling, distributing and providing service for Vestel products throughout Germany, Switzerland and Austria.
- **Cabot Communications Ltd. (“Cabot UK”)**  
Cabot UK was established in 1995 in England and involved in Vestel Group Companies in 2001. Cabot's' field of activity is developing software about digital televisions technologies and establishing marketing channels for these products.
- **Vestel Benelux BV**  
Vestel Benelux BV was established in 2003 in Holland for the purpose of marketing Vestel products throughout Holland, Belgium and Luxemburg.
- **Vestel UK Ltd.**  
Vestel UK Ltd was established in England in 2004 for the purpose of marketing Vestel products in England.
- **In liquidation Cabot İzmir Donanım Sanayi ve Ticaret A.Ş. (“Cabot TR”)**  
Cabot TR was established in 2004 in İzmir, Turkey for the purpose of developing software for digital television technologies. Cabot TR was liquidated on 03.10.2012.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

- **Vestel Dijital Üretim Sanayi A.Ş.**  
Vestel Dijital is engaged in the production of electronic devices. Vestel Dijital operates in Manisa Organized Industrial Zone since 2005. As of 31.12.2012, Vestel Dijital Üretim Sanayi A.Ş. was merged with Vestel Elektronik Sanayi ve Ticaret A.Ş. (note 3).
- **Vestek Elektronik Araştırma Geliştirme A.Ş.**  
The company was established in 2005 in Istanbul for the purpose of providing consulting, marketing research and planning services in electronic sector.
- **Vestel Trade Ltd.**  
Vestel Trade Ltd was established in 2003 for the purpose of marketing Vestel products in Russia.
- **OY Vestel Scandinavia AB ("OY Vestel")**  
OY Vestel Scandinavia was established in Finland for the purpose of marketing Vestel products in Finland.
- **Deksarnet Telekomünikasyon A.Ş. ("Deksarnet")**  
Deksarnet was established in 2006 in Istanbul. The company provides satellite communications and infrastructure services.
- **Intertechnika LLC ("Intertechnika")**  
Intertechnika was founded in Russia in 2005 and its %99,9 shares was acquired by Vestel CIS Ltd. on 26 December 2007. Intertechnika provides operational lease services to Vestel CIS Ltd.

#### 2.7. Restatement and Errors in the Accounting Policies and Estimates

Material changes in accounting policies or material errors are corrected, retrospectively; by restating the prior periods' consolidated financial statements. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

In accordance with International Accounting Standards ("IAS16") "Property , Plant and Equipment", the Group has chosen the alternative measurement policy , " revaluation" at 31.12.2012. Lands and lands improvement and building have been revalued in accordance with their fair values determined by independent valuation reports. After adopting revaluation policy , it has been applied prospectively from the date of the revaluation of tangible assets , as defined in IAS 16, and increase their carrying amount of TL 431.139 , net.

#### 2.8. Critical accounting estimates, assumptions and judgments

The preparation of financial statements requires management to make estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, explanations for the contingent assets and liabilities and the amounts of revenues and expenses realized in the reporting period. Actual results may differ from these estimates. The estimates are reviewed on an ongoing basis, revisions to accounting estimates are recognized in the period in which the revision is made.

The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the following financial reporting periods are set out below:

- Allowance for doubtful receivables are recognized against receivable amounts that are estimated to be irrecoverable. Irrecoverable amounts are determined by reference to past default experience of the counterparty excluding related parties and key clients, and an analysis of their credibility as well as their performance between the balance sheet date and reporting date considering the renegotiated terms. In addition, the collaterals held as at the balance sheet date as well as the collaterals obtained during the period between the balance date and the report date, are also taken into consideration. The allowance for doubtful receivables as of the balance sheet dates are explained in note 9.
- Provision for legal cases are provided based on the best estimate of the Group management where the future outflow of economic benefits is probable. The amount of provision is determined by taking into account all available evidence including the opinion of legal experts (note 17).

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

- Physical inventory verifications are performed periodically and allowance for diminution in value is provided for items which are determined to be unsellable by the technical personnel. Net realizable value of the inventory is determined based on the estimated selling prices, and estimated expenses to be incurred to make the sale. When the net realizable value of inventory is less than its cost, the inventory is written-down to the net realizable value and the expense is included in the statement of income in the period the write-down occurred (note 11).
- In accordance with the accounting policies stated in note 2.9, property, plant and equipment and intangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their useful lives, using the straight line method. The estimated useful lives are reviewed at each balance sheet date with the effect of any changes in the estimate accounted for on a prospective basis.
- In accordance with the accounting policies stated in note 2.9, goodwill is reviewed for impairment annually or whenever changes in circumstances or events indicate impairment by the Group. The recoverable amounts of the cash generating units are determined using the method of value in use. Certain estimations were used in these calculations. Impairment was not identified as result of these tests.
- Deferred tax assets are recognised for all temporary differences and operating loss carry-forwards to the extent that it is probable that taxable profit will be available against which the deductible temporary difference or loss carry-forwards can be utilized. The amount of deferred tax assets to be recognized is determined based on estimates of future earnings potential. As stated in note 27 the consolidated subsidiaries of the Company have a total loss carry-forward of TL 135.175 (2011: TL 101.359) over which deferred tax assets is recognized based on the assessment that taxable profit will be available sufficient to recognize deferred tax assets.
- The value of lands and lands improvement and buildings has been brought to their fair values on basis of the valuation report of Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. , a firm of valuers authorized by the Capital Market Board, and reflected to the accompanying consolidated financial statements.

As of 31.12.2012 the affects of revaluation of property, plant and equipments are disclosed in note 18.

The realization of these values in an arms-length transaction ( purchase-sale transaction) can vary from recorded values and those differences will be recognised in the consolidated financial statements in the period in which they arise.

#### 2.9. Summary of significant accounting policies

Significant accounting policies applied in the preparation of the accompanying financial statements are summarized below:

##### Revenue

Revenues are recognized on an accrual basis at the fair values incurred when the goods are delivered, the risk and rewards of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of the goods shipped less actual and estimated sales discounts and returns.

Contract revenue is recognised in proportion to the percentage of completion of the contract. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss. The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs that are likely to be recoverable. Contract costs are recognised in the period in which they are incurred.

An expected loss on a contract is recognised immediately in profit or loss.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### Trade receivables and trade payables

Trade receivables that are created by the Group by way of providing goods or services to a debtor are carried at amortized cost using the effective interest rate method. Receivables with short term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant.

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the collection amount is decreased from the doubtful receivable provisions and recorded as other income.

#### Inventories

Inventories are stated at the lower of cost and net realizable value. Costs elements included in inventories are materials, direct labour costs and factory overheads. Cost is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and estimated costs to make the sale.

#### Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Depreciation is provided on related amounts of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets, except for land due to their indefinite useful lives.

	Yearly
Land improvements	5 - 25
Buildings	25 - 50
Leasehold improvements	3 - 10
Machinery, equipment and moulds	2 - 25
Motor vehicles	5 - 10
Furniture and fixtures	5 - 14

Lands are not subject to depreciation because of their indefinite useful lines.

The Group's lands and lands improvements and buildings are recorded at their fair values. The difference between costs and fair values are recognized in equity under the heading "Revaluation of property , plant and equipment". The increase in value resulting from the revaluation of PPE, is recognized in the statement of income up to the amount of impairment less previously recognized in the statement of income. The decrease in carrying amount of those assets arising from revaluation is recognized in the statement of income whether decreasing amount exceeds revaluation surplus in equity.

Subsequent costs, such as repairs and maintenance or part replacement of tangible assets, are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits with the item will flow to the company. All other costs are charged to the statement of income during the financial year in which they are incurred.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of asset net selling price or value in use.

Gains or losses on disposals of property, plant and equipment are included in the other income or expense accounts as appropriate.

#### Intangible assets

##### *Research and development costs*

Research costs are recognized as expense in the period in which they are incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that they will generate future economic benefits and are amortized on a straight line basis over their useful lives, which is 3-5 years.

The carrying amounts of capitalized research and development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.

##### *Rights and other intangible assets*

Rights and other intangible assets consist acquired computer software, computer software development costs and other identifiable rights. Rights and other intangible assets are recognised at their acquisition costs and are amortized on a straight line basis over their expected useful lives which are less than 5 years.

#### Goodwill

Goodwill arising on acquisition is the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities recognized. Within the scope of IFRS 3 “Business Combinations”, beginning from 01.01.2005 the Group has stopped amortising goodwill. Goodwill recognised on acquisitions before 31.12.2004 was being amortised until 31.12.2004 on a straight line basis over their useful lives not to exceed twenty years. Goodwill is tested for impairment annually or more frequently when there is an indication of impairment. Goodwill arising on acquisitions measured at cost less any impairment losses.

#### Impairment of Assets

The Group reviews the carrying amounts of its assets at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use refers the discounted present value of the future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Impairment losses are recognised in the income statements.

#### Financial assets

The Group classifies its financial assets as available-for-sale financial assets and held-for-trading investments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the entity has both the intention and the ability to hold to the maturity other than the financial assets classified as loans and receivables.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

Available-for-sale financial assets are non-derivatives that are designated as available for sale and not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. These are included in non-current assets unless management intends to dispose of these investments within 12 months from the balance sheet date

Held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets are measured at fair value. Available-for-sale financial assets that do not have a quoted market price in an active market are measured at fair value determined by valuation techniques such as discounted cash flow analysis and option pricing models.

Financial assets in which the Company has controlling interest less than %20 or in which the Company has controlling interest equal to or above 20% which are immaterial to the Group financial results or over which a significant influence is not exercised by the Group are carried at cost less any provisions for impairment.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized in equity and accumulated in the “financial assets revaluation reserve”. Changes in the fair value of available-for-sale financial assets are calculated as the difference between the fair value of these assets and their amortised costs at the balance sheet date. When available-for-sale financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss. When the negative difference between the acquisition cost and the fair value of the available-for-sale financial assets is permanent, the cumulative loss that had been recognized in equity shall be removed from equity and transferred to the consolidated statement of income.

Financial assets classified as held for trading are either acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or are part of a portfolio of identified financial instruments for which there is a pattern of short-term profit taking.

Upon initial recognition of financial assets classified as held for trading, attributable transaction costs are recognized in profit or loss as incurred. Financial assets held for trading are measured at fair value and changes therein are recognised in profit or loss incorporating any dividend or interest earned on the financial asset which are recognised in dividend income and interest income respectively.

#### Borrowing costs

Borrowing cost directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development of qualifying asset is suspended. Capitalisation of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

#### Foreign currency translations

Transactions in currencies TL are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing on the balance sheet date. Exchange gains or losses arising from translation of foreign currency transactions and monetary items are recognized in profit or loss in the period in which they arise.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### Derivative financial instruments

The derivative financial instruments of the Group consist of forward foreign exchange contracts. These derivative instruments, although providing effective economic hedges for the Group, do not qualify for hedge accounting under the requirements of IAS 39-“Financial Instruments: Recognition and Measurement”, and therefore are accounted for as derivative financial instruments held for trading in the consolidated financial statements.

Derivative financial instruments are initially recognized at cost and subsequently measured at their fair value and changes therein are recognised in profit or loss. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### Earnings per share

Earnings per share disclosed in the statement of income are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

#### Provisions, contingent assets and liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the obligation can be made.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated balance sheet and are disclosed as contingent assets or liabilities.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. A contingent asset is disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, then the assets and the related income are recognised in the financial statements of the period in which the change occurs.

#### Warranty expenses

Warranty expenses are recorded as result of repair and maintenance expenses for products produced and sold, authorised services' labour and material costs of products under the scope of the warranty terms without any charge to customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period.

#### Leases - The Group as a lessee

##### *Finance lease*

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset or at the present value of the lease payment, whichever is the lower. Lease payments are treated as comprising of capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to the statement of income. The property, plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset.

##### *Operating lease*

Leases in which all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease are recognized as an expense on a straight-line basis over the lease term.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### Related parties

For the purpose of these consolidated financial statements shareholders, key management personnel and Board members, in each case together with their families and companies controlled by or affiliated with them, associated companies and other companies within Zorlu Holding group are considered and referred to as related parties.

#### Subsequent events

The Group adjusts the amounts recognized in its consolidated financial statements to reflect adjusting events which occur after the balance sheet date and the date on which the financial statements are authorized for issue. Non-adjusting events after the balance sheet date are disclosed if they are material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

#### Segment reporting

The Group mainly produces and sells a range of brown goods and white goods. The Group's industrial and geographical segmental information is disclosed in note 4.

#### Government grants and incentives

Government grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all the necessary conditions.

Incentives for research and development activities are recognised when they are authorised by the related institutions.

#### Income taxes

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are not taxable or deductible.

Income tax payable represents the sum of the tax currently payable and deferred tax.

Deferred income tax is provided, using the liability method. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

#### Employment termination benefits

Under Turkish labour law, the Company and its Turkish subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who retires in accordance with social insurance regulations or is called up for military service or dies. The amount payable consists of one months' salary limited to the declared maximum amount prevailing as at the balance sheet date. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees.

#### Cash flow statement

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand; deposits with banks and other financial institutions with the original maturity of three months or less.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### 2.10. The new and amended International Financial Reporting Standards (IFRS)

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

##### 2.10.1 Standards, amendments and interpretations effective in 2012

- IAS 12 (Amendment) “Income Taxes: Recovery of Underlying Assets”
- IFRS 7 (Amendment) “Financial Instruments-Disclosures -Transfer of Financial Assets”

##### 2.10.2 Standards, amendments and interpretations effective in 2012 but not early adopted by the Company:

- IAS 1 (Amendment) “Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income”
- IAS 19 (Amendment) “Employee Benefits”
- IAS 27 (Amendment) “Separate Financial Statements”
- IAS 28 (Amendment) “Investments in Associates and Joint Ventures”
- IAS 32 (Amendment) “Financial Instruments: Presentation- Offsetting of Financial Assets and Financial Liabilities”
- IAS 7 (Amendment) “Financial Instruments-Disclosures-Offsetting of Financial Assets and Financial Liabilities”
- IFRS 9 “Financial Instruments- Classification and measurement”
- IFRS 10 “Consolidated Financial Statements”
- IFRS 11 “Joint Arrangements”
- IFRS 12 “Disclosure of Interests in Other Entities”
- IFRS 13 “Fair Value Measurement”
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

Management of the Group anticipates that all of the pronouncements detailed in 2.10.2 above will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the pronouncement. Management of the Group has decided that these new standards and interpretations have been issued but are not expected to have a material impact on the Company’s financial statements.

#### 2.11. Additional paragraph for convenience translation into English of consolidated financial statements originally issued in Turkish

The financial reporting standards described in note 2 (defined as “CMB Financial Reporting Standards”) to the consolidated financial statements differ from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board with respect to the application of inflation accounting, presentation of the basic financial statements and also for certain disclosure requirements of CMB. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with IFRS.

#### NOTE 3- BUSINESS COMBINATIONS

##### As of 31.12.2012

In accordance with Extraordinary General Assembly of Vestel Elektronik Sanayi ve Ticaret A.Ş. , dated on 26.12.2012 , Vestel Dijital Üretim A.Ş. was merged with Vestel Elektronik Sanayi ve Ticaret A.Ş. basis on Vestel Dijital’s 30.06.2012 financial statements through dissolution without liquidation on 31 December 2012.

##### As of 30.11.2012

In accordance with Board of Directors Decision of Vestel Dış Ticaret A.Ş. dated on 22.11.2012 , Vestel Dış Ticaret A.Ş. was merged with Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. (“Vestel Pazarlama”) as of 30.11.2012

As of 11.12.2012 ,Vestel Pazarlama was registered to the trade registry gazette as “ Vestel Dış Ticaret A.Ş. Yurt İçi Pazarlama Şubesi” and made capital contribution to the branch amounting to TL 10.000.

As of 03 January 2013, it was registered to the Trade Registry Gazette that Vestel Dış Ticaret A.Ş.’s trade name was change as Vestel Ticaret A.Ş.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 4- SEGMENT INFORMATION

Business segments

	Television and electronic devices	White goods	Other	Total
<b>01.01.-31.12.2012</b>				
Revenue	4.741.931	2.681.977	90.623	7.514.531
Cost of sales	(4.105.896)	(2.409.424)	(87.511)	(6.602.831)
<b>Gross profit</b>	<b>636.035</b>	<b>272.553</b>	<b>3.112</b>	<b>911.700</b>
<b>Intersegment revenue</b>	<b>28.275</b>	<b>10.716</b>	<b>16.316</b>	<b>55.307</b>

Other income statement items which have been prepared in accordance with the reportable segments:

Depreciation	71.832	70.739	15.610	158.181
Amortisation	22.997	4.339	2.287	29.623
	<b>94.829</b>	<b>75.078</b>	<b>17.897</b>	<b>187.804</b>

#### 01.01.-31.12.2011

Revenue	4.376.412	2.494.487	105.665	6.976.564
Cost of sales	(3.510.289)	(2.114.313)	(97.401)	(5.722.003)
<b>Gross profit</b>	<b>866.123</b>	<b>380.174</b>	<b>8.264</b>	<b>1.254.561</b>
<b>Intersegment revenue</b>	<b>14.585</b>	<b>6.043</b>	<b>11.091</b>	<b>31.719</b>

Other income statement items which have been prepared in accordance with the reportable segments:

Depreciation	66.239	62.438	16.358	145.035
Amortisation	28.074	3.726	4.369	36.169
	<b>94.313</b>	<b>66.164</b>	<b>20.727</b>	<b>181.204</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Television and electronic devices	White goods	Other	Total
<b>31.12.2012</b>				
Assets	1.967.580	1.591.378	590.285	4.149.243
Unallocated assets				766.732
<b>Total assets</b>				<b>4.915.975</b>
Liabilities	1.427.901	704.086	7.696	2.139.683
Unallocated liabilities				1.434.610
<b>Total liabilities</b>				<b>3.574.293</b>
<b>Capital expenditure</b>	<b>167.321</b>	<b>111.961</b>	<b>29.997</b>	<b>309.279</b>
<b>31.12.2011</b>				
Assets	2.667.592	1.527.568	141.023	4.336.183
Unallocated assets				796.423
<b>Total assets</b>				<b>5.132.606</b>
Liabilities	2.241.286	665.107	3.257	2.909.650
Unallocated liabilities				1.091.018
<b>Total liabilities</b>				<b>4.000.668</b>
<b>Capital expenditure</b>	<b>98.417</b>	<b>87.888</b>	<b>32.883</b>	<b>219.188</b>

Unallocated entity assets and liabilities:

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Cash and cash equivalents	333.008	--	487.916	--
Deferred tax asset	69.559	--	45.021	--
Other assets	364.165	--	263.486	--
Current tax payable	--	361	--	3.616
Current financial liabilities	--	609.530	--	583.691
Non-current financial liabilities	--	387.269	--	211.559
Deferred tax liability	--	74.273	--	15.930
Other liabilities	--	363.177	--	276.222
	<b>766.732</b>	<b>1.434.610</b>	<b>796.423</b>	<b>1.091.018</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Geographical segments:

	31.12.2012	31.12.2011
<b>Segment assets</b>		
Turkey	3.536.312	3.600.230
Europe	968.753	1.223.617
Other	410.910	308.759
	<b>4.915.975</b>	<b>5.132.606</b>
	<b>01.01.-31.12.2012</b>	<b>01.01.-31.12.2011</b>
<b>Revenue</b>		
Turkey	2.202.743	1.674.843
Europe	4.699.041	4.665.106
Other	848.987	808.303
	<b>7.750.771</b>	<b>7.148.252</b>
Sales discounts (-)	(236.240)	(171.688)
	<b>7.514.531</b>	<b>6.976.564</b>

Segment sales of Turkey, Europe and other are denominated in TL, EUR and USD respectively. Segment sales of Europe which comprise 61% (01.01 – 31.12.2011: 65% )of total sales are not disclosed by country as all countries as risks and returns do not differ from one country to another.

	01.01.- 31.12.2012	01.01.-31.12.2011
<b>Capital expenditure on property plant and equipment and intangible assets</b>		
Turkey	300.329	209.720
Europe	1.151	736
Russia	7.799	8.732
	<b>309.279</b>	<b>219.188</b>
<b>Depreciation</b>		
Turkey	146.195	133.084
Europe	700	871
Russia	11.286	11.080
	<b>158.181</b>	<b>145.035</b>
<b>Amortisation</b>		
Turkey	29.563	36.108
Europe	60	61
	<b>29.623</b>	<b>36.169</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### NOTE 5- CASH AND CASH EQUIVALENTS

	31.12.2012	31.12.2011
Cash	19.873	689
Bank deposits		
- Demand deposits	219.840	312.757
- Time deposits	77.572	163.842
Cheques and notes	3.868	5.376
Other	11.855	5.252
<b>Cash and cash equivalents</b>	<b>333.008</b>	<b>487.916</b>
Less:Bank overdrafts	(291)	(105)
<b>Cash and cash equivalents presented in cash flow statement</b>	<b>332.717</b>	<b>487.811</b>

As of 31.12.2012, time deposit accounts mature in January 2013 (31.12.2011: January 2012).

#### NOTE 6- FINANCIAL INVESTMENTS

	31.12.2012	31.12.2011
<b>Long term financial investments</b>		
Financial assets available for sale	2.393	1.822
Unconsolidated investments	11.071	5.197
	<b>13.464</b>	<b>7.019</b>

Financial assets available for sale	Country	Share %		Amount	
		31.12.2012	31.12.2011	31.12.2012	31.12.2011
Zorlu Enerji Elektrik Üretim A.Ş.	Turkey	Less than 1%	Less than 1%	2.320	1.690
Tursoft A.Ş.	Turkey	7%	7%	11	11
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	51	51
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	11	11
Other	Turkey	--	Less than 1%	--	59
				<b>2.393</b>	<b>1.822</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### Unconsolidated investments

Vestel USA Inc.	USA	100%	100%	230	230
Vestel Elektronika SRL	Romania	100%	100%	1.778	19
Vestel Electronics India Private Ltd.	India	100%	100%	10	10
Uts-United Technical Services, S.R.O	Slovakia	60%	60%	6	6
Vestel Central Asia	Kazakhstan	100%	100%	8.989	5.375
Vestel Electronics Shanghai Trading Co. LTD	China	100%	100%	288	288
				<b>11.301</b>	<b>5.928</b>
<b>Allowance for diminution in value (-)</b>					
Vestel USA Inc.				(230)	(230)
<b>Capital commitments (-)</b>					
Vestel Central Asia				--	(501)
				<b>11.071</b>	<b>5.197</b>

Subsidiaries over which the company has the power to exercise more than 50% of the voting rights which are immaterial to the consolidated financial statements or over which a significant influence is not exercised by the Group are carried at cost less any provisions for impairment.

The movement of other investments is given below:

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Opening balance, 01 January</b>	<b>1.822</b>	<b>3.239</b>
Addition	873	59
Disposal	(59)	--
Change in fair value of financial investments	(243)	(1.476)
<b>Closing balance, 31 December</b>	<b>2.393</b>	<b>1.822</b>

#### NOTE 7- FINANCIAL LIABILITIES

	31.12.2012	31.12.2011
<b>Current financial liabilities</b>		
Bank borrowings		
-USD	116.529	369.230
-EUR	20.649	104.903
-TL	472.352	109.558
	<b>609.530</b>	<b>583.691</b>
<b>Non-current financial liabilities</b>		
Bank borrowings		
-USD	241.128	121.618
-EUR	70.004	15.165
-TL	76.137	74.776
	<b>387.269</b>	<b>211.559</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

As of 31.12.2012, Eximbank loans in short term borrowings amounted to TL 352.574 (USD 6.304 thousand , EUR 1.178 thousand , TL 338.565) with an average interest rate of 8,30% for TL loans of 3,32% for USD loans and 5,06% for EUR loans (31.12.2011: TL 98.270 (TL 16.042, USD 10.169 thousand ,EUR 25.787 thousand) with an average interest rate of 8,18% for TL loans 1,04% for USD loans and 2,24% for EUR loans).

As of 31.12.2012 Eximbank loans in long term borrowings amounted to TL 56.455 (USD 23.125 thousand, EUR 6.477 thousand) with an average interest rate of 3,32% for USD loans and 5,06% for EUR loans. (31.12.2011: NA).

The Company obtained various loans denominated in EUR from non-Turkish financial institutions with a maturity of 5 years in years between 2005-2008 for financing investments in production machinery and equipment. As of 31.12.2012, short term payable of these loans amount to TL 5.550 ( EUR 2.360 thousand) (2011: TL 9.704 (EUR 3.791 thousand)) and long term payable of these loans amount to TL 9.374 ( EUR 3.986 thousand) (2011: TL 15.165 (EUR 6.206 thousand)). The principal amounts of these loans are repayable at six months intervals and the last repayment date is December 2015. The annual interest rate is Euribor + 0,3%.

As of 14.05.2002, The Company had issued bond with a nominal value USD 200 mio and mature on 14.05.2007. As of 06.05.2005, the bond was replaced with a bond with nominal value of USD 225 mio , interest rate of 8,75% and maturity on May 2012.

As of 23.09.2011, 23.12.2011 and 15.03.2012, the Company has bought its bonds in the open market amounting to USD 125,8 mio out of USD 255 mio which were issued by Vestel Electronic Finance Ltd. under the Company's guarantee on 09.05.2005. It was financed by 9 bank loans denominated in USD and Turkish Lira. The maturities of the bank loans vary between 3 to 5 years. The interest rates of USD borrowings are between semi annual Libor+1,5% and Libor+4,55%. The interest rate of Turkish Lira borrowings is 13,15%. The remaining bonds amounting to USD 86,4 million, has matured on 09 May 2012. The repayments of the matured bonds were financed by the Company's liquid assets.

Summary of the maturity schedule of financial liabilities is given below:

	EUR ('000)	USD ('000)	TL	TL equivalent
<b>31.12.2012</b>				
Due in one year	8.781	65.370	472.352	609.530
One to two years	23.488	107.403	76.137	322.831
Two to three years	3.264	12.599	--	30.136
Three to four years	1.619	11.567	--	24.428
Four to five years	1.396	3.698	--	9.874
	<b>38.548</b>	<b>200.637</b>	<b>548.489</b>	<b>996.799</b>
<b>31.12.2011</b>				
Due in one year	42.926	195.474	109.558	583.691
One to two years	--	28.218	9.032	62.334
Two to three years	2.370	25.033	65.744	118.822
Three to four years	2.268	5.856	--	16.604
Four to five years	1.567	5.278	--	13.799
	<b>49.131</b>	<b>259.859</b>	<b>184.334</b>	<b>795.250</b>

The Group had given various letters of guarantees to financial institutions for obtained bank loans (note 17).

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 8- DERIVATIVE FINANCIAL INSTRUMENTS**

	31.12.2012			31.12.2011		
	Contract Amount	Fair Value		Contract Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Held for trading</b>						
Forward foreign exchange contracts	3.881.252	681	36.185	1.664.442	62.458	--
Foreign currency swap contracts	100.000	--	(4.549)	--	--	--
	<b>3.981.252</b>	<b>681</b>	<b>31.636</b>	<b>1.664.442</b>	<b>62.458</b>	<b>--</b>

**NOTE 9- TRADE RECEIVABLES AND PAYABLES**

	31.12.2012	31.12.2011
<b>Current trade receivables</b>		
Trade receivables		
- Related parties (note 29)	60.371	28.959
- Other	1.244.009	1.682.246
Cheques and notes receivables	225.976	258.778
Other	59.007	60.660
	<b>1.589.363</b>	<b>2.030.643</b>
Unearned interest expense (-)		
- Related parties (note 29)	(58)	(78)
-Other	(7.822)	(11.714)
Allowance for doubtful receivables (-)	(112.691)	(80.079)
<b>Total current trade receivables</b>	<b>1.468.792</b>	<b>1.938.772</b>
<b>Non-current trade receivables</b>		
Trade receivables	--	155
Cheques and notes receivables	2.363	3.258
Unearned interest expense (-)	(162)	(211)
<b>Total non-current trade receivables</b>	<b>2.201</b>	<b>3.202</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

The movement table of allowance for doubtful receivables is as follows:

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Opening balance, 01 January</b>	80.079	51.875
Charge for the year	33.398	32.137
Disposal of a subsidiary	--	(1.886)
Amounts utilized during the year	(1.404)	(2.903)
Translation differences	618	856
<b>Closing balance, 31 December</b>	<b>112.691</b>	<b>80.079</b>

Aging of allowance for doubtful receivables is as follows:

	31.12.2012	31.12.2011
3-6 months	3.699	26.078
6 months and over	108.992	54.001
	<b>112.691</b>	<b>80.079</b>

**Current trade payables**

Trade payables		
- Related parties (note 29)	1.343	4.554
-Third parties	2.137.308	2.895.409
Notes payables		
-Third parties	3.050	12.964
Other	33	176
	<b>2.141.734</b>	<b>2.913.103</b>
Unearned interest income (-)		
-Related parties (note 29)	(1)	(44)
-Third parties	(2.050)	(3.409)
<b>Total current trade payables</b>	<b>2.139.683</b>	<b>2.909.650</b>

As of 31.12.2012, trade payable included letters of credit obtained from various financial institutes amounting to TL 85.179 (31.12.2011: TL 73.545).

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 10- OTHER RECEIVABLES AND PAYABLES**

	31.12.2012	31.12.2011
<b>Other current receivables</b>		
VAT receivable	111.552	85.684
Related parties (note 29)	--	105
Deposits and guarantees given	20.735	2.247
Other	90.255	84.335
	<b>222.542</b>	<b>172.371</b>
Allowance for doubtful receivables (-)	(89.376)	(81.457)
	<b>133.166</b>	<b>90.914</b>
<b>Other non-current receivables</b>		
Related parties (note 29)	59.848	59.075
Deposits and guarantees given	13.932	3.455
Other	8.278	8.283
	<b>82.058</b>	<b>70.813</b>
Allowance for doubtful receivables (-)	(8.278)	(8.278)
	<b>73.780</b>	<b>62.535</b>

Movement of doubtful receivables is given below:

	01.01.-31.12.2012	01.01.-31.12.2011
<b>Opening balance, 01 January</b>	<b>89.735</b>	<b>639</b>
Charge for the year	7.964	89.317
Amounts utilized during the year	(45)	(221)
<b>Closing balance, 31 December</b>	<b>97.654</b>	<b>89.735</b>
<b>Other current payables</b>		
Other payables		
- Related parties (note 29)	2.665	3.346
- Third parties	3.091	9.474
	<b>5.756</b>	<b>12.820</b>
<b>Other non-current payables</b>		
Deposits and guarantees received	--	1
Other	20.246	21.165
	<b>20.246</b>	<b>21.166</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 11- INVENTORIES

	31.12.2012	31.12.2011
Raw materials	524.961	631.346
Work in process	44.795	39.451
Finished goods	360.397	506.832
Merchandise	97.440	43.051
Other	2.640	3.701
	<b>1.030.233</b>	<b>1.224.381</b>
Provision for diminution in value (-)	(23.211)	(25.945)
	<b>1.007.022</b>	<b>1.198.436</b>

Provision for diminution in value of inventories is as follows:

Raw materials	5.358	12.924
Finished goods and merchandise	17.853	13.021
	<b>23.211</b>	<b>25.945</b>

Movement of provision for diminution in value of inventories is as follows:

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Opening balance, 01 January</b>	<b>25.945</b>	<b>36.907</b>
Charge for the year	(2.632)	4.523
Disposal of impaired stocks during the year	--	(15.959)
Translation differences	(102)	474
<b>Closing balance, 31 December</b>	<b>23.211</b>	<b>25.945</b>

#### NOTE 12- RECEIVABLES FROM (LIABILITIES OF) ONGOING PROJECTS

Aydın Yazılım and Vestel Savunma Sanayi, subsidiaries of Vestel Elektronik are providing support services for software development, engineering and design to the armed forces of Turkey and Europe alongside other domestic and foreign defence companies. Details of these projects are given below:

	31.12.2012	31.12.2011
Costs incurred on uncompleted projects	84.714	133.794
Estimated earning	35.253	36.541
	<b>119.967</b>	<b>170.335</b>
Less: Billing to date (-)	(108.825)	(151.979)
	<b>11.142</b>	<b>18.356</b>

The net balance included in the consolidated balance sheet under the following captions:

Receivables from ongoing projects	12.024	20.638
Liabilities of ongoing projects	882	2.282

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 13- PROPERTY, PLANT AND EQUIPMENT

	01.01.2012	Additions	Disposals	Translation reserve	Revaluation	Transfers	31.12.2012
<b>Cost</b>							
Land	32.583	--	(4)	(57)	112.547	--	145.069
Land improvements	13.011	22	--	(126)	30.835	--	43.742
Buildings	288.534	5.209	(332)	(1.746)	195.485	5.465	492.615
Leasehold improvements	110.498	12.257	(1.673)	(19)	--	(5.177)	115.886
Plant and machinery	1.201.752	141.572	(28.939)	(1.812)	--	52.470	1.365.043
Motor vehicles	4.339	1.538	(711)	(22)	--	--	5.144
Furniture and fixtures	185.282	25.728	(1.141)	(182)	--	273	209.960
Other tangible assets	849	--	--	--	--	--	849
Construction in progress	35.059	42.409	--	(104)	--	(53.103)	24.261
	<b>1.871.907</b>	<b>228.735</b>	<b>(32.800)</b>	<b>(4.068)</b>	<b>338.867</b>	<b>(72)</b>	<b>2.402.569</b>
<b>Accumulated depreciation</b>							
Land improvements	5.686	998	--	(13)	(6.671)	--	--
Buildings	72.871	9.037	(52)	(300)	(85.601)	4.045	--
Leasehold improvements	83.722	6.087	(1.673)	(6)	--	(4.045)	84.085
Plant and machinery	801.386	124.370	(24.905)	(1.012)	--	--	899.839
Motor vehicles	2.516	361	(536)	(10)	--	--	2.331
Furniture and fixtures	132.372	17.327	(947)	(140)	--	--	148.612
Other tangible assets	842	1	--	--	--	--	843
	<b>1.099.395</b>	<b>158.181</b>	<b>(28.113)</b>	<b>(1.481)</b>	<b>(92.272)</b>	<b>--</b>	<b>1.135.710</b>
<b>Net book value</b>	<b>772.512</b>						<b>1.266.859</b>

	01.01.2011	Additions	Disposals	Translation reserve	Disposal of subsidiary	Transfers	31.12.2011
<b>Cost</b>							
Land	22.148	876	(915)	281	--	10.193	32.583
Land improvements	8.861	1.073	--	750	--	2.327	13.011
Buildings	287.513	1.958	(597)	10.468	--	(10.808)	288.534
Leasehold improvements	104.463	928	(201)	101	(338)	5.545	110.498
Plant and machinery	1.353.190	47.207	(248.452)	11.374	(2.715)	41.148	1.201.752
Motor vehicles	5.231	267	(1.286)	128	(205)	204	4.339
Furniture and fixtures	169.630	22.577	(1.916)	1.169	(8.734)	2.556	185.282
Other tangible assets	849	--	--	--	--	--	849
Construction in progress	15.387	70.777	--	60	--	(51.165)	35.059
	<b>1.967.272</b>	<b>145.663</b>	<b>(253.367)</b>	<b>24.331</b>	<b>(11.992)</b>	<b>--</b>	<b>1.871.907</b>
<b>Accumulated depreciation</b>							
Land improvements	4.761	769	--	156	--	--	5.686
Buildings	64.585	6.706	(597)	2.177	--	--	72.871
Leasehold improvements	78.459	5.590	(193)	55	(189)	--	83.722
Plant and machinery	905.025	114.043	(221.038)	4.523	(1.167)	--	801.386
Motor vehicles	3.451	309	(1.119)	81	(206)	--	2.516
Furniture and fixtures	123.183	17.616	(1.672)	725	(7.480)	--	132.372
Other tangible assets	840	2	--	--	--	--	842
	<b>1.180.304</b>	<b>145.035</b>	<b>(224.619)</b>	<b>7.717</b>	<b>(9.042)</b>	<b>--</b>	<b>1.099.395</b>
<b>Net book value</b>	<b>786.968</b>						<b>772.512</b>

The Company's policy is to trace all material and significant fixed asset additions under construction in progress and transfer to the related fixed asset accounts when the construction process is completed. Significant portion of the construction-in-progress balance represented investment made in white goods segment in refrigerator, washing machine, cooker and dishwasher production facilities.

Leased assets included in the table above comprise plant and machinery amounting to TL 2.931 (2011: TL 5.205) net of accumulated depreciation.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 14- INTANGIBLE ASSETS**

	01.01.2012	Additions	Disposals	Currency translation differences	Transfers	31.12.2012
<b>Cost</b>						
Rights	36.121	2.745	(21)	(7)	14.889	53.727
Development cost	229.313	66.976	(2.911)	--	--	293.378
Other	66.969	10.823	--	(23)	(14.817)	62.952
	<b>332.403</b>	<b>80.544</b>	<b>(2.932)</b>	<b>(30)</b>	<b>72</b>	<b>410.057</b>
<b>Accumulated amortisation</b>						
Rights	26.437	893	(2)	(4)	4.309	31.633
Development cost	116.514	22.426	(5)	--	--	138.935
Other	36.252	6.304	--	(13)	(4.309)	38.234
	<b>179.203</b>	<b>29.623</b>	<b>(7)</b>	<b>(17)</b>	<b>--</b>	<b>208.802</b>
<b>Net book value</b>	<b>153.200</b>					<b>201.255</b>

	01.01.2011	Additions	Disposals	Currency translation differences	Disposal of subsidiary	31.12.2011
<b>Cost</b>						
Rights	34.708	1.551	(181)	43	--	36.121
Development cost	196.491	53.419	(632)	--	(19.965)	229.313
Other	52.975	18.555	(173)	119	(4.507)	66.969
	<b>284.174</b>	<b>73.525</b>	<b>(986)</b>	<b>162</b>	<b>(24.472)</b>	<b>332.403</b>
<b>Accumulated amortisation</b>						
Rights	23.164	3.392	(180)	61	--	26.437
Development cost	102.001	27.471	--	--	(12.958)	116.514
Other	32.299	5.306	(165)	63	(1.251)	36.252
	<b>157.464</b>	<b>36.169</b>	<b>(345)</b>	<b>124</b>	<b>(14.209)</b>	<b>179.203</b>
<b>Net book value</b>	<b>126.710</b>					<b>153.200</b>

Development costs, incurred by the Group on development projects relating to the computers, televisions, refrigerators, split air conditioners, washing machines, cookers and dish washers are capitalized as intangible assets when it is probable that costs will be recovered through future commercial activity and only if the cost can be measured reliably.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 15-GOODWILL

	01.01.2012	Additions	Disposals	Translation reserve	31.12.2012
Goodwill	228.274	--	(5.129)	(44)	223.101
Accumulated amortisation	(20.671)	--	--	3	(20.668)
	<b>207.603</b>	<b>--</b>	<b>(5.129)</b>	<b>(41)</b>	<b>202.433</b>

	01.01.2011	Additions	Disposals	Translation reserve	31.12.2011
Goodwill	227.882	--	--	392	228.274
Accumulated amortisation	(20.634)	--	--	(37)	(20.671)
	<b>207.248</b>	<b>--</b>	<b>--</b>	<b>355</b>	<b>207.603</b>

#### Goodwill impairment test

Goodwill is distributed on cash generating unit which are based on segmental reporting. Summary table of goodwill based on segmental reporting is given below:

	31.12.2012	31.12.2011
White goods	168.543	168.543
Television and electronic devices	31.638	36.767
Software	2.252	2.293
	<b>202.433</b>	<b>207.603</b>

The recoverable amount of cash generating units was determined on the basis of value in use calculations. Pre-tax cash flow projections based on financial plans approved by the Board of Directors were used in these calculations. As a result of these calculations TL 5.129 impairment was determined for goodwill.

#### NOTE 16- GOVERNMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures.

Date	No	Subject	Commencing date	Final date	Total investment in TL
15.04.2010	C 94275	B. Y. S. manufacture of household approvals	28.09.2009	28.09.2013	163.152

The grants obtained by the Group from the above mentioned incentives are as follows:

- 100% exemption from customs duty on machinery and equipment to be imported
- Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets
- Discounted corporate tax incentive
- Insurance premium employer share incentive

However, the grants obtained by the Group from the government are as follows:

- Incentives under the jurisdiction of the research and development law
- Inward processing permission certificates
- Cash refund from Tübitak-Teydeb for research and development expenses

Research and development incentive premium from Tübitak Teknoloji ve Yenilik Destek Programları Başkanlığı ("TEYDEB") amounts to TL 8.317 for the year ended 31.12.2012 (31.12.2011: TL 10.978)

Vestel Elektronik received brand incentive premium from Undersecretariat of Treasury amounting to TL 6.006 under the provision of creation of positive image of Turkish goods.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 17- PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

##### 17.1 Contingent liabilities

Provision for expenses	31.12.2012	31.12.2011
<b>Current</b>		
Warranty provision	71.567	56.326
Other expense provision	28.751	17.530
Provision for legal cases	9.202	5.790
	<b>109.520</b>	<b>79.646</b>
<b>Non-current</b>		
Warranty provision	<b>21.735</b>	<b>20.211</b>

##### 17.2 Contingent assets

As of the balance sheet date guarantee letters obtained from customers and suppliers are given below:

##### Obtained from customers and suppliers

Guarantees letter	140.323	101.873
Security bond obtained from suppliers	71.338	73.192
Mortgaged and guarantees received	623.533	624.487

Vestel Elektronik Sanayi ve Ticaret A.Ş. has given guarantee to Royal Bank of Scotland PLC in favour of Vestel Beyaz Eşya for forward contracts.

##### 17.3 Commitments and contingencies

##### a) Collaterals, Pledges, Mortgages ("CPM")

	USD (‘000)	EUR (‘000)	GBP (‘000)	RUR (‘000)	TL	TL equivalent
<b>31.12.2012</b>						
A. On behalf of its own legal entity	41.081	21.948	--	25.140	53.619	179.925
B. On behalf of fully consolidated subsidiaries	2.235.974	367.867	--	--	1.505.263	6.356.223
C. CPM's given on behalf of third parties for ordinary course of business	--	--	--	--	--	--
D. Total amount of other CPM's given	--	--	--	--	--	--
i. Total amount of CPM's given on behalf of the parent company	--	--	--	--	--	--
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	--	--	--	--	--	--
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	--	--	--	--	--	--
<b>Total</b>	<b>2.277.055</b>	<b>389.815</b>	<b>--</b>	<b>25.140</b>	<b>1.558.882</b>	<b>6.536.148</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	USD (‘000)	EUR (‘000)	GBP (‘000)	RUR (‘000)	TL equivalent	
<b>31.12.2011</b>						
A. On behalf of its own legal entity	38.316	31.635	--	353.877	45.114	215.377
B. On behalf of fully consolidated subsidiaries	2.056.375	314.885	--	--	1.051.603	5.705.406
C. CPM's given on behalf of third parties for ordinary course of business	--	--	--	--	--	--
D. Total amount of other CPM's given	--	--	--	--	--	--
i. Total amount of CPM's given on behalf of the parent company	--	--	--	--	--	--
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	--	--	--	--	--	--
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	--	--	--	--	--	--
<b>Total</b>	<b>2.094.691</b>	<b>346.520</b>	<b>--</b>	<b>353.877</b>	<b>1.096.717</b>	<b>5.920.783</b>

b) Due to the export and investment incentive certificates obtained, the Group has committed to realize exports amounting to USD 427.366 thousand (2011: USD 230.023 thousand) as of the balance sheet date.

c) The payment of VAT on certain export sales may be postponed and later cancelled by the tax office subject to clearance of certain routine formalities in due course. Responsibility of the Group continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future. The amount of postponed VAT at 31.12.2012 was TL 186.167 (2011: TL 255.695).

d) Vestel Beyaz Eşya is the guarantor for the bank loans which have been obtained by Vestel CIS Ltd and OOO Vestel Trade from Citibank.

e) Vestel Beyaz Eşya has given guarantee to Royal Bank of Scotland PLC in favour of Vestel Germany GMBH, Vestel Pazarlama and Vestel Elektronik Sanayi ve Ticaret A.Ş. for forward contracts.

f) Vestel Elektronik Sanayi ve Ticaret A.Ş. has given guarantee to Royal Bank of Scotland PLC and HSBC Bank A.Ş. in favour of Beyaz Eşya for derivatives.

g) Vestel Beyaz Eşya has given guarantee to HSBC Bank A.Ş. in favour of Vestel Pazarlama and Vestel Elektronik Sanayi ve Ticaret A.Ş. for forward contracts.

h) Included among the court cases started by the group are receivables totalling TL 200.552 which have been provided for in full. A provision of TL 6.414 has been provided for court cases opened against the group.

i) Vestel Beyaz Eşya has given guarantee to Turkey Garanti Bankası A.Ş. in favour of Vestel Elektronik Sanayi ve Ticaret A.Ş. for forward contracts.

j) Total obligation of the Group related to operational lease agreements amounted to TL 3.607 (2011: TL 3.778).

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

#### 17.4 Derivative financial instruments

As of 31.12.2012, the Group has entered in forward exchange contracts amounting to USD 1.265.630 thousand, EUR 188.192 thousand, RUR 60.723 thousand and TL 1.153.425 on a fixed amount USD 571.315 thousand, EUR 641.167 thousand, CHF 1.287 thousand, GBP 9.963 thousand, RUR 820.174 thousand and TL 1.290.559 thousand.

As of 31.12.2012, the Group has entered in foreign currency swap contracts amounting to TL 100.000.

#### NOTE 18-PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

	31.12.2012	31.12.2011
Provision for employee termination	41.529	33.046

Under Turkish law, the Company is required to pay employment termination benefits to each employee whose employment is terminated without due cause. In addition, under the existing Social Security Law No.506, clause No. 60, amended by the Labour Laws dated 06.03.1981, No.2422 and 25.08.1999, No.4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The amount payable is the equivalent of one month's salary for each year of service limited to a maximum of TL 3.033,98 as of 2012 (2011: TL 2.731,85).

The Company has no other obligation for employee termination other than the retirement pay above. The provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. Turkish Accounting Standards No: 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined employee plans. Accordingly actuarial assumptions were used in the calculation of the total liability which are described below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. An expected inflation rate and appropriate discount rate should both be determined, the net of these being real discount rate. Consequently in the accompanying financial statements as at 31 December 2012 the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 31.12.2012 the liability for employment termination benefits was calculated based on an annual real discount rate of 3,83% (31.12.2011: 4,05%) assuming an annual inflation rate of 5,0% and discount rate of 9,02%.

The movements in the reserve for employment termination benefits during the year are as follow:

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Opening balance, 01.01</b>	<b>33.046</b>	<b>27.675</b>
Additions	15.749	14.462
Disposal	(7.266)	(7.477)
Unconsolidated subsidiary	--	(1.614)
<b>Ending balance, 31.12</b>	<b>41.529</b>	<b>33.046</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 19- OTHER ASSETS AND LIABILITIES**

	31.12.2012	31.12.2011
<b>Other short term current assets</b>		
Prepaid expenses	18.547	11.857
Business advances given	4.374	327
Prepaid taxes and funds	29.702	9.911
VAT carried forward	29.567	26.079
Advances given	24.220	10.262
Other	8.373	4.437
	<b>114.783</b>	<b>62.873</b>
<b>Other long term current assets</b>		
Prepaid expenses	705	539
Advances given	5.647	8.355
Financial assets available for sale	10.596	10.613
	<b>16.948</b>	<b>19.507</b>
<b>Other liabilities</b>		
Taxes and dues payable	27.870	29.309
Social security payables	8.991	7.468
VAT payables	1.779	7
Expense accruals	72	425
Advances received	71.710	58.763
Due to personnel	8.354	9.177
Other	1.287	43
	<b>120.063</b>	<b>105.192</b>

**NOTE 20- SHARE CAPITAL**

**a) Paid in capital**

As of the balance sheet dates, the shareholders of the Company and their percentage shareholdings were as follows:

	31.12.2012	31.12.2011
(Historical cost convention)		
Shares of par value TL 1 each		
Limit on registered share capital	440.000	440.000
<b>Issued share capital</b>	<b>335.456</b>	<b>335.456</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Shareholding%		Amount	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Collar Holding B.V. (Holland)	%64,41	%64,41	216.054	216.054
Shares held by public				
Other shareholders	%25,19	%25,19	84.502	84.502
Collar Holding B.V. (Holland)	%10,40	%10,40	34.900	34.900
	<b>%100,00</b>	<b>%100,00</b>	<b>335.456</b>	<b>335.456</b>

There are no preferred shares representing the capital of Vestel Elektronik.

#### b) Adjustment to share capital ("inflation adjustment of share capital")

Adjustment to share capital (restated to 31.12.2004 purchasing power of money) is the difference between restated share capital and historical share capital.

Adjustment to share capital	<b>688.315</b>	<b>688.315</b>
-----------------------------	----------------	----------------

#### c) Share premium

The share premium account refers the difference between par value of the company's shares and the amount the company received for newly issued shares. The share premium account is disclosed under equity as a separate line item and may not be distributed. It may be used in capital increase.

Share premium	<b>79.191</b>	<b>79.191</b>
---------------	---------------	---------------

#### d) Revaluation reserve

Increases in carrying amounts as a result of revaluations recognised directly in the equity are followed in revaluation reserve fund.

	31.12.2012	31.12.2011
Fair value gains on financial assets	552	746
Revaluation of property, plant and equipment	361.794	--
	<b>362.346</b>	<b>746</b>

Revaluation of PPE is generated from revaluation of lands and lands improvements and buildings. In case of a disposal of revalued tangible assets, the amount related with this sole shall be transferred to retained earnings.

#### e) Currency translation differences

The assets and liabilities of the subsidiaries operating in countries other than Turkey are translated into Turkish Lira at the exchange rate at the balance sheet date and their income and expense are translated at the average exchange rate for the year. Exchange differences arising from the translation of the opening net assets and difference between the average and balance sheet date exchange rates are included in the currency translation differences under shareholders' equity.

Translation differences	<b>27.132</b>	<b>38.508</b>
-------------------------	---------------	---------------

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### f) Restricted reserves ("Legal reserves")

The legal reserves consist of first and second legal reserves appropriated in accordance with the Turkish Commercial Code ("TCC"). The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. Under TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid in share capital.

	01.01.- 31.12.2012	01.01.-31.12.2011
Legal reserves	61.655	55.826
Other capital reserves ( <i>profit on sale of financial assets</i> )	25	25
	<b>61.680</b>	<b>55.851</b>

#### g) Accumulated deficit

	01.01.- 31.12.2012	01.01.-31.12.2011
Extraordinary reserves	415.036	365.225
Previous year's loss	(710.432)	(657.483)
Other inflation adjustment of share capital	119.718	119.718
	<b>(175.678)</b>	<b>(172.540)</b>

Other inflation adjustment of reserves for shareholders' equity may be used in bonus reserves of share capital or may be offset against losses. Extra ordinary reserves may be used in bonus share issues, loss offset, loss deduction or cash profit distribution.

#### NOTE 21- REVENUE

	01.01.- 31.12.2012	01.01.-31.12.2011
Domestic sales	2.202.743	1.674.843
Overseas sales	5.548.028	5.473.409
<b>Gross sales</b>	<b>7.750.771</b>	<b>7.148.252</b>
Sales discounts (-)	(236.240)	(171.688)
<b>Net sales</b>	<b>7.514.531</b>	<b>6.976.564</b>
Cost of sales	(6.602.831)	(5.722.003)
<b>Gross profit</b>	<b>911.700</b>	<b>1.254.561</b>

#### NOTE 22 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING SELLING AND DISTRIBUTION EXPENSES, GENERAL AND ADMINISTRATIVE EXPENSES

	01.01.- 31.12.2012	01.01.-31.12.2011
Research and development expenses	69.737	88.354
Marketing, selling and distribution expenses	742.450	545.915
General administrative expenses	174.945	182.018
<b>Operating expenses</b>	<b>987.132</b>	<b>816.287</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 23- NATURE OF EXPENSE

Nature of expenses consists of cost of sales, research, selling, general and administrative expenses.

	01.01.- 31.12.2012	01.01.- 31.12.2011
Direct materials and merchandise expenses	5.909.071	5.407.222
Changes in semi-finished goods and finished goods	86.702	(172.748)
Personnel expenses	340.098	318.959
Depreciation and amortization	185.774	179.038
Sales commission expenses	58.223	51.994
Warranty and installation expenses	110.877	93.887
Transportation expenses	157.741	118.904
Advertising expenses	79.804	43.071
Office and rent expenses	44.818	42.412
Provision expenses for doubtful receivables	36.763	40.416
Energy expenses	37.150	32.031
License and royalty expenses	47.637	30.040
Outsourcing expenses	23.894	31.745
Consulting expenses	17.041	14.358
Insurance expenses	14.583	13.324
Repair and maintenance expenses	13.985	18.669
Other expenses	425.802	274.968
	<b>7.589.963</b>	<b>6.538.290</b>

#### NOTE 24- OTHER INCOME AND OTHER EXPENSE

##### a) Other income

	01.01.- 31.12.2012	01.01.-31.12.2011
Scrap sales	--	4.832
Government grant (note 16)	14.323	10.978
Provisions released	1.034	6.799
Profit on sale of financial asset (*)	--	36.441
Profit on sale of property, plant and equipment and intangible assets	3.422	5.059
Other	23.535	20.171
	<b>42.314</b>	<b>84.280</b>

(\*) As of 31.12.2011, profit on sale of financial assets (TL 36.441) comprises of sale of Birim Bilgi Teknolojileri Ticaret A.Ş. in 2011, which was a 45% subsidiary of the Company.

##### b) Other expense

	01.01.- 31.12.2012	01.01.-31.12.2011
Loss on sale of property, plant and equipment and intangible assets	3.038	27.969
Idle capacity expenses	2.030	4.474
Provision expenses	6.448	81.388
Impairment of goodwill	5.129	--
Other	3.499	2.175
	<b>20.144</b>	<b>116.006</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 25- FINANCIAL INCOME

	01.01.- 31.12.2012	01.01.- 31.12.2011
Foreign exchange gains	484.400	439.589
Gains on financial assets held for trading	--	538
Gains on derivative financial instruments	160.814	190.636
Interest income	79.151	45.254
Unearned interest on payables	3.298	11.546
	<b>727.663</b>	<b>687.563</b>

#### NOTE 26- FINANCIAL EXPENSE

	01.01.- 31.12.2012	01.01.- 31.12.2011
Foreign exchange loss	424.900	792.869
Losses on derivative financial instruments	195.161	135.889
Losses on financial assets held for trading	276	430
Unearned interest on receivables	3.212	17.198
Interest expense	127.897	78.463
Letters of credit expenses	38.183	28.139
Bank commission expenses	7.714	17.491
Factoring expenses	24.587	33.827
Other	6.901	2.341
	<b>828.831</b>	<b>1.106.647</b>

#### NOTE 27- TAXES ON INCOME

##### a) Current tax

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Profit before tax</b>	<b>(154.430)</b>	<b>(12.536)</b>
Local tax rate	%20	%20
Tax expense calculated using local tax rate	30.886	2.507
Unused taxable losses	(5.407)	(9.160)
Exemptions	1.720	11.450
Disallowable expenses	(5.392)	(24.976)
Impact of different tax rates in other countries	(1.929)	(2.287)
Adjustments with no tax effects	563	(3.843)
Research and development allowances	7.653	8.653
The advantages of reduced Corporation tax	243	595
	<b>28.337</b>	<b>(17.061)</b>

The Group's taxation on income is as follows:

Current tax expense	(7.428)	(22.319)
Deferred tax benefit	35.765	5.258
<b>Taxation on income</b>	<b>28.337</b>	<b>(17.061)</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

In Turkey, beginning from 1 January 2006, the corporate tax rate is 20%.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and by deducting other exempt income. In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed at the rate of % 15, except for companies receiving dividends who are resident companies in Turkey. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

In Turkey, advance tax returns are filed on a quarterly basis at the rate of %20, until the 10th day of the following month and paid until the 17th day. Advance tax returns files within the year are offset against corporate income tax calculated over the annual taxable corporate income.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments in equity shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity with the intention to be utilized in a share capital increase within five years from the date of the sale.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back.

There is no procedure for a final and definitive agreement on tax assessments. Tax returns are filed between 1-25 April following the close of the accounting year to which they relate. Tax authorities may however examine such returns and the underlying accounting records and may revise assessment within five years.

A reconciliation of the Company's tax expense is as follows:

	31.12.2012	31.12.2011
Corporation and income taxes	7.512	22.319
Prepaid taxes (-)	(7.151)	(18.703)
Current income tax liabilities	361	3.616
Deferred tax liability	74.273	15.930
Prepaid taxes (note 19)	(29.702)	(9.911)
Deferred tax asset	(69.559)	(45.021)
	<b>(24.627)</b>	<b>(35.386)</b>

#### b) Deferred tax

Deferred tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes. These differences usually result in the recognition of revenue and expenses in different periods for reporting and tax purposes.

In the calculation of the deferred tax assets and liabilities based on the liability method, the tax rate of 20% is used for companies in Turkey; for companies in foreign countries the tax rate of each individual country is used.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The composition of cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at the balance sheet dates using the expected future tax rates were as follows:

	Deferred tax asset		Deferred tax liability		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Employment termination benefits	8.365	6.582	--	--	8.365	6.582
Unearned interest on receivables (payables)	2.417	3.397	(904)	(1.707)	1.513	1.690
Warranty provision	11.463	6.455	--	--	11.463	6.455
Prepaid expenses	3.933	5.009	--	--	3.933	5.009
Provision for doubtful receivables	30.285	17.030	--	--	30.285	17.030
Restatement of property, plant and equipment and intangible assets	3.768	1.744	(29.194)	(27.781)	(25.426)	(26.037)
Temporary differences of inventories between tax base and reported base	6.682	5.050	--	--	6.682	5.050
Provision (accrual) of forward foreign exchange contracts	6.308	--	(9.992)	(12.492)	(3.684)	(12.492)
Accrued expenses	2.073	1.375	--	--	2.073	1.375
Taxable loss carried forward	27.035	20.272	--	--	27.035	20.272
Revaluation of property, plant and equipment	--	--	(69.346)	--	(69.346)	--
Other	3.409	4.306	(1.016)	(149)	2.393	4.157
	<b>105.738</b>	<b>71.220</b>	<b>(110.452)</b>	<b>(42.129)</b>	<b>(4.714)</b>	<b>29.091</b>
Net-off	(36.179)	(26.199)	36.179	26.199	--	--
<b>Deferred tax assets (liabilities), net</b>	<b>69.559</b>	<b>45.021</b>	<b>(74.273)</b>	<b>(15.930)</b>	<b>(4.714)</b>	<b>29.091</b>

The movement of deferred tax liability is given below:

	01.01.- 31.12.2012	01.01.-31.12.2011
<b>Opening balance, 01 January</b>	<b>(29.091)</b>	<b>(30.829)</b>
Deferred tax benefit	(35.765)	(5.258)
Deferred tax effect of disposed subsidiary	--	9.083
Changes in fair value of financial assets available for sale	(49)	--
Deferred tax effect of revaluation of PPE	69.346	--
Currency translation differences	273	(2.087)
<b>Closing balance, 31 December</b>	<b>4.714</b>	<b>(29.091)</b>

#### NOTE 28- EARNING (LOSS) PER SHARE

Loss from attributable to equity holders of the parent	(112.825)	(35.439)
Weighted average number of ordinary shares in issue	33.546	33.546
<b>Loss per share - TL, full</b>	<b>(0,00)</b>	<b>(0,00)</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 29- RELATED PARTY DISCLOSURE**

**a) Trade receivables-current**

	31.12.2012	31.12.2011
Vestel Elektronica S.R.L.	6.633	6.307
UTS- United Technical Services, Spol S.R.O.	3.260	1.739
L-3 Communications Investments	312	52
Vestel Central Asia	37.555	18.282
Other related parties	12.611	2.579
	<b>60.371</b>	<b>28.959</b>
Unearned interest on receivables (-)	(58)	(78)
	<b>60.313</b>	<b>28.881</b>

**b) Other assets-current**

Vestel Elektronica S.R.L.	--	105
---------------------------	----	-----

**c) Other assets - non-current**

Z.F.S Financial Services Ireland	59.848	59.075
----------------------------------	--------	--------

**d) Trade payables**

ABH Turizm Temsilcilik ve Ticaret A.Ş.	616	538
Other related parties	727	4.016
	<b>1.343</b>	<b>4.554</b>
Unearned interest on payables (-)	(1)	(44)
	<b>1.342</b>	<b>4.510</b>

**e) Other liabilities**

L-3 Communications Investments	2.662	2.821
Vkom-Birim-Dataset Joint Venture	3	525
	<b>2.665</b>	<b>3.346</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### f) Transactions carried out with related parties during the year:

	01.01.- 31.12.2012	01.01.- 31.12.2011
<b>Sales</b>		
Vestel Elektronica S.R.L.	2.461	6.635
UTS- United Technical Services, Spol S.R.O.	4.426	3.290
Zorlu Yapı Yatırım A.Ş.	16.977	35
L-3 Communications Investments	3.539	--
Other	5.255	3.623
	<b>32.658</b>	<b>13.583</b>
<b>Operating expenses</b>		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	--	47
ABH Turizm Temsilcilik ve Ticaret A.Ş.	13.139	6.238
Other	6.716	10.287
	<b>19.855</b>	<b>16.572</b>
<b>Finansal gelirler (giderler), net</b>		
Z.F.S. Financial Services Ireland	2.340	14.801
Other	789	493
	<b>3.129</b>	<b>15.294</b>

L-3 Communications Investments is a shareholder of consolidated subsidiary Aydın Yazılım Elektronik ve Sanayi A.Ş.

Vkom-Birim-Dataset Joint Venture was established for National Health Project by Birim Bilgi İşlem, Dataset and Vestel Kom.

ABH Turizm Temsilcilik Ticaret A.Ş. is a subsidiary of Zorlu Holding A.Ş.

UTS United Technical Services, Spol S.R.O., is a subsidiary of Vestel Dış Ticaret A.Ş.

Vestel Central Asia, is a subsidiary of Vestel Elektronik Sanayi ve Ticaret A.Ş.

The interest rate of the Group's USD denominated receivable from Z.F.S. Financial Services Ireland is 6,5%.

#### g) The compensation paid to key management including directors, the Chairman of Board of Directors, general managers and assistant general managers.

The compensation paid to key management for the year ended 31.12.2012 TL 12.647 (2011: TL 17.555).

#### h) Guarantees received/given

Vestel Elektronik has given various guarantees to group companies for financial institutions. (note 17)

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 30- NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

##### Risk management objectives and policies

The Group is exposed to a variety of financial risks through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result both from its operating and investing activities. The Group's risk management program focuses on minimizing the potential adverse effects of the unpredictable financial markets on the financial performance of the Group.

##### Interest rate risk

The Group is subject to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. The exposures are managed by balancing the interest rate sensitive assets and liabilities.

The Group's interest rate sensitive financial instruments are as follows:

	31.12.2012	31.12.2011
<b>Fixed interest rate financial instruments</b>		
Financial assets-time deposits	77.572	163.842
Financial liabilities	657.627	609.588
<b>Variable interest rate financial instruments</b>		
Financial assets held for trading	--	--
Financial liabilities	339.172	185.662

As of balance sheet dates, the Group's annual effective interest rates are as follows:

2012 (%)	USD	EUR	TL
<b>Assets</b>			
Cash and cash equivalents	0,7%	0,3%	9,0%
Trade receivables	0,3%	0,1%	6,2%
<b>Liabilities</b>			
Financial liabilities	4,1%	4,3%	9,7%
Trade payables	1,7%	0,1%	5,9%
<b>2011 (%)</b>			
<b>Assets</b>			
Cash and cash equivalents	2,4%	2,3%	8,6%
Trade receivables	0,4%	1,1%	11,4%
<b>Liabilities</b>			
Financial liabilities	3,2%	2,3%	9,4%
Trade payables	0,4%	0,9%	10,7%

As of 31.12.2012, if the variable interest rates of bank borrowing had increased or decreased by +1% and -1% and if all other variables were held constant, the income before tax would have been decreased or increased by TL 901 (2011: TL 1.857) for an increase and for a decrease in value of TL.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

*Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Group.

As of balance sheet dates, the Group's exposure to credit risk is as summarized below:

	Receivables					
	Trade receivables		Other receivables		Bank amounts	Other
	Related parties	Other parties	Related parties	Other parties		
<b>31.12.2012</b>						
<b>Maximum exposure to credit risk as of 31.12.2012 (A+B+C+D)</b>	<b>60.313</b>	<b>1.410.680</b>	<b>59.848</b>	<b>147.098</b>	<b>297.412</b>	<b>35.596</b>
- Secured portion of maximum credit risk with collateral	--	--	--	--	--	--
A. Net book value of financial assets that are not overdue and not impaired	60.313	1.127.312	59.848	147.098	297.412	35.596
B. Net book value of financial assets whose terms were renegotiated	--	12.521	--	--	--	--
C. Net book value of assets that are overdue but not impaired	--	270.847	--	--	--	--
- Secured portion by collateral, etc.	--	(*)	--	--	--	--
D. Net book value of assets that are impaired	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	112.691	--	97.654	--	--
- Impairment	--	(112.691)	--	(97.654)	--	--
- Secured portion by collateral, etc.	--	(*)	--	--	--	--

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

31.12.2011	Receivables					
	Trade receivables		Other receivables		Bank amounts	Other
	Related parties	Other parties	Related parties	Other parties		
<b>Maximum exposure to credit risk as of 31.12.2011 (A+B+C+D)</b>	<b>28.881</b>	<b>1.913.093</b>	<b>59.180</b>	<b>4.534</b>	<b>476.599</b>	<b>11.317</b>
Secured portion of maximum credit risk with collateral	--	(*)	--	--	--	--
A. Net book value of financial assets that are not overdue and not impaired	20.979	1.851.138	59.180	4.534	476.599	11.317
B. Net book value of financial assets whose terms were renegotiated	--	11.207	--	--	--	--
C. Net book value of assets that are overdue but not impaired	7.902	50.748	--	--	--	--
- Secured portion by collateral, etc.	--	(*)	--	--	--	--
D. Net book value of assets that are impaired	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	80.079	--	89.735	--	--
- Impairment	--	(80.079)	--	(89.735)	--	--
- Secured portion by collateral, etc.	--	(*)	--	--	--	--

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Aging of overdue trade receivables is given below:

31.12.2012	Receivables	
	Trade	Other
Not more than 30 days	83.190	--
Within 1 month to 3 months	53.779	--
Within 3 months to 12 months	52.093	--
Within 1 year to 5 years	79.810	--
Over 5 years	1.975	--
Secured portion of maximum credit risk with collateral <sup>(*)</sup>	--	--
	<b>270.847</b>	<b>--</b>
31.12.2011	Trade	Other
Not more than 30 days	18.461	--
Within 1 month to 3 months	8.452	--
Within 3 months to 12 months	2.156	--
Within 1 year to 5 years	14.348	--
Over 5 years	15.233	--
Secured portion of maximum credit risk with collateral <sup>(*)</sup>	--	--
	<b>58.650</b>	<b>--</b>

<sup>(\*)</sup> Local sales are realized through the marketing company Vestel Ticaret A.Ş. İstanbul Branch and the receivables of this company is secured to the extent of 90% as a result of the security obtained from dealers together with the direct collection system organised through Garanti Bankası A.Ş. Export sales are realized through the foreign trading company Vestel Ticaret A.Ş. and receivables of this company have been secured by Turkish Eximbank and other international insurance institutions.

#### Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

The breakdown of liabilities according to their contractual maturity is based on the maturity dates from the date of the balance sheet is given below:

31.12.2012	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contractual maturities						
Bank borrowings	996.799	1.046.993	291.438	332.299	423.256	--
Trade payables	1.356.535	1.356.794	390.087	966.707	--	--
<b>Non derivative financial liabilities</b>	<b>2.353.334</b>	<b>2.403.787</b>	<b>681.525</b>	<b>1.299.006</b>	<b>423.256</b>	<b>--</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

31.12.2012	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Derivative cash inflow	--	3.866.597	1.693.448	2.161.179	11.970	--
Derivative cash outflow	--	(3.835.642)	(1.682.860)	(2.138.641)	(14.141)	--
<b>Derivative financial liabilities</b>	<b>30.955</b>	<b>30.955</b>	<b>10.588</b>	<b>22.538</b>	<b>(2.171)</b>	<b>--</b>

31.12.2012	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Expected maturities						
Trade payables	783.148	784.940	698.940	86.000	--	--
Other payables and liabilities	157.875	157.875	100.358	25.461	32.056	--
<b>Non derivative financial liabilities</b>	<b>941.023</b>	<b>942.815</b>	<b>799.298</b>	<b>111.461</b>	<b>32.056</b>	<b>--</b>

31.12.2011	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contractual maturities						
Bank borrowings	795.250	766.880	228.968	145.321	392.386	205
Trade payables	1.066.644	1.068.672	39.811	1.028.861	--	--
<b>Non derivative financial liabilities</b>	<b>1.861.894</b>	<b>1.835.552</b>	<b>268.779</b>	<b>1.174.182</b>	<b>392.386</b>	<b>205</b>

31.12.2011	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Derivative cash inflow	--	1.726.899	907.874	819.025	--	--
Derivative cash outflow	--	(1.664.441)	(875.089)	(789.352)	--	--
<b>Derivative financial liabilities</b>	<b>62.458</b>	<b>62.458</b>	<b>32.785</b>	<b>29.673</b>	<b>--</b>	<b>--</b>

31.12.2011	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
Expected maturities						
Trade payables	1.843.006	1.844.431	1.668.097	176.250	84	--
Other payables and liabilities	141.037	141.037	115.843	23.334	1.860	--
<b>Non derivative financial liabilities</b>	<b>1.984.043</b>	<b>1.985.468</b>	<b>1.783.940</b>	<b>199.584</b>	<b>1.944</b>	<b>--</b>

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### Foreign currency risk

The Group is exposed to foreign exchange risk through the impact of rate changes at the translation of USD and EUR denominated assets and liabilities to Turkish Lira. Exchange rate exposures are managed utilising forward foreign exchange contracts.

The net currency position of the Company as of the balance sheet dates are shown below:

	USD	EUR	Other currencies TL equivalent	TL Equivalent
<b>31.12.2012</b>				
1. Trade receivables	286.307	199.411	--	979.326
2a. Monetary financial assets	88.992	33.361	--	237.092
2b. Non-monetary financial assets	--	65.965	--	155.130
3. Other	11.307	13.528	--	51.970
<b>4. Current assets (1+2+3)</b>	<b>386.606</b>	<b>312.265</b>	<b>--</b>	<b>1.423.518</b>
5. Trade receivables	668	6	--	1.205
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	888	5.008	--	13.360
<b>8. Non-current assets (5+6+7)</b>	<b>1.556</b>	<b>5.014</b>	<b>--</b>	<b>14.565</b>
<b>9. Total assets (4+8)</b>	<b>388.162</b>	<b>317.279</b>	<b>--</b>	<b>1.438.083</b>
10. Trade payables	877.075	102.547	--	1.804.634
11. Financial liabilities	65.370	8.781	--	137.178
12a. Other monetary liabilities	8.664	24.497	--	73.054
12b. Other non-monetary liabilities	--	--	--	--
<b>13. Current liabilities (10+11+12)</b>	<b>951.109</b>	<b>135.825</b>	<b>--</b>	<b>2.014.866</b>
14. Trade payables	--	--	--	--
15. Financial liabilities	135.267	29.767	--	311.132
16a. Other monetary liabilities	11.386	2.930	--	27.187
16b. Other non-monetary liabilities	--	--	--	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>146.653</b>	<b>32.697</b>	<b>--</b>	<b>338.319</b>
<b>18. Total liabilities (13+17)</b>	<b>1.097.762</b>	<b>168.522</b>	<b>--</b>	<b>2.353.185</b>
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a-19b)	694.315	(452.975)	(75.210)	97.214
19a. Hedged total assets	1.265.630	188.192	3.527	2.702.210
19b. Hedged total liabilities	(571.315)	(641.167)	(78.737)	(2.604.996)
<b>20. Net foreign currency asset/ (liability) (position (9-18+19)</b>	<b>(15.285)</b>	<b>(304.218)</b>	<b>(75.210)</b>	<b>(817.888)</b>
<b>21. Net foreign currency monetary asset/(liability) Position (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(721.795)</b>	<b>64.256</b>	<b>--</b>	<b>(1.135.562)</b>
<b>22. Fair value of financial instruments used in foreign currency hedging</b>	<b>694.315</b>	<b>(452.975)</b>	<b>(75.210)</b>	<b>97.214</b>
23. Export	475.137	2.035.891	--	5.548.028
24. Import	2.043.898	218.536	1.701	4.158.192

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

31.12.2011	USD	EUR	Other currencies TL equivalent	TL Equivalent
1. Trade receivables	525.807	253.399	103.164	1.715.617
2a. Monetary financial assets	177.035	31.293	25.132	436.007
2b. Non-monetary financial assets	94.605	60.253	70.958	396.904
3. Other	610	2.973	556	8.974
<b>4. Current assets (1+2+3)</b>	<b>798.057</b>	<b>347.918</b>	<b>199.810</b>	<b>2.557.502</b>
5. Trade receivables	1.180	--	--	2.229
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	5.493	97	--	10.613
<b>8. Non-current assets (5+6+7)</b>	<b>6.673</b>	<b>97</b>	<b>--</b>	<b>12.842</b>
<b>9. Total assets (4+8)</b>	<b>804.730</b>	<b>348.015</b>	<b>199.810</b>	<b>2.570.344</b>
10. Trade payables	1.236.511	111.387	1.675	2.609.528
11. Financial liabilities	195.474	42.926	--	474.133
12a. Other monetary liabilities	9.022	17.470	4.794	64.529
12b. Other non-monetary liabilities	--	--	--	--
<b>13. Current liabilities (10+11+12)</b>	<b>1.441.007</b>	<b>171.783</b>	<b>6.469</b>	<b>3.148.190</b>
14. Trade payables	--	--	--	--
15. Financial liabilities	64.385	6.205	--	136.783
16a. Other monetary liabilities	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--
<b>17. Non-current liabilities (14+15+16)</b>	<b>64.385</b>	<b>6.205</b>	<b>--</b>	<b>136.783</b>
<b>18. Total liabilities (13+17)</b>	<b>1.505.392</b>	<b>177.988</b>	<b>6.469</b>	<b>3.284.973</b>
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a-19b)	616.164	(372.506)	(89.159)	164.383
19a. Hedged total assets	721.625	97.848	10.582	1.612.780
19b. Hedged total liabilities	(105.461)	(470.354)	(99.741)	(1.448.397)
<b>20. Net foreign currency asset/ (liability) (position (9-18+19))</b>	<b>(84.498)</b>	<b>(202.479)</b>	<b>104.182</b>	<b>(550.246)</b>
<b>21. Net foreign currency monetary asset/(liability) Position (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(801.370)</b>	<b>106.704</b>	<b>121.827</b>	<b>(1.131.120)</b>
<b>22. Fair value of financial instruments used in foreign currency hedging</b>	<b>616.164</b>	<b>(372.506)</b>	<b>(89.159)</b>	<b>164.383</b>
23. Export	484.013	2.008.608	317	5.473.409
24. Import	1.999.817	207.025	804	3.821.293

In accordance with Turkish financial reporting standards, inventories are accounted for in Turkish Lira even if they obtained are through import, hence are not subject to foreign currency valuation. If the stocks were valued as foreign currency asset, the net open foreign currency position of the Group would have been lower.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

Foreign currency sensitivity analyses are as follows:

	Profit/Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
<b>31.12.2012</b>				
<b>+/- 10% fluctuation of USD rate:</b>				
USD net asset/liability	(128.667)	128.667	(128.667)	128.667
Secured portion from USD risk (-)	123.769	(123.769)	123.769	(123.769)
<b>USD net effect</b>	<b>(4.898)</b>	<b>4.898</b>	<b>(4.898)</b>	<b>4.898</b>
<b>+/- 10% fluctuation of EUR rate:</b>				
EUR net asset/ liability	15.111	(15.111)	15.111	(15.111)
Secured portion from EUR risk (-)	(106.526)	106.526	(106.526)	106.526
<b>EUR net effect</b>	<b>(91.415)</b>	<b>91.415</b>	<b>(91.415)</b>	<b>91.415</b>
<b>+/- 10% fluctuation of other currency rates:</b>				
Other currencies net asset/ liability	--	--	--	--
Secured portion from other currency risk (-)	(7.521)	7.521	(7.521)	7.521
<b>Other currency net effect</b>	<b>(7.521)</b>	<b>7.521</b>	<b>(7.521)</b>	<b>7.521</b>

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

31.12.2011	Profit/Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
<b>+/- 10% fluctuation of USD rate:</b>				
USD net asset/liability	(132.348)	132.348	(132.348)	132.348
Secured portion from USD risk (-)	116.387	(116.387)	116.387	(116.387)
<b>USD net effect</b>	<b>(15.961)</b>	<b>15.961</b>	<b>(15.961)</b>	<b>15.961</b>
<b>+/- 10% fluctuation of EUR rate:</b>				
EUR net asset/ liability	41.551	(41.551)	41.551	(41.551)
Secured portion from EUR risk (-)	(91.033)	91.033	(91.033)	91.033
<b>EUR net effect</b>	<b>(49.482)</b>	<b>49.482</b>	<b>(49.482)</b>	<b>49.482</b>
<b>+/- 10% fluctuation of other currency rates:</b>				
Other currencies net asset/ liability	19.334	(19.334)	19.334	(19.334)
Secured portion from other currency risk (-)	(8.916)	8.916	(8.916)	8.916
<b>Other currency net effect</b>	<b>10.418</b>	<b>(10.418)</b>	<b>10.418</b>	<b>(10.418)</b>

*Capital risk management*

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of debt and equity balance.

The Group's management reviews the capital structure considering the cost of capital and the risks associated with each class of capital. Based on recommendations, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of the existing debt.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

The Group’s net debt to overall financing ratios as at the balance sheet dates are follows:

	31.12.2012	31.12.2011
Total borrowings (note 7)	996.799	795.250
Less: Cash and cash equivalents (note 5)	(333.008)	(487.916)
<b>Net debt</b>	<b>663.791</b>	<b>307.334</b>
Total equity	1.341.682	1.131.938
<b>Overall financing</b>	<b>2.005.473</b>	<b>1.439.272</b>
<b>Net debt to overall financing ratio</b>	<b>33%</b>	<b>21%</b>

#### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information, management’s judgment and appropriate valuation methodologies. However judgement is required to interpret market data to estimate the fair value. Accordingly the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the Group’s financial instruments:

#### *Financial assets*

The carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short term.

The carrying values of trade receivables along with the related allowances for un-collectability are estimated to be their fair values.

The carrying amounts of financial assets are considered to approximate their fair values.

#### *Financial liabilities*

The carrying values of bank borrowings and other monetary liabilities are considered to approximate their fair values since they are short term.

The carrying values of trade payables are estimated to be their fair values

The carrying values of long-term bank borrowings which are denominated in foreign currencies and translated at year-end exchange rates are considered to approximate their fair values.

# VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts in thousands of Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 31-SUPPLEMENTARY CASH FLOW INFORMATION

	01.01.- 31.12.2012	01.01.-31.12.2011
<b>Adjustment to reconcile net cash provided from operating activities to income before taxes:</b>		
Depreciation of property, plant and equipment	187.804	181.204
Provision for employment termination benefits	15.749	14.462
Provision for diminution in value of inventories	(2.632)	4.523
Profit on sale of property, plant and equipment, net	(384)	22.910
Provision for doubtful receivables	41.362	121.454
Provision for held for trading financial assets	--	1.476
Forward (income)/expense accrual	93.413	(62.458)
Warranty provision	110.877	93.887
Provision for expense accruals	(79.479)	(94.332)
Interest income	(79.151)	(45.254)
Interest expense	127.897	78.463
Profit on sale of financial assets	--	(36.441)
Provision for goodwill impairment	5.129	--
	<b>420.585</b>	<b>279.894</b>

#### Changes in operating assets and liabilities:

Trade receivables	437.583	(493.550)
Other receivables	(61.461)	(87.538)
Inventories	194.046	(352.323)
Receivables from ongoing projects	8.614	1.715
Other current assets	(51.910)	(6.854)
Other non- current assets	2.559	(10.977)
Trade payables	(769.967)	1.053.442
Other liabilities	(7.984)	98.956
Liabilities of ongoing projects	(1.400)	(9.498)
Other current liabilities	24.822	12.194
Payments of employee termination benefits	(7.266)	(7.477)
	<b>(232.364)</b>	<b>198.090</b>

Depreciation expense and amortization charged to:

Cost of sales	129.970	105.820
Research and development expenses	32.783	50.380
Selling, marketing and distribution expenses	15.592	13.672
General administrative expenses	7.429	9.166
Other expenses (idle capacity expenses)	2.030	2.166
	<b>187.804</b>	<b>181.204</b>

#### NOTE 32-SUBSEQUENT EVENTS

The Company has signed " share transfer agreement " on 07 March 2013 to sell entire shares of Deksarnet Telekomünikasyon A.Ş.'s which is, 99,9% subsidiary of Vestel Elektronik.

Share transfer will be realised of taking necessary permission from related institution. In accordance with share transfer agreements purchase price will be determined based on the closing financial statements and will be paid on 12 equal instalments.

# INVESTOR INFORMATION

## Independent Auditor

Eren Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.  
Member Firm of Grant Thornton International  
Abide-i Hürriyet Caddesi  
Bolkan Center No: 211 Kat: 3  
34381 Şişli-İstanbul

## Financial Data and Company News

Financial statements, auditor reports, material disclosures and annual reports of Vestel Elektronik are available on the Company's website at <http://www.vestelyatirimciiliskileri.com>. Additionally, requests for information can be submitted to the Investor Relations Unit of Vestel Group of Companies via phone and e-mail.

## Investor Relations

Figen Çevik  
Investor Relations and Corporate Finance Director  
Zorlu Plaza 34310 Avcılar-İstanbul  
Phone: +90 (212) 456 22 00  
[figen.cevik@vestel.com.tr](mailto:figen.cevik@vestel.com.tr)

Başak Dalga  
Investor Relations and Corporate Finance Manager  
Zorlu Plaza 34310 Avcılar-İstanbul  
Phone: +90 (212) 456 22 00  
[basak.dalga@zorlu.com](mailto:basak.dalga@zorlu.com)



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

Organize Sanayi Bölgesi, 45030, Manisa

Tel: +90 (0236) 233 01 31

Fax: +90 (0236) 233 25 85

[www.vestel.com.tr](http://www.vestel.com.tr)



This annual report is printed on 100% recycled paper.