

VESTEL ELEKTRONİK A.Ş.
CORPORATE GOVERNANCE
STATEMENT

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1- CORPORATE GOVERNANCE STATEMENT

In this corporate governance statement, Vestel Electronics Inc declares its commitment to corporate governance principles. This statement indicates the degree to which Vestel is in compliance with those principles and, in the case of issues in which it is not in full compliance, explains the reasons why.

Vestel Electronics Inc is one of the most publicly traded companies in Turkey, with approximately 49% of its shares held by investors. Such a high level of public participation further increases Vestel's responsibility towards its investors and in its awareness of that responsibility, Vestel's management and employees as a whole have embraced corporate governance principles and have agreed to act in line with the principles of transparency, equitability, responsibility, and accountability in all their activities.

Vestel has made a great deal of progress from the standpoint of corporate governance principles in very little time and, with the aid of a corporate governance consultancy, it has succeeded in setting up corporate governance mechanisms within the Company. This project is an indication of Vestel's commitment on the subject of corporate governance principles and compliance with them. The objective of this project was to bring Vestel into compliance with the July 2003 Corporate Governance Principles Communique published by the Capital Markets Board as well as with internationally recognized principles and the practices of its own sector. The project was completed and the Vestel Corporate Governance Principles System was in operation as of January 2005.

This project involved developing company-wide corporate governance mechanisms and ensuring that these mechanisms are recognized, understood, and accepted by all company employees from senior management on down. At the annual shareholders' meeting held on 30 May 2005, the Company's articles of incorporation were amended to bring them into compliance with corporate governance principles. The most significant changes involved in these amendments are summarized below.

- Recognizing minority shareholder rights
- Board of Directors independence
- Systemizing Board of Directors meetings
- Establishing a secretariat for board members and for the regular keeping of board meeting minutes
- Creating committees on the Board and making them independent
- Specifying the qualifications for being elected to a seat on the Board
- Rules pertaining to general meetings
- Authorities and responsibilities of the Board of Directors.

By means of the changes made in the articles of incorporation in line with corporate governance principles resulted in the continued compliance with those principles.

Vestel has made changes to increase the effectiveness of the Board of Directors in line with corporate governance principles. In line with these changes, two independent members were appointed to the Board to bring the Board into better structural compliance with corporate governance principles. To ensure the independence of board committees, the independent members appointed to the Board have been put in charge of them.

A secretariat has been created whose functions are to ensure that board meetings are regularly held, meeting minutes are properly maintained and archived, and board members have convenient access to the Company's information.

Vestel had previously set up an audit committee as required by article 3 of CMB Communiqué X:19. The effectiveness of that committee has been increased and it has been brought into better compliance with corporate governance principles. A second committee responsible for corporate governance issues and for appointments that reports to the Board of Directors has also been set up and is now functioning. Principles governing the workings of these committees have been drawn up and are published on the Company's corporate website.

Vestel has rebuilt its corporate website in line with the principles of public disclosure and transparency in recognition of the right of all its stakeholders to have equal, complete, timely, and fast access to information about the Company. The redesign of the website was carried out for the purpose of keeping investors and all stakeholders as informed as possible. An investor relations unit has been set up within the Company for the purpose of managing relations with investors. This unit has also been given the responsibility for the corporate website as well as for publicly disclosing all information about the Company.

The purpose of this corporate governance statement is to achieve a style of management that recognizes responsibilities and creates value. Vestel's corporate governance principles are intended to strengthen and enhance the confidence that our existing and potential investors, employees, regulatory authorities, and national and international public opinion have in our Company.

Note 1: This corporate governance statement and the corporate governance analysis on which it is based were prepared with the support of the firm of "İyi Şirket" Danışmanlık AŞ.

Note 2: Issues on which the Company is not in compliance with corporate governance principles may be found in the corporate governance compliance report in the annual report.

2- IMPLEMENTATION OF CORPORATE GOVERNANCE PRINCIPLES

Vestel Electronics Inc has done the following as part of its restructuring to bring itself into compliance with corporate governance principles.

- Two independent board members satisfying the independence criteria of the CMB corporate governance principles communiqué have been appointed to the Board of Directors.
- The Company's articles of incorporation have been amended to bring them into compliance with corporate governance principles.
- An independent board member has been appointed as head of the audit committee that was set up in line with CMB Communiqué X:19/3. Work has begun on writing up the committee's working principles.
- A corporate governance and appointments committee has been set up. In line with corporate governance principles its head is an independent board member.
- An investor relations unit has been set up.
- A secretariat responsible to the Board of Directors has been created so as to increase the board's effectiveness.
- The corporate website has been redesigned in line with corporate governance principles. Planned activities related to the implementation of corporate governance principles are published on our website and publicly announced in other ways.

Objectives in the implementation of corporate governance principles

The underlying objectives in the Company's implementation of corporate governance principles are the following:

- Develop an approach to management that is responsible, accountable, and open to all shareholders, especially minority shareholders.
- Create a transparent corporate structure that will earn the confidence of existing and potential investors, customers, and employees and of both national and international markets.
- Support the Board of Directors, senior management, and employees in continuously increasing the Company's market value.
- Ensure the continuity of the returns that investors receive on their investments.
- Enhance customer satisfaction by means of the importance that is given to increasing employee motivation.
- Make it possible for the Company's activities to be more effectively monitored by the Board of Directors by means of an effective internal and external control system created in line with corporate governance principles.

A- THE GROUP'S STRUCTURE AND SHAREHOLDERS

I- Shareholder and Capital Structure

Shareholders and their shareholding interests

Shareholders	Nominal value (TL)	% shareholding interest
Collar Holding BV	82,000,000,000,000	51.59
Publicly held	77,017,886,960,000	48.41
Total	159,099,886,960,000	100.00

Series	Type	Value (TL)
II	Nama	122.902.000.000.-
II	Hamiline	27.098.000.000.-
III	Nama	80.000.000.000.-
III	Hamiline	40.000.000.000.-
IV	Nama	104.611.500.000.-
IV	Hamiline	16.888.500.000.-
V	Nama	149.575.066.000.-
V	Hamiline	18.769.934.000.-
VI	Nama	2.205.927.100.000.-
VI	Hamiline	1.234.227.900.000.-
VII	Nama	545.711.056.000.-
		4.545.711.056.000.-

- All shares are registered.
- No shares convey any special privileges. The rule of "One share equals one vote" is followed.
- The Company's articles of incorporation contain no provisions restricting the transfer of shareholding interests.

II- Shareholder rights

- The Company's shares confer no special rights with respect to profit distribution or voting. The principle of "Each share of stock is entitled to one vote and to an equal share of profits" is complied with.
- An investor relations unit has been set up to take measures to ensure compliance with the requirements of laws and regulations, the articles of incorporation, and other company regulations in the exercise of shareholder rights and to make it possible for those rights to be exercised.
- The Company makes active use of its corporate website so that shareholders may have timely, quick, low-cost, and convenient access to information. The website is periodically updated.
- All shareholders are treated equally.
- The Company publishes all general meeting-related documents on the website as of the date they are publicly announced. Minutes of general meetings are also published on the website as soon as possible after a meeting.
- In addition to complying with the requirements of law pertaining to the abuse of insider information, the Company has its own internal regulations concerning this issue. Compliance with the requirements of law and company regulations is periodically reviewed.

The changes made in Vestel Electronics' articles of incorporation have resulted in greater compliance with corporate governance principles throughout the Company. These changes are briefly described below.

A- Changes related to minority shareholder rights

- The one-tenth ratio of the Company's capital stipulated in TCL as conferring minority shareholder rights was reduced to one-twentieth. (Article 23)
- If shareholders possessing at least one-twentieth of the value of the Company's capital make a request before the agenda of a general meeting has been prepared, their suggestions concerning the agenda will be taken into account by the Board of Directors. (Article 23)
- Upon the written request of shareholders representing at least 5% of the Company's issued capital in which the justification for the summons is stated, the Board of Directors or statutory auditors may invite the general meeting to convene. (Article 23)
- Shareholders and beneficiaries who control shares worth at least one-twentieth of the Company's capital may be invited to attend board meetings. (Article 16)
- The Company's shares may be freely transferred and assigned so long as the requirements of the Turkish Commercial Law, the Capital Markets Law, and these articles of incorporation are complied with. (Article 6)

B- General assemblies of shareholders: Additions made to the articles of incorporation on issues related to their functions, authorities, and announcements

- Announcements of general meetings are to be made at least three weeks before the meeting date. Meeting announcements will also be published on the Company's corporate website. General meeting announcements must include the meeting's agenda and the text of the proxy statement for those who intend to cast their votes through a proxy. When a meeting has been announced, copies of the meeting agenda and of the most recent versions of the articles of incorporation, financial statements and footnotes, profit distribution proposal, annual report, and other information concerning the agenda are to be made available at the Company's headquarters and branches. Such information and documents are also published on the corporate website. (Article 21)
- Persons designated as candidates for board membership, the members of the Board of Directors, the statutory auditors, and those responsible for preparing the financial statements must attend general meetings. Those who do not must state their reasons for not doing so. (Article 21)

- Shareholders are to be provided with detailed information about candidate board members and statutory auditors before an election is held. (Article 21)

C- Rules pertaining to the Board of Directors

- The majority of members of the Board of Directors must be non-executive members. (Article 12)
- Members of the Board of Directors must be chosen from among persons with specific qualifications. (Article 12)
- The age limit for members of the Board of Directors is 75. Members who pass the age of 75 must retire. (Article 12)
- The justifications of independent board members who cast negative votes at board meetings are to be publicly announced. (Article 16)
- No board member has preferential voting rights. Every member exercises one vote. (Article 16)
- Notifications of board meetings are to be made at least seven days in advance of the meeting date. Notifications, agendas, and information and documents related to agendas are to be supplied to members in writing. (Article 16)
- Irrespective of the reason or exigency, any member of the Board who fails to attend three meetings in a row without the Board's permission is deemed to have resigned his seat. (Article 16)
- No member of the Board may take part in any board meeting that is concerned with his own personal interests or with those of his spouse or of any relation by blood or marriage unto the third degree. (Article 16)
- As per articles 334 and 335 of the Turkish Commercial Law, members of the Board of Directors may not engage in dealings with the Company nor may they compete against the Company unless specifically authorized to do so by at least three-fourths of the shares present at a general meeting. (Article 17)
- At least one-third of the Board's membership must consist of independent members except their number cannot be less than two. The chairman of the Board of Directors and his deputy must be chosen from among independent members. (Article 12)
- The qualifications of independent board members must comply with the conditions of independence set forth in the CMB corporate governance principles communique (or with Vestel Inc's independence criteria). (Article 12)
- A secretariat is to be set up under the responsibility of the chairman to serve members of the Board. (Article 16)
- The salaries and other benefits received by independent board members must be at levels that will not have an effect on their independence. (Article 18)

D- Changes pertaining to Board of Directors committees

- The Board of Directors is to set up a corporate governance committee and an audit committee responsible to the Board of Directors in line with CMB corporate governance principles. (Article 35)
- The committees' working principles must be set out in writing and disclosed to shareholders, investors, and the public. The committees working principles must also be published on the corporate website. The Board of Directors alone is empowered to approve changes in these committees' working principles. (Article 35)
- Committees must consist of at least two members. Committee heads must be chosen from among the Board's independent members. A simple majority of committee members must be non-executive board members. No committee member may concurrently serve on more than one committee. (Article 35)
- Should it be deemed necessary, committee members may also be chosen from among persons who are not board members but in such cases they must be experts in their particular field. (Article 35)

- Committees are to convene upon the invitation of their head. Minutes of committee meetings are to be taken and maintained by the Board of Directors' secretariat. Public statements made by committees must be in writing and permanently archived.
- A committee has been formed that is responsible for auditing so as to ensure that financial and operational activities are carried out in a sound manner. This committee must meet at least four times a year and once every three months. Persons who are not members of the committee may be invited to take part in committee meetings to provide information about items on the agenda. (Article 36)
- A committee has been formed to monitor the Company's compliance with corporate governance principles and to make recommendations to the Board of Directors about company-related appointments. This committee must meet at least three times a year. Persons who are not members of the committee may be invited to take part in committee meetings to provide information about items on the agenda. An investor relations unit is to be set up subject to the Corporate Governance Committee. (Article 37)

E- Independent audit

- The Company's annual financial statements and interim financial statements are to be audited by an internationally recognized independent auditing firm that has been approved by the general assembly of shareholders.
- The Company may work with the same independent auditors on regular or special audits for no more than five consecutive fiscal years. (Article 34)
- The Board of Directors' audit committee is to make a preliminary determination of the independence the Company's independent auditors. Independent auditors may not concurrently provide the Company with consultancy services as well. (Article 34)

III- Investor Relations Unit

a- Structure of the Investor Relations Unit

Under a Board of Directors resolution dated 30 May 2005, an investor relations unit was set up to take measures to ensure compliance with the requirements of laws and regulations, the articles of incorporation, and other company regulations in the exercise of shareholder rights and to make it possible for those rights to be exercised. The Investor Relations Unit is under the responsibility of the Investor Relations Unit manager.

The unit's manager reports directly to the head of the Corporate Governance and Appointments Committee. The objectives of the Investor Relations Unit are to enable shareholders to exercise their rights and to serve as a bridge and channel of communication between company management and shareholders. The Investor Relations Unit consists of two people of which one is a manager. Selim Yuna is the investor relations manager. Ece Köksal serves as the unit's specialist.

b- Duties and responsibilities of the Investor Relations Unit

- Provide all shareholders and investors, both local and international, with timely, complete, and accurate information.
- Conduct regular meetings in Turkey and abroad for shareholders, investors, and analysts and take part in road shows. Represent the Company in national and international meetings.
- Organize and conduct general meetings in accordance with laws and regulations, the Company's articles of incorporation, company regulations, and corporate governance principles.

- Have documents related to general meetings made available at the Company's headquarters and branches at least three weeks before the meeting date.
- Regularly update the corporate website so as to keep shareholders informed.
- Monitor the effectiveness of the Company's public disclosure policy and deal with public disclosure issues.
- Respond to all questions from stakeholders that are not concerned with trade secrets.
- Maintain continuous relations with investors and analysts and provide them with information when needed.
- Send any and all information and documents that the Company is required by law to submit to regulatory agencies and authorities and ensure that this is done in a timely, complete, and intelligible manner.

B- The Board of Directors

I-Independence Criteria

It was decided to submit a motion at the annual shareholders' meeting to be held on 30 May 2005 approving the appointment of Yılmaz Argüden and Ekrem Pakdemirli as independent board members on 23 May 2005 as required by the independence criteria that have been developed in line with international principles and CMB regulations. The motion was approved by a majority vote.

The criteria for being an independent member of the Company's Board of Directors are these:

- He must not have performed any duties for or held a managerial position in the Company during the most recent two years.
- He must not be elected to the Board of Directors to represent any particular group of shareholders.
- During the most recent two years, neither he nor his spouse nor any blood relation unto the third degree must have been involved in any direct or indirect beneficial relationship in terms of employment, capital, or business dealings with the Company, with its subsidiaries, with its minority stakes, or with its sister companies.
- He must not have any family ties with any of the Company's managers or board members.
- During the most recent two years, he must not have performed any duties for any firm that has served as the Company's independent auditors or consultants.
- He must not currently be employed by any firm that is responsible for all or a particular part of the Company's activities or organization and must not have served in a managerial position in such a firm during the most recent two years.
- He must not currently be employed by any firm that supplies the Company with substantial quantities of products or services and must not have served in a managerial position in such a firm during the most recent two years.

In order for members who presently do not satisfy independence criteria to become independent board members once they do satisfy them, both they and their families must commit themselves to complying with the foregoing criteria for the next two years' time.

II- Delegation of authorities among board members

Name	Position Held	Number of Years in this Position	Other Duties
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Ahmet Nazif Zorlu	Cahirman	10	Chairman, Vestel Foreign Trade Chairman, Vestal White Goods Chairman, Vestel Marketing Chairman, Vestel Defence Industry Chairman, Deksar Multimedia
Ekrem Pakdemirli	Vice Chairman	-	University Faculty Member
Şule Zorlu	Board Member	3	General Manager, Linens Marketing Director, Vestal White Goods Vice Chairman, Vestel Marketing Vice Chairman, Vestel Foreign Trade Vice Chairman, Deksar Multimedia
Ömer Yüngül	Board Member	4	Board Member, Vestelkom Board Member, Deksar Multimedia Board Member, Vestel Defence Industry
Enis Turan Erdoğan	Board Member	4	Board Member, Vestel White Goods Board Member, Vestelkom
M. Cem Bodur	Board Member	4	Vice Chairman, Denizbank
Yılmaz Argüden	Board Member	-	Economist & University Faculty Member

III- Analysis of board members - Analysis of qualifications

Name	Position Held	Age	Number of Years in the Position	Membership Classification	Educational Status	Previously Held Positions
Ahmet Nazif Zorlu	Cahirman	60	3	Non-executive director	Primary School Graduate	-
Ekrem Pakdemirli	Vice Chairman		1	Independent Board Member	University	Faculty Member
Şule Zorlu	Board Member	28	3	Non-executive director	University	Rotated through group companies
Ömer Yüngül	Board Member	49	3	Board Member	University	Vestel White Goods (General Manager)
Enis Turan Erdoğan	Board Member	49	3	Board Member	University	Ekinciler Holding
M. Cem Bodur	Board Member	43	3	Non-executive director	University	Ekinciler Holding (Finance Coordinator)
Yılmaz Argüden	Board Member		3	Independent Board Member	University	Faculty Member

- The Board of Directors consists of 7 members.
- The chairman of the Board of Directors is Ahmet Nazif Zorlu.
- The chairman of the Executive Committee is Ömer Yüngül.
- Board members are chosen by the general assembly of shareholders from among candidates designated by shareholders.
- Two of the Company's board members, Ahmet Nazif Zorlu and Şule Zorlu, are members of the Zorlu family. Ömer Yüngül and Turan Erdoğan hold executive positions.
- The Board of Directors and the Executive Committee are headed by different persons.
- There are two independent members on the Board.
- There are no board members aged 70 or more.
- As per article 13 of the articles of incorporation, the term of office of a board member is three years.
- Board members may be dismissed at any time by a general assembly of shareholders.
- Each member of the Board is entitled to one vote.

- A majority of board members are university graduates.
- Minutes of board meetings are kept in writing and are archived.

IV- Authorities and responsibilities of the Board of Directors

- Prepare and sign the Company's contracts and make procurements; take all action necessary to deal with the consequences of these.
- Specify what the Company's profit is and determine the amounts of this profit that are to be disposed of as ordinary and extraordinary reserves and provisions, and payments for amortization and redemptions.
- Summon ordinary and extraordinary meetings of the general assembly of shareholders; determine and announce the agendas of these meetings.
- Represent the Company before shareholders and third parties.
- Determine and approve company strategies and ensure their implementation.
- Develop and publish the Company's mission, vision, and values statements.
- Approve the Company's annual budgets and business plans.
- Prepare the Company's annual reports and present them at general meetings.
- Determine policies concerning the Company's shareholders and stakeholders.
- Develop the Company's code of ethics and ensure compliance with it.
- Create committees that report to the Board, choose their members, and determine their working principles.
- Have the Company's annual balance sheet and profit/loss statement prepared; submit the annual report to the general assembly of shareholders.
- Make decisions concerning the appointment, promotion, and dismissal of employees, consultants, inspectors, and comptrollers who have the power to represent the Company by their signature.
- Determine and approve the salaries that are to be paid to employees, consultants, inspectors, and comptrollers who have the power to represent the Company by their signature; determine and approve overall staffing and annual budgets.
- Make decisions about new activities and investments; determine who shall be responsible for them and what amounts of capital, if necessary, shall be set aside for them.
- Determine the Company's risk management principles and set up such units as are necessary to achieve effective risk management.

V- Board of Directors Secretariat

Under a resolution dated 17 June 2005, a Board of Directors secretariat has been formed. This secretariat is responsible to the Board and will also serve board committees as well.

The objectives of setting up this secretariat are to ensure that board meetings are regularly held, that meeting minutes are properly maintained and archived, and board members have convenient and timely access to any and all manner of information.

To ensure that it is able to serve effectively, the secretariat consists of two people: a secretary and an assistant secretary. Cem Köksal has been appointed as secretary and Tuğçe Karaçoban as assistant secretary.

Duties and responsibilities of the Board of Directors Secretariat

- Sends out meeting notices, agendas, and other information and reports to members at least one week before meetings.

- Sits in on board and committee meetings and takes minutes and archives them.
- Prepares meeting minutes so as to include such details as date, time, place, list of participants, outsiders invited to take part in the meeting, and approval of the minutes.
- Counts and records votes at meetings.
- Receives and processes all reports and notices that must be sent to board members and ensures their delivery.
- Ensures that dissenting votes and opposing views and issues arising at board meetings are entered into the record and reported in writing to the statutory auditors.
- Obtains and supplies any and all information, documents, and reports that board members may request in the least amount of time.

VI- Benefits provided to management

Members of the Vestel Board of Directors had been paid a total of TRY 50,000 as of June 2005. This is comparable to the situation prevailing in the sector. Statutory auditors are paid a salary of TRY 2,000 a year.

VII- Annual assessment of the Board of Directors

Regularly every year the Corporate Governance and Appointments Committee assesses the members of the Board of Directors to determine whether or not they have fulfilled their duties and responsibilities.

C- BOARD OF DIRECTORS COMMITTEES

I- Audit Committee

The Company's audit committee was set up pursuant to a board resolution dated 17 May 2005 in compliance with CMB communique X:19/3. The committee's duty is to ensure that the Company's financial and operational activities are effectively overseen. The objectives of this committee, which is responsible to the Board of Directors, are to monitor the functioning and effectiveness of the Company's accounting system, financial information auditing and public disclosure, and internal control system.

Structure of the Audit Committee

The Audit Committee has been set up in accordance with Capital Markets Board regulations. It consists of two members. It is headed by a person chosen from among the Board's independent members. When selecting the committee's head, special attention is given to choosing someone with the proper qualifications: previous experience in a similar position, knowledge and experience in analyzing financial statements, and familiarity with accounting standards.

The Audit Committee is headed by Ekrem Pakdemirli, an independent board member. The other member of the committee is Cem Bodur, a non-executive board member.

Term of Office: Members are elected to one-year terms by the Board of Directors. A member whose term of office expires may be reelected.

Consultants: In the conduct of its activities, the Audit Committee may solicit the opinions of independent experts and include such experts on the committee. The fees etc for such consultants will be paid by the Company.

Meetings: The Audit Committee must convene at least four times a year and at least once in each quarter. At least twice a year, the committee will sit down with the independent auditors without the presence of management unit personnel and review and debate the internal controls, financial statements, internal auditing, and other agenda issues that need to be discussed. The Board of

Directors Secretariat is responsible for recording and archiving the Audit Committee's decisions and meeting minutes.

Independence: The independence of committee members is based on CMB corporate governance principles and independence criteria.

Analysis of Audit Committee members

Name	Position Held	Membership Classification	Educational Status
Ekrem Pakdemirli	Committee Head	Independent Board Member	University
Cem Bodur	Committee Member	Non-Executive Board Member	University

Duties, authorities, and responsibilities of the Audit Committee

1. Checks periodic financial statements and their footnotes for compliance with the requirements of law and with international accounting standards.
2. Ensures that the Company's financial statements and their contents are prepared on the basis of valid information and in accordance with international accounting standards and are duly published.
3. Examines and finalizes significant complaints from shareholders and stakeholders about issues that might affect the financial statements.
4. In cooperation with the independent auditors, examines (a) accounting policies and principles that might have a significant impact on financial statements and (b) changes in the legal framework that might have a significant impact on the Company's activities.
5. Is responsible for the appointment, replacement, monitoring, and evaluation of the Company's independent auditors.
6. Prepares and submits to the Board of Directors a report evaluating the Company's independent auditors and also analyzing their independence.
7. Ensures that the Company's independent auditors perform their work effectively and monitors their activities at every stage.
8. Studies the effectiveness and adequacy of the internal control system and reports its findings to the Board of Directors.
9. Ensures that necessary measures are taken so that internal auditing is transparent.
10. Identifies the Company's existing and potential financial, business, operational, and legal risks and monitors risk management functions.
11. Monitors whether or not the Company's activities are being conducted in accordance with the requirements of law and the Company's internal regulations.
12. Lays down the rules that are to be followed in the event of irregularities and violations.

Annual performance evaluation

At least twice a year the Audit Committee will review and assess its functioning, performance, and compliance with the committee's work program. The results of this evaluation will be submitted to the Board of Directors. The committee will also assess any shortcomings in the principles of its work program and make recommendations to the Board concerning changes that should be made.

II- Corporate Governance and Appointments Committee

The Company's corporate governance and appointments committee was set up pursuant to a board resolution dated 17 May 2005 in compliance with CMB communique X:19/3. The committee is responsible to the Board of Directors. Its members are chosen from among board members. The committee consists of three members. It is a requirement that its head be chosen from among the Board's independent members. Independent Board Member Yılmaz Argüden serves as the

committee's head. The other members of the Corporate Governance and Appointments Committee are Ömer Yüngül and Şule Zorlu.

Members of the Corporate Governance and Appointments Committee are not allowed to serve on other committees.

Independence: The independence of committee members is based on CMB corporate governance principles and independence criteria.

Term of Office: Members are elected to one-year terms by the Board of Directors. A member whose term of office expires may be reelected.

Consultants: In the conduct of its activities, the Corporate Governance and Appointments Committee may solicit the opinions of independent experts and include such experts on the committee. The fees etc for such consultants will be paid by the Company.

Meetings: The Corporate Governance and Appointments Committee must convene at least three times a year. The Board of Directors Secretariat is responsible for recording and archiving the Corporate Governance and Appointments Committee's meeting minutes and for keeping committee members effectively informed.

Duties, authorities, and responsibilities of the Corporate Governance and Appointments Committee

1. Identifies candidates for membership on the Board of Directors and presents them to the Board for election.
2. Formulates the Company's corporate governance principles and ensures compliance with them.
3. Makes recommendations concerning the structure and effectiveness of the Board of Directors.
4. Investigates the independence of independent board members and reports its findings to the Board.
5. Once a year, conducts a performance review of board members and senior managers.
6. Evaluates and makes recommendations concerning the structures and workings of committees.
7. Determines maximum lengths of position assignments for board and committee members and makes recommendations concerning periodic rotations through positions.
8. Conducts orientation and training programs for members.
9. Carries out studies on the subject of corporate continuity and reports its findings to the Board of Directors.
10. Coordinates the activities of the Investor Relations Unit.

Analysis of Corporate Governance and Appointments Committee members

Name	Position Held	Membership Classification	Educational Status
Yılmaz Argüden	Committee Head	Independent Board Member	University
Şule Zorlu	Committee Member	Non-executive Board Member	University
Ömer Yüngül	Committee Member	Executive Board Member	University

Annual performance evaluation

At least once a year the Corporate Governance and Appointments Committee will review and assess the performance, independence, compliance, and adequacy from the standpoint of corporate governance principles of itself, of its members, and of the Board of Directors. Each year the committee will also assess the adequacy of its working principles and make recommendations to the Board of Directors concerning how they may be improved.

D- PUBLIC DISCLOSURES

I- Vestel Corporate Web Site

Vestel has created a corporate website to provide timely, accurate, complete, intelligible, analyzable, low-cost, and easily accessible information in line with corporate governance principles pertaining to public disclosure and transparency. The website is periodically updated. The following categories of information are available to users on the Vestel website:

- a) Two most recent annual reports
- b) Information about the internal control system
- c) Periodic financial statements and reports and their footnotes
- d) Public disclosure policy
- e) Mission, vision, and values statements
- f) Consolidated financial statements
- g) Special circumstance announcements
- h) General meeting agendas and minutes
- i) Proxy voting form
- j) Prospectuses and public offering notices
- k) Current shareholder and management structures
- l) Current version of the Company's articles of incorporation
- m) Information about the Company's subsidiaries and minority stakes
- n) CVs of board members
- o) CVs of the chief executive officer and of senior management
- p) Risk management policy
- q) Independent auditors' report
- r) Developments in the Company's shares on the stock exchange
- s) Dividend distribution policy
- t) Code of ethics
- u) Frequently asked questions
- v) Commercial registry information
- w) Information about preferred shareholders
- x) Corporate governance compliance report
- y) Minutes of Board of Directors meetings that might have an impact on the Company's capital market vehicles.

II. Annual reports

Vestel Electronics' annual reports are prepared within the legally prescribed periods of time.

The annual report for 2004 contains the following information:

- a) Balance sheet and footnotes
- b) Income statement and footnotes
- c) Position of the Company in its sector
- d) Statistical information and graphs
- e) Dividend payments
- f) The strategic objectives that the Company has achieved
- g) Planned and realized operational results for the year
- h) Independent auditors' report
- i) Statutory auditors' report
- j) Information about subsidiaries and minority stakes
- k) Information about the Company's activities
- l) The Company's mission, vision, and corporate culture
- m) Corporate governance compliance report
- n) Information concerning the independent board members' statement of independence

- o) CVs of board members
- p) Information about the internal control system
- q) Information about risk management
- r) The Company's outlook for the future.

III. Audit and control of reports

Vestel Electronics' financial statements are prepared according to IFRS and international accounting standards and the Company publishes financial statements that have been adjusted to eliminate the effects of inflation. After being prepared by the Vestel Electronics accounting department, financial statements are sent to the financial affairs coordinator. Meanwhile, the Audit Committee has already begun checking the financial statements for compliance with the requirements of law and with accounting standards. The independent auditors submit a report on the validity of the financial statements to the Board of Directors and to the general assembly of shareholders.

Timing and standards of published financial statements and reports

Type of Reporting	Reporting Cycle	Applicable Standard
3-month financial statements	At dates specified by CMB	CMB
6-month financial statements	At dates specified by CMB At dates specified by LSE	CMB, IFRS
9-month financial statements	At dates specified by CMB	CMB
Annual Financial Statements	At dates specified by CMB At dates specified by LSE	CMB, IFRS
Annual Report	Annual general meeting date	CMB (Turkish), IFRS (English.)
Corporate Governance Compliance Report	Together with the annual report	International standards and CMB corporate governance principles

IV. Audit and control of financial reports

The records and accounts of the Company's activities are kept by the accounting department on an in-house SAP system. At six and twelve-month intervals the Company's financial statements are audited by an independent auditing firm for compliance with CMB requirements. The independent auditors report the findings of their examinations to the general assembly of shareholders and to the Board of Directors.

Financial reports are sent to CMB and to the İstanbul, Luxembourg, and London stock exchanges. Financial statements are also sent to lending institutions, banks, analysts, and rating agencies abroad along with other pertinent information about the Company.

The Company's financial statements for the most recent three fiscal years together with detailed footnotes are published in IFRS, inflation-adjusted, and consolidated formats.

F- RISK MANAGEMENT

I- Risk management organization, definitions, and conduct

The Company defines and assesses the existing and potential internal and external risks that it is confronted or is likely to be confronted by. The risk-assessment process consists of the following stages:

- Identify the Company's mission, vision, and objectives.
- Define the existing and potential risks inherent in achieving the Company's mission, vision, and objectives.
- Measure the likelihood and impact of these risks.
- Develop action plans to minimize risks.
- Formulate written risk management policies and internal control systems.

The Vestel Electronics Board of Directors is responsible for developing risk management and internal control mechanisms that will minimize the impact of risks on the Company's shareholders and stakeholders and for ensuring that they function reliably.

II- Internal control

The internal control system incorporates all financial, operational, and compliance controls. On 17 May 2005, the Board of Directors formed an audit committee for the purpose of ensuring the effectiveness of the Company's risk management and internal control systems.

As a result of the corporate governance principles project undertaken in the Company in 2005, Ekrem Pakdemirli was given a seat on the Board as an independent member and was also appointed to be the head of the Audit Committee. This committee, whose mission and membership are defined on pages 54-55 of the annual report, is responsible for the effectiveness and reliability of the internal control system and its functions. The internal audit unit of the Zorlu Group also periodically checks the Company's internal control system from the standpoint of financial and legal compliance and its reports go directly to the Audit Committee. The Board of Directors has defined the risks that the Company is confronted by and periodically reviews and assesses them. Issues related to the continuation of the Company's activities are reviewed on a day-to-day basis by members of the Executive Committee and by senior management.

Determining the effectiveness of the internal control system involves the following steps.

- A written internal control system is formulated by the Company.
- Budget and performance are continuously compared and measures are taken in the event of divergences.
- The Audit Committee and management meet regularly. In addition, they may also convene any time there are urgent and important issues to be dealt with.
- Authorities and responsibilities as well as the Company's accountable officers are all clearly defined in the organizational structure.
- The underlying risks inherent in investments and financing are periodically assessed and systematically monitored by the personnel and managers responsible for them.
- Unit officers are responsible for overseeing the effectiveness of the internal control system in their particular area of responsibility.
- The Internal Audit Unit periodically reviews issues related to human resources management, technological adequacy, the security of assets, and code of ethics compliance and it reports its findings to the Board of Directors.

The Company employs the SAP system to effectively manage its activities and operations. The Board of Directors is able to evaluate the effectiveness of the internal control system on a twelve-month basis, including the day on which financial statements are approved. The Board's assessment of the effectiveness of the internal control system consists of the following steps:

- The internal and external audit plans prepared by the Audit Committee are reviewed.
- The existing and potential risks identified jointly by the Audit Committee and managers are examined and discussed with managers.
- Reports concerning weaknesses in the internal control system prepared by internal and external auditors are assessed and the issues are discussed with managers.

III- Internal Audit Unit

The Company's internal control functions are performed by an internal audit unit that is responsible for the internal auditing of all Zorlu Holding companies other than those involved in financial services. The unit, which was set up in 2000, consists of eight people of whom five hold certified internal auditor certification.

The unit's work is risk-based and attentions are focused more on issues that are deemed to be exposed to greater risk. The unit's final reports go to the Audit Committee and to the Board of Directors.

In the course of its work the unit looks into procedural compliance, systemic issues, anomalies, the effectiveness of existing structures, and allocation of duties.

In addition to reconciling accounts with customers and suppliers, the Internal Audit Unit also carries out inventories and cash counts during each of its audits.

IV- Independent Audit

The Company's independent auditing functions are performed by the firm of Grant Thornton. In compliance with corporate governance principles, the process of selecting and retaining the Company's independent auditors beginning in 2005 consists of the following steps.

- The Audit Committee analyzes the independence of the independent auditors.
- The Audit Committee gives its preliminary approval for the firm that is to be selected and the services that it is to provide.
- With the approval of the Board of Directors, the Audit Committee's selection is presented to the general assembly of shareholders. Independent auditors are chosen for a four-year period; however at the end of each year, the Audit Committee prepares a new report concerning the firm's independence and submits it to the general assembly of shareholders. If the shareholders do not approve the report, the contract with the firm is terminated.

G- STAKEHOLDERS

I- Customers

Customer satisfaction is of the utmost importance to Vestel. The Company conducts regular meetings with its dealers to measure customer satisfaction concerning the marketing and sale of the Company's goods and services. A customer communications center has also been set up as part of the Company's efforts to ensure customer satisfaction. This center operates as a help desk and seeks to resolve problems that customers may have with company products and services. Any problem that cannot be resolved by the center is referred to an appropriate company officer. Customer satisfaction is also measured by means of regularly conducted surveys.

The Company's goods and services are subject to a tight quality control system that is designed to increase customer satisfaction.

II- Employees

All matters related to company employees are dealt with in accordance with the Labor Law (Statute 4857).

Written policies have been formulated for personnel hiring, promotion, and dismissal. Employees' work agreements are in writing. All due measures have been taken to prevent unfair treatment of employees. All employees are treated equally and without any discrimination whatsoever.

Periodic meetings attended by employees and managers are held to keep personnel effectively informed about the Company. Importance is given to two-way communication and these regular meetings ensure that information flows upwards as well as downwards.

To increase employee satisfaction and productivity:

- Performance evaluations are conducted periodically.
- Employee compensation and promotion are based on the results of these performance evaluations.
- Training programs are organized for employees. Employees also take part in ongoing programs.
- Employees are rotated through job positions and workplaces so as to make the best use of their competencies.
- The Human Resources Unit conducts surveys to measure employee satisfaction.

III- Regulatory Bodies

All of Vestel's activities are subject to the oversight of the İstanbul Stock Exchange and the Capital Markets Board and are reported to those agencies. The documents and reports required by ISE and CMB are duly prepared and submitted.

As of end-2004 Vestel had completely fulfilled all its obligations, was in full compliance with the requirements of law, and had not been involved in any disputes with any regulatory body or other agency.

H- CODE OF ETHICS

Vestel conducts its activities within the framework of a code of ethics that has been prepared by the Board of Directors and submitted to the general assembly of shareholders. This code of ethics is also published on the corporate website.

The Vestel code of ethics is a set of essential rules that have been formulated to govern company-wide relationships, the relationships between the Company and its employees, and the relationships of all employees and the Company with customers, suppliers, and other stakeholders; to achieve the most effective use of resources; and to prevent unfair competition.

Vestel Electronics takes action to ensure that the Company's code of ethics is understood and accepted by all; that company management and employees abide by its rules; and that all company activities are carried within the framework of those rules.

In main outline, Vestel's code of ethics:

- Achieves maximum compliance with all national laws, international rules, and company regulations.
- Complies unconditionally with laws, regulations, and norms in its dealings with investors and shareholders.
- Is sensitive in dealing with customers' problems and strives to build confidence-based relationships with customers.
- Pays heed to, examines, and assesses customers' objections and complaints and safeguards customers' rights through the customer relations unit that it has set up.
- Systematically compensates customers for any losses or damages they may suffer on account of the Company's products and services.
- Provides employees with safe, healthy, and suitable conditions in which to work.
- Treats employees fairly and equitably in issues related to training, career progression, hiring, and promotion.

- Keeps personnel informed on corporate governance principles, ensures that these principles are understood and accepted throughout the Company, and is watchful of full compliance with them.
- Makes sure that all publicly disclosed information is intelligible, truthful, clear, timely, and complete.
- Takes all necessary measures to prevent conflicts of interest.

These rules are disseminated throughout the Company and are published in all channels of communication including the internet and e-mail. The Company takes action to ensure that its employees subscribe to these rules and are morally bound by them.

I- INSIDER TRADING

Vestel fully complies with all rules concerning insider trading provided in the Capital Markets Law and in other related laws and regulations and it takes all necessary measures to ensure that its obligations under such rules are fulfilled. Company policies spelling out the obligations and responsibilities of those who are in a position to have insider information about the Company have been written up and circulated among all those concerned.

A set of disciplinary regulations have been written up concerning the action that is to be taken in situations where the Company's insider-trading rules are violated. These regulations are enforced independently of the legal restrictions on such trading.

Insider trading rules

- The moment someone becomes aware of material insider information about the Company, he may no longer buy or sell any of its securities.
- Someone who becomes aware of insider information about another company may no longer trade in that company's shares.
- Those in possession of material insider information that has not been publicly disclosed may not divulge that information to anyone else, including members of their own families, and may not offer any views or opinions concerning information about shares traded on ISE that has not been publicly disclosed.
- If anyone with access to undisclosed material insider information offers an opinion about it or divulges it to someone outside the Company, this must be reported to the Corporate Governance Committee and to the Investor Relations Unit.
- Those with insider information may not trade in the Company's securities in the periods during which the Company's quarterly financial reports are being prepared for release on the dates of 15 March, 15 June, 15 September, and 15 December. They may resume trading in the Company's securities on the day after these financial reports have been published by ISE.
- The Investor Relations Unit makes timely public announcements concerning any rumors or media reports that might affect the price of the Company's stock.

Ban on trading outside financial reporting periods

Members of the Board of Directors, members of senior and middle management, personnel employed in units preparing financial statements whether or not they are actually involved in the preparation, and other employees specified by the Board of Directors may not trade in the Company's securities as of the moment they become aware of new developments in the Company's activities, management, shareholder structure, or similar issues and they may not resume trading in them until the day on which a special circumstance announcement has been duly made at ISE.

Penalties for insider trading

- As prescribed in the Capital Markets Law (Statute 2499) a prison sentence of from one and three years and a fine of from TL 500 million to TL 1 billion may be imposed on anyone actually engaging in insider trading.
- Other violations of the rules banning insider trading are subject to fines of from TL 2 billion to TL 10 billion.