

VESTEL ELEKTRONİK A.Ş. CORPORATE GOVERNANCE COMPLIANCE REPORT

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1- STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

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 to be held on 30 May 2005, proposed amendments in the Company's articles of incorporation to bring them into compliance with corporate governance principles will be submitted for shareholders' approval.

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.

The proposed changes in the articles of incorporation in line with corporate governance principles will bring them into compliance with those principles while also ensuring that the corporate governance mechanisms set up in the Company will continue to function.

Vestel is making changes to increase the effectiveness of the Board of Directors in line with corporate governance principles. It has been decided to appoint two independent members to the Board and 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 will be 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 has increased the effectiveness of the Audit Committee that it set up pursuant to article 3 of CMB Communiqué X:19 and brought it into 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.

PART I: SHAREHOLDERS

2. Investor Relations Unit

Vestel has set up an investor relations unit whose duties are to enable shareholders to exercise their rights, provide communication between company management and shareholders, and ensure that all stakeholders have fast and effective access to truthful and complete information.

The Investor Relations Unit consists of two people of which one is a manager.

Selim Yuna is the investor relations manager. The other employee in the Investor Relations Unit is Ece Köksal.

The Investor Relations Unit reports to the head of the Corporate Governance and Appointments Committee.

As the Investor Relations Unit was created in early 2005, there are no 2004 year activities to report about it.

The Investor Relations Unit can be contacted through the corporate website and by telephone on (0212) 422 0000.

3. Shareholders' exercise of their right to obtain information

The Vestel Investor Relations Unit was set up and became operational in early 2005. Because of this and as of this writing, the unit had received no requests from shareholders. The corporate website was also redesigned in early 2005 to give investors quick access to as much timely, truthful, complete, and intelligible information about the Company as possible. The corporate website is under the responsibility of the Investor Relations Unit and is continuously updated.

The Company has formulated and announced its public disclosure policy.

Through its in-house investor relations unit, the Company is able to respond to shareholders' questions quickly and effectively. Work has been completed on a project to conduct regular investor meetings for existing shareholders and potential investors.

A request to have a special auditor appointed is not an individual right provided for under the Company's articles of incorporation. The reason why the Company has not provided for such an individual right is the high level of public participation in the Company's capital and the structure of shareholding interests in the Company. Nearly half of the Company's shares are publicly traded and these shares are divided up into a large number of very small shareholdings. Because of this, the number of the Company's investors is much greater than is the case in most other companies. Due to this profile of Vestel investors, granting every shareholder the right to demand the appointment of a special auditor could pose problems for the Company and this is why the articles of incorporation contain no provisions on this issue. The Company received no requests for the appointment of a special auditor in 2004.

4. Information about general meetings

Vestel held its ordinary general meeting for 2003 on 7 June 2004. 54.5% of the Company's capital consisting of 86,707,066,465 shares was present and voting. Some of the Company's stakeholders also attended the meeting.

Announcements concerning the meeting were published 24 days in advance of the date in compliance with CMB Corporate Governance Principles, in the newspapers CRT Haber and Dünya, and in Türkiye Ticaret Sicili Gazetesi. There is no period of time stipulated in which the holders of registered shares must have entries made in the shareholders' register in order to take part in general meetings.

Before the general meeting, the annual report and financial statements were made available for the inspection of shareholders at the Company's own headquarters and at those of Vestel Holding as well. The Company's articles of incorporation were made available to investors who requested them.

Shareholders were allowed to ask questions at the general meeting. Questions coming from shareholders were responded to in detail.

Shareholder participation in the meeting was low, on the order of 3% of the actual number. Shareholder Collar Holding, was present in person. Shareholders advanced no motions during the meeting.

The Company's articles of incorporation contain no provisions requiring decisions of a highly important nature such as demergers or buying, selling, or leasing substantial amounts of assets and property to be taken at a general meeting. The basic reason for this is the fact that the nature of the business in which the Company is involved requires it to buy, sell, and lease quite frequently. Having to hold a general meeting every time such a transaction takes place is considered to be impossible and so no such article has been included in the articles of incorporation.

In order to increase participation in the general meeting and to give shareholders enough time to prepare for it, announcements concerning the meeting were published 24 days in advance. Investors were also invited to attend the meeting by announcements published in two major financial newspapers.

The minutes of the general meeting were made available for the examination of shareholders at the Company's own headquarters and at those of Vestel Holding as well. As a result of changes made in the corporate website, all announcements, documents, and other materials related to general meetings are now accessible to shareholders and to all other stakeholders.

5. Voting rights and minority rights

None of our Company's shares incorporate special voting rights. Each share of stock is entitled to one vote.

Vestel Electronics Inc's subsidiaries do not have any shareholding interests in their parent company. For this reason, there are no reciprocal shareholding interests nor is there any need to disclose their impact on general meeting votes.

Minority shareholding interests are not represented on the Board of Directors. At the next general meeting, shareholders will vote to add two independent members to the Board who, because of their independence, will be acting on behalf of the interests of all shareholders, including those of minority shareholders. For this reason, it is not thought necessary to make a separate appointment to represent minority shareholders.

The Company's articles of incorporation contain no provisions governing the accumulated voting method. Because of the high rate of public participation in the Company it is thought that the accumulated voting method would not create any additional advantage for the Company and indeed that it might even have the effect of slowing down the decision-making process. For this reason, the Company has decided not to use the accumulated voting method.

6. Dividend payment policy and timing

None of the Company's shares incorporate special rights concerning the distribution of the Company's profits. The Company's dividend payment policy is stated in the articles of incorporation.

The Company's 2003 year profits were distributed as prescribed in article 466 of the Turkish Commercial Law and in article 15 of the Capital Markets Law.

7. Transferring shares

The Company's articles of incorporation contain no provisions restricting the transfer of shareholding interests. Article 6 specifically states that there are no restrictions on the transfer of shares in the Company.

PART II: PUBLIC DISCLOSURE AND TRANSPARENCY

8. Company disclosure policy

A public disclosure policy has been formulated in line with the Company's corporate governance principles and has been published on the corporate website.

The Company's public disclosure policy addresses the following issues.

The clarity, timeliness, and truthfulness of public announcements.

What information may be publicly disclosed, with what frequency, and in what ways.

Relations of board members and managers with the media.

The effectiveness of the corporate website in keeping investors, shareholders, and all other stakeholders actively informed.

Plans and programs to ensure information flows within the Company.

Meetings involving public disclosures.

Matters to be discussed at general meetings and the conduct of general meetings.

Principles governing publicly disclosed information about matters that may come up in the future.

The Board of Directors prepares and announces public disclosure policy. The Board of Directors is responsible for the oversight, review, and development of public disclosure policy. The Corporate Governance Committee informs the Board of Directors, the Audit Committee, and the unit responsible for financial affairs on issues involving public disclosure policy.

The manager of the Investor Relations Unit monitors and follows up on public disclosure policy.

9. Special circumstance announcements

Our Company made 19 special circumstance announcements in 2004 and sent them to the Capital Markets Board and to the İstanbul Stock Exchange. Two of these announcements were in response to requests for additional information by CMB. The Investor Relations Unit is responsible for special circumstance announcements.

There was one special circumstance announcement that was not made in time. ISE suspended trading in the Company's shares until the announcement was made.

10. The internet site and its content

The Company's existing corporate website was overhauled at the beginning of 2005 and restructured to allow it to function more effectively and be updated more regularly. The corporate website's address (www.vestel.com.tr) has not changed. All the revisions made in the site are accessible from the same address. The corporate website contains all the information stipulated in article 1.11.5 of section II of CMB's Corporate Governance Principles.

11. Disclosure of ultimate non-corporate controlling shareholders

The Company has no ultimate non-corporate controlling shareholders.

12. Public disclosure of those who may have access to insider information

A list of individuals who may have access to insider information about the Company is published on the corporate website. The following people are in positions to have access to insider information:

Ahmet Nazif Zorlu	Chairman of the Board of Directors
Şule Zorlu	Vice Chairman of the Board of Directors
Ömer Yüngül	Board Member & Chairman of the Executive Committee
Enis Turan Erdoğan	Board Member & Member of the Executive Committee
M. Cem Bodur	Board Member
Sait Katrancı	Board Member
Zülal Zorlu	Board Member
Cem Bodur	Statutory Auditor
Şule Zorlu	Statutory Auditor
Cem Köksal	Member of the Executive Committee
Sertaç Beller	General Manager
Mehmet Keskiner	Assistant General Manager for Factories
Şeref Hamarat	Assistant General Manager for Production & Planning
Hayrettin Çelikhisar	Assistant General Manager for Procurements
Özcan Korkmaz	Assistant General Manager for Financial Affairs
Şenol Toygar	Executive in charge of Internal Audit

Selim Yuna	Corporate Finance and Investor Relations Manager
Şerif Arı	Arılar Independent Auditors
Aykut Halit	Grant Thornton Independent Auditors

PART III: STAKEHOLDERS

13. Keeping stakeholders informed

Among the activities carried out within the framework of formulating company corporate governance principles and mechanisms was the development of a policy to keep stakeholders informed. In line with this policy, it has been decided to increase the number of meetings held to keep all stakeholders as well as domestic and foreign investors informed, to have such meetings held at regular intervals, and to organize meetings intended for company employees. Announcements concerning these meetings and the subsequent reports of their proceedings will also be published on the corporate website.

14. Stakeholder participation in management

Stakeholders do not participate in management. However importance is given to having employees present at board meetings at regular intervals in order to have access to their first-hand opinions on various issues. No model has been developed to include other stakeholders in the Company's management.

15. Human resources policy

The Company's human resources policy has been developed so as to cover all issues related to hiring, promotion, dismissal, compensation, and performance evaluation. This policy has been publicly disclosed. Written criteria have been formulated for hiring, promotion, dismissal, and compensation. The Company's human resources policy also covers employee training. Training programs are regularly conducted in-house for the purpose of improving employees' productivity. Employees may also be sent to take part in extramural training programs.

While there is no board member responsible for overseeing employee relations, individuals representing employees are invited to be present at board meetings at which issues affecting employees are to be decided on so that they may provide the Board with information about the matter at hand.

All employees are treated equally and without any discrimination whatsoever on all matters involving training, career progression, promotion, etc.

There were no complaints from employees concerning discrimination.

16. Relations with customers and suppliers

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.

17. Social responsibility

In line with its social responsibility policy, Vestel takes part in activities to protect and improve the environment and to provide for the social welfare of its own community and of the public at large.

Vestel performs in-house all the activities related to protecting environmental health that are required by law. None of the environmental impact reports concerning these activities make reference to any violation of environmental safety rules. The Company conducts all of its activities taking environmental factors into account. The potential environmental risks inherent in each department have been identified.

During 2004 the Company caused no damage to the environment and was not the target of any suit concerning the environment.

Within the framework of social responsibility, as a member of the Vestel Group, the Company contributes to the activities of the Mehmet Zorlu Foundation, through which all of the group's charitable and social efforts are channeled. Established in line with the philosophy of "investing in the future", the Mehmet Zorlu Foundation plans and carries out educational, cultural, and sport-related activities aimed especially at young people as its way of contributing to our country's social and economic development. Some of the projects that the foundation has been involved in are summarized below.

Approximately TL 1.3 trillion has been budgeted for the construction of schools. The Denizli-Hakkı Dereköylü Fine Arts Lycee was readied for the 2003-2004 academic year and turned over to the Ministry of National Education.

A total of nearly TL 500 billion has been given as ten-month scholarships to 340 university and 75 middle-school students all over Turkey who are successful in their studies but come from low-income families.

To date, the Mehmet Zorlu Foundation has donated more than TL 2 trillion to educational activities in order to lighten the public burden of the cost of educating individuals to be beneficial to their family, country, and nation.

The foundation has distributed 125 satellite receivers donated free of charge by Vestel to schools all over Turkey.

The foundation has established the Zorlu Children's and Young People's Theater whose company tours all of Turkey's cities and mounts theatrical and puppet performances targeted especially at low-income children. To date, more than 10,000 children have attended these performances.

The following schools were financed and built by the Zorlu Group before the establishment of the Mehmet Zorlu Foundation:

1991: Hacı Mehmet Zorlu Multi-Program Lycee, Babadağ

1998: Saide Zorlu Anadolu Commercial Professional Lycee, Avcılar

2003: Saide Zorlu Professional College (Part of Bahçeşehir University)

In addition, Vestel also undertakes the management of the Vestel Manisaspor (football) and Vestel basketball teams as its way of contributing to sports.

Part IV: The Board of Directors

18. Structure and formation of the Board of Directors; non-executive board members

The Company's board of board members consists of seven members.

Five of the seven members of the Board are non-executive members. Two are executive board members.

Ahmet Nazif Zorlu, the Chairman of the Board of Directors, does not have executive responsibilities. The Company's CEO is Ömer Yüngül. The positions of company chairman and chief executive officer are held by different individuals.

The majority of members of the Board of Directors are non-executive members. The names, positions, and executive status of the Board's members are shown below.

Ahmet Nazif Zorlu	Chairman	Non-executive
Şule Zorlu	Vice Chairman	Non-executive
Ömer Yüngül	Board Member	Executive (Chairman of the Executive Committee)
Enis Turan Erdoğan	Board Member	Executive
Cem Bodur	Board Member	Non-executive
Sait Katrancı	Board Member	Non-executive
Zülal Zorlu	Board Member	Non-executive

No independent board members have yet been appointed to the Board of Directors. At the next annual shareholders' meeting a proposal to replace two existing members of the Board with independent members will be voted on.

Independent board members will have to satisfy all the qualifications required of them as stipulated in the CMB's corporate governance principles communique.

No restrictions are imposed on board members' undertaking one or more duties outside the Company.

19. Qualifications of board members

The Company's articles of incorporation are to be amended at the next general meeting so that the minimum qualifications required of members of the Board of Directors are spelled out in article 12. The qualifications that are to be added to the articles of incorporation coincide fully with those stipulated in articles 3.01.1, 3.01.2, and 3.01.5 of section IV of the CMB's corporate governance principles. Vestel has decided to develop training programs for members of the Board who do not satisfy certain qualifications should that be necessary but to date no such programs have had to be conducted for members. If they do become necessary, the programs will be prepared and overseen by the Corporate Governance Committee.

20. Mission, vision, and strategic goals of the Company

The Company's mission, vision, objectives, and values are published on the corporate website.

Mission:

To offer customers high-quality goods and services by keeping abreast of technology and new developments and developing new products; engage in activities within the Company to increase employee performance; maximize customer satisfaction according to the principle that "The customer is our reason for being"; avoid waste by using resources effectively; act in an awareness that we are a company operating at world standards and capable of contending with our competitors.

Vision:

To achieve continued, sustainable growth in the Company; make customer satisfaction one of our fundamental goals; ensure the production of high-quality goods and services without ever sacrificing quality; compete with major firms both in Turkey and abroad in the same sector in the areas of production and marketing and become the leader of them; strive to increase the Company's value by investing in the right places at the right times.

The Board of Directors approves the strategic goals formulated by company management.

When determining Vestel's strategic goals, the Board of Directors takes pains to secure the opinions and suggestions of the Company units involved. Suggestions concerning strategic goals are reported to the Board and are debated and approved at the very next meeting of the Board. Work to implement these goals as quickly as possible is begun immediately. Performance in achieving these goals is measured at quarterly intervals and on the basis of the Company's year-end results.

Once a year the Board of Directors convenes to conduct an annual review and assessment of the degree to which the Company has accomplished its objectives and of its activities in light of previous performance. In the conduct of this review and assessment, the Board of Directors examines company performance, the degree to which objectives have been accomplished, the effectiveness of the Company's activities, and the degree of its compliance with corporate governance principles.

21. Risk management and internal control mechanisms

The Vestel Board of Directors has put together a risk management mechanism in the Company to measure existing and potential risks and to deal with them.

Embodied in this mechanism are controls that have been developed so as to identify the maximum risks to which the Company may become exposed in aggregate as well as on an individual unit basis and to take such measures as are needed for them. The Company's internal control system in turn assesses the measurement of risk at regular intervals and determines the level that it is at. The entire mechanism is also reviewed at regular intervals and any defects that might impair its effectiveness are corrected as soon as possible.

22. Authorities and responsibilities of board members and executives

The authorities and responsibilities of board members are spelled out in the Company's articles of incorporation and are published on the Company's corporate website.

23. Operating principles of the Board of Directors

Agendas for board meetings are determined in line with the requests of the chairman and other members. Requests coming from company management are also influential in determining meeting agendas. As stipulated in article 16 of the articles of incorporation, the Board of Directors must meet at least twelve times a year. It has been decided to amend that article to deal with absenteeism from board meetings by adding the following rule: "A member of the Board who does not take part in three consecutive meetings shall be deemed to have resigned his seat."

In keeping with corporate governance principles, a secretariat has been set up within the Company that is responsible to the Board of Directors and an article concerning it has been added to the articles of incorporation. The duties of this secretariat are to take down the minutes of board meetings and archive them and also to keep all members of the Board currently informed on issues

of concern to them. According to this article, information and reports related to board meeting agendas must be received by board members at least one week before the meeting date.

It is a requirement that differences of opinions arising at board meetings and detailed justifications for dissenting votes be entered into the record and be sent in writing to the statutory auditors for their information; however to date there has never been an instance of this. If the independent board members who will be appointed to the Board after the amendment of the articles of incorporation is approved have differences of opinions on board decisions, their justifications for their dissenting votes will also be published on the corporate website.

The minutes taken by the Board's secretariat also include any questions that members ask and the responses that are made to them.

Board members are personally present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB's corporate governance principles as requiring the actual attendance of board members at meetings.

No board members, including the chairman, have preferential voting rights or the right to veto board decisions.

24. Prohibition on doing business or competing with the Company

One of the items included on the agenda of each year's general meeting and voted on by the shareholders is a resolution concerning Vestel Board of Directors members doing business and competing with the Company. No board member did any business or competed with the Company in 2004.

As required by corporate governance principles, in the event of any violation of the prohibition on board members' doing business or competing with the Company, the potential conflicts of interest will be publicly disclosed.

25. Code of ethics

Vestel's code of ethics has been written up and published on the corporate website within the framework of its public disclosure policy. The utmost care is given to ensure that the code of ethics formulated for the Company, its board members, and its employees is complied with.

26. Number, structure, and independence of committees established by the Board of Directors

To ensure that its duties and responsibilities are properly fulfilled, the Board of Directors has set up an audit committee and a corporate governance and appointments committee.

Qualifications for the members of these committees are the same as those required of board members as set forth in article 12 of the articles of incorporation. The committees' working principles have been written up and are published on the corporate website.

After independent board members have been added to the Board, it will be a rule that the heads of these committees must be chosen from among the Board's independent members. The other members of these committees will be chosen from among the Board's non-executive members.

Vestel has increased the effectiveness of the audit committee that it set up pursuant to article 3 of CMB Communique X:19 and brought it into compliance with corporate governance principles.

The head of the Audit Committee is Cem Bodur. Its other member is Şule Zorlu.

Preparations to set up a second committee responsible for corporate governance issues and appointments that reports to the Board of Directors have been finalized. At the first board meeting held after the next general meeting, the members of the Corporate Governance and Appointments Committee will be appointed, with the committee head being chosen from among the independent board members.

The Board of Directors has decided that beginning in 2005, the Audit Committee will convene at least four times a year and at least once in each quarter and that the Corporate Governance and Appointments Committee will convene at least three times a year. Procedures have been developed for these committees to follow in the conduct of their activities and they have been published on the corporate website.

An amendment is to be made in the articles of incorporation preventing members of the Board from serving on more than one committee.

27. Financial benefits provided to the Board of Directors

The rights, benefits, and remuneration given to members of the Board of Directors are provided commensurately with the performance criteria specified for board members.

The Company extended no loans or provided any credit to any board member or manager.