

**VESTEL ELEKTRONİK SANAYİ VE TİCARET AŞ**  
**CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**

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## PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

In line with the corporate governance practices initiated in late 2004, Vestel Elektronik Sanayi ve Ticaret AŞ ("Vestel Elektronik" or "Company") began to operate the corporate governance mechanisms in parallel with the Corporate Governance Principles. In order to have an independent evaluation of the Company's corporate governance practices and announce the results to the public, the Company has been obtaining corporate governance rating services for the past eight years. Vestel Elektronik's Corporate Governance Rating has been improving steadily since its inclusion in the BIST Corporate Governance Index in 2007. Based on the evaluations of SAHA Corporate Governance and Credit Rating Services Inc. studies, the Company's corporate governance rating was revised up to 9.12 on a scale of 10 as of February 23, 2015. This high score yet again confirms the importance Vestel Group attaches to corporate governance and its commitment to achieve further progress in this area. In parallel with being one of the pioneering companies that has adopted corporate governance practices in Turkey and the progress it has achieved so far in this field, Vestel Elektronik was also awarded with the "Best Corporate Governance, Turkey 2013" Prize by World Finance in 2013.

The breakdown of the Company's Corporate Governance Rating by sub-categories is as follows:

<b>Sub-categories</b>	<b>Weight</b>	<b>Rating in 2015</b>
Shareholders	0.25	9.49
Public Disclosure and Transparency	0.25	9.14
Stakeholders	0.15	8.91
Board of Directors	0.35	8.95
<b>Total</b>	<b>1.00</b>	<b>9.12</b>

Vestel Elektronik carries out all its activities in compliance with the applicable regulations and the Capital Market Board's (CMB) "Corporate Governance Principles". The Company has adopted the majority of the non-compulsory principles included among the Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance no. II-17.1. As briefly summarized below, the Company took the following actions in order to further improve its compliance with the Corporate Governance Principles in 2015.

- The Company has been included in the BIST Sustainability Index from November 2, 2015, as result of the evaluations held by Borsa Istanbul. BIST Sustainability Index is comprised of companies with a high rating on corporate sustainability performance.
- The Company's "Code of Ethics" has been amended within the framework of the Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance, and has been made available for the information of shareholders via the Company website.
- The Company's "Disclosure Policy" has been amended in accordance with the changes made in the CMB regulations, and has been presented to the information of shareholders via the Public Disclosure Platform and the Company website.
- Under the Article 10 of the CMB's Communiqué on Corporate Governance and Article 5 of the Communiqué Serial: IV-41 on the "Principles to be Adhered to by Joint Stock Companies Subject to the Capital Market Law", the conclusion section of the report on the related party transactions exceeding the stipulated thresholds between the Company and its subsidiaries and their related parties has been made available for the information of shareholders via the Public Disclosure Platform and the Company website.
- Pursuant to the Article 19 of the Capital Market Law no. 6362, the upper limit for the donations to be made in 2015, as proposed by the Board, was submitted to the approval of shareholders at the Annual General Assembly Meeting and was approved by the General Assembly.

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

- **Granting shareholders the right to demand special audit and inclusion of an additional provision in the Company's Articles of Association for the minority rights:** Since the existing provisions in the Turkish Commercial Code on the appointment of a special auditor and minority rights are considered to be adequate, these rights are not separately stipulated in the Company's Articles of Association.
- Due to the number of the members of the Board of Directors and the committee formation requirements, some Board members serve on more than one committee.
- Pursuant to the Article 4.6.5 of Corporate Governance Principles, remuneration and benefits provided to Board members and executive managers are publicly disclosed in the Company's annual report. However, such disclosure is not made on an individual basis.
- Currently, Mrs. Selen Zorlu Melik is the only female member on the Company's Board of Directors and increasing the ratio of female Directors to the level set forth in the Article no. 4.3.9 of the Corporate Governance Principles lies among the Company's medium term targets.
- A Directors & Officers Liability Policy has been purchased to cover the losses which the Company may suffer due to the wrongful acts of the members of the Board of Directors in the execution of their duties; however, the total annual liability limit does not exceed 25% of the Company's share capital.

Those principles that remain outside the scope of the currently implemented principles and that are not yet implemented have not led to any conflicts of interest among the stakeholders to this date.

Acknowledging the contributions of the Corporate Governance Principles to the Company, Vestel Elektronik targets to attain a higher degree of compliance with those principles with the involvement of its employees and senior executives and to reach the highest standards in the field of corporate governance. The Company also continues with the necessary efforts to achieve compliance with the non-compulsory principles.

## **PART II - SHAREHOLDERS**

### **2.1. Investor Relations Department**

The Investor Relations Department is responsible for managing and maintaining the relations with the existing and potential shareholders, protecting and facilitating the use of the shareholder rights, including first and foremost the rights to obtain information and examination, raising the investor awareness and market credibility of the Company, and carrying out the necessary works for ensuring compliance with the capital market legislation. The Department reports to Mr. Bekir Cem Köksal, the Company's Executive Committee Member in charge of Finance.

The Investor Relations Department presents a report on its activities to the Board of Directors at least once a year. The Department submitted its report on its 2015 activities to the Board on January 8, 2016.

The individuals in charge of the investor relations are as follows:

<b>Name</b>	<b>Duty</b>	<b>License</b>
Serap Mutlu	Investor Relations Director and Member of Corporate Governance Committee	Capital Market Activities Advanced Level License (No: 201618) Corporate Governance Rating Specialist License (No: 700906)
Özgün Ünalı	Investor Relations Assistant Specialist	-

Information relating to individuals working in the Investor Relations Department was announced on the Public Disclosure Platform (in Turkish: KAP) on July 31, 2014 and December 29, 2014.

### **The Investor Relations Department performed the following activities during 2015:**

- Ensured that the records of correspondences between the Company and the investors, and of other information and documents are kept in a proper, secure and up-to-date manner; coordinated the transactions related with Merkezi Kayıt Kuruluşu AŞ (the Central Registry Agency) jointly with the Legal Affairs Department,
- Responded to the information requests about the Company, except for confidential information and trade secrets that are not disclosed to the public, in a clear and timely manner and in line with the Company's Disclosure Policy, either via face-to-face meetings or using various other communication means,
- In cooperation with the Legal Affairs Department, ensured that the Ordinary General Assembly Meeting during the reporting period was carried out in accordance with the legislation, Articles of Association, and other internal regulations,
- Developed ways that would facilitate the shareholders' participation in the General Assembly Meeting and improve communication during the course of the meeting, prepared the necessary documents that will be utilized by the shareholders at the General Assembly Meeting, and posted all kinds of updated information and disclosure that might affect the execution of the shareholders' rights on the Company's website,
- Maintained the Company website up-to-date, thereby enabling shareholders to access continuous and timely information about the Company,
- Monitored and supervised the fulfillment of the obligations arising from the capital market legislation, including all aspects of the corporate governance and public disclosure, coordinated the communication with the public, as well as the material event disclosures required by the legislation; held informative meetings with the domestic and foreign investors and analysts about the Company's operations, financial performance and other developments during the reporting period; and participated in the conferences and roadshows organized by the brokerage houses.

Towards informing the shareholders and investors during 2015, Investor Relations Department:

- Attended 4 investor conferences and 3 roadshows organized in Turkey and abroad by the brokerage houses,
- Held a total of 113 meetings with the investors and analysts either face-to-face or through teleconferences,
- Responded to nearly 100 enquiries received through e-mails and telephone calls in a timely fashion,
- Made a total of 70 material event disclosures within the scope of public disclosure as per the CMB regulations. All the material event disclosures were published simultaneously on the Company website.

### **2.2. Exercise of Shareholders' Rights to Obtain Information**

- The Company's Articles of Association does not contain any provisions, which eliminate or restrict the shareholders' rights to obtain information and examination, which are recognized by the legislation.
- The Company received various information requests from the shareholders during 2015. In accordance with the Company's Disclosure Policy, these requests were responded to in a coherent, clear, and detailed manner, and all the inquiries except those related to trade secrets were replied to the satisfaction of shareholders. These queries were responded to via phone, e-mail or postal mail, in writing or verbally, further to the demands of the shareholders.

- During 2015, developments that might have an impact on the use of the shareholders' rights were disclosed to the public through the material event disclosures made on the Public Disclosure Platform (PDP) and via the Company website.
- To facilitate the exercise of the shareholders' rights to obtain information and examination, the Investor Relations website was redesigned and its content was enriched in 2011, and thereby, it was ensured that both domestic and international investors have an easy access to the highest amount of information within the shortest period of time, in an accurate, quick, simultaneous, complete and comprehensive manner. All the information required in the CMB's Corporate Governance Principles is included on the Company website. Updating and monitoring of the website are the responsibility of the Investor Relations Department.
- The Company's Articles of Association does not contain any clauses that prohibit special audit. Since this right is already granted to each shareholder at joint stock companies by the Article 438 of the Turkish Commercial Code, it was not deemed necessary to further stipulate it in the Articles of Association. The Company received no requests for the appointment of a special auditor during the reporting period.

### **2.3. General Assembly Meetings**

- The Company's General Assembly meetings are held in compliance with the principles listed under the "General Assembly" heading of the Corporate Governance Principles.
- General Assembly meetings are held in a way not causing any inequality between shareholders and enabling them to participate in the least costly manner as possible, in order to increase the participation of shareholders.
- Vestel Elektronik held its Ordinary General Assembly Meeting for the year 2014 on April 27, 2015 at 10:30 a.m. at the address of Levazım Mahallesi, Koru Sokak No: 2, Zorlu Center, Meydan Fuaye Alanı, 34340 Beşiktaş, Istanbul, in compliance with the Company's Articles of Association.
- Invitation for the meeting was made in due time as set out in the Law and the Company's Articles of Association, by being published in the Turkish Trade Registry Gazette No. 8792 and dated April 2, 2015 and in Dünya and Milliyet newspapers both dated April 2, 2015, and also by being posted on the Public Disclosure Platform, E-General Assembly System of Merkezi Kayıt Kuruluşu AŞ and the Company's website at "www.vestelinvestorrelations.com", by announcing the date and the agenda of the meeting. In order to facilitate attendance to the General Assembly, announcements were published in the Turkish dailies with high circulation and all the information and documents concerning the Ordinary General Assembly Meeting, including the meeting invitation and the General Assembly Information Document, were posted on the Company's website. With the General Assembly Information Document prepared in accordance with the Corporate Governance Principle no. 1.3.1, access was given to all the necessary information about the General Assembly Meeting as well as to the information and announcements required by the regulations, and the relevant documents were also made available in hard copy for the examination of shareholders at the Company's headquarters. A sample power of attorney form was also made available for the use of shareholders on the Company's website.
- Out of the total 33,545,627,500 shares corresponding to the Company's total share capital of TL 335,456,275.00, 272,593 shares corresponding to TL 2,725.93 in capital were represented in person and 29,245,249,564.4 shares corresponding to TL 292,452,495.644 in capital were represented by proxy at the meeting. The meeting quorum achieved in the General Assembly was 87.18%.
- Prior to the Ordinary General Assembly Meeting, the shareholders, Capital Markets Board and/or other relevant public agencies and institutions did not request to add any items to the agenda.
- The agenda of the meeting was prepared in such a way that, each proposal was given under a separate heading and the headings were expressed clearly and in a way that will not lead to different interpretations. The care was shown for the agenda not to include phrases such as "other" and "various" and the information to be provided prior to the General Assembly Meeting was given with a reference to the related agenda items.

- In accordance with the "Communiqué Regarding the Electronic General Assembly System to be Implemented in the General Assembly Meetings of Joint Stock Companies", published in the Official Gazette dated 29.08.2012 and numbered 28396, shareholders were granted the right to attend and cast vote at the Ordinary General Assembly through an electronic medium.
- The Company's Articles of Association contains no provisions for the participation of stakeholders or the media at the General Assembly Meeting. However, participation is possible provided that the Company is informed beforehand. Only shareholders attended the 2014 Ordinary General Assembly Meeting while there was no attendance either from the other stakeholders or the media.
- It was ensured that the Board members who were related to the significant agenda items of the General Assembly, other related persons and officers who had responsibility in the preparation of the financial statements as well as the auditors were present at the General Assembly Meeting so that they could provide the necessary information and answer the questions about the important subjects on the agenda.
- Shareholders were allowed to express their opinions and pose questions under equal conditions at the Ordinary General Assembly Meeting. The shareholders did not ask any questions irrelevant to the agenda or so detailed that they could not be answered immediately, during the Ordinary General Assembly Meeting.
- At the General Assembly Meeting, shareholders were informed under a separate agenda item about the total donations amounting to TL 1,172,545.12 made during the year 2014 to Mehmet Zorlu Foundation and various educational institutions.
- The upper limit for the donations to be made in 2015 pursuant to the Article 19 of the Capital Market Law numbered 6362 was submitted to the approval of the General Assembly.
- In 2014, there has not been any transaction which required the approval of the majority of the independent Board members for the Board of Directors to take a decision and where the decision was left to be resolved by the General Assembly.
- During the year, the controlling shareholders, Board members, executives with administrative responsibilities and their spouses and relatives by blood or marriage up to second degree did not conduct any material transaction which may lead to a conflict of interest with the Company or its subsidiaries and/or did not carry out a commercial business transaction which is in the same field of activity with the Company or its subsidiaries on behalf of themselves or for a third party or did not become an unlimited shareholder in another company which operates in the same field of activity with the Company or its subsidiaries. There were also no transactions conducted by individuals who have access to the Company information in a privileged way, on their behalf within the scope of the Company's field of activity.
- The minutes of the General Assembly Meeting and the list of attendees were disclosed to the public via the Public Disclosure Platform on the same day with the General Assembly Meeting. They are also made available for the examination of shareholders at the Company's headquarters. All the announcements, documents, and other materials related to the General Assembly Meetings are accessible to the shareholders and all other stakeholders on the Company website.

#### **2.4. Voting Rights and Minority Rights**

- At Vestel Elektronik, the practices that impede the exercise of the right to vote are avoided and each shareholder, including the international shareholders, is given the opportunity to exercise his/her voting right in the easiest and most convenient way. In this context, according to the Article 21 of the Articles of Association titled the Ordinary and Extraordinary General Assembly and Quorum, shareholders who are entitled to attend the Company's General Assembly Meetings are given the right to participate in these meetings via the electronic media as per the Article 1527 of the Turkish Commercial Code.
- All Vestel Elektronik shares are entitled to the same rights. There is no privilege concerning the voting right and this is stipulated in the Company's Articles of Association.
- The Company's subsidiaries do not have any shareholding interests in Vestel Elektronik. For this reason,

there are no cross-shareholding interests and therefore, this issue was not put to vote at the General Assembly Meeting.

- The Company's Articles of Association does not contain any specific arrangements for the shareholders representing less than one twentieth of the Company's paid-in capital, apart from the rights given by the law. However, two independent members serve on the Board of Directors to represent the interests of all shareholders and stakeholders, particularly those of the minority shareholders.

## **2.5. Dividend Right**

- There is no privilege granted to shareholders regarding the distribution of dividends. Each share is entitled to an equal dividend.

- The Company's Dividend Distribution Policy which, has been put in place by the Board of Directors' resolution no. 2007/9 and dated 19 March 2007, has been amended in line with the CMB Communiqué on Dividends no. II-19.1. The Policy was submitted to the approval of shareholders at the 2013 Ordinary General Assembly Meeting, and was also made available for the information of shareholders on the Public Disclosure Platform and the Company website.

- The Company's Dividend Distribution Policy, which has been accepted by the Board of Directors and disclosed on the Public Disclosure Platform, stipulates the ratio of dividend payouts which will be distributed in cash and/or in the form of bonus shares as minimum 25% of the net distributable profit, which will be reviewed by the Board each year depending on the domestic and global economic conditions, and the Company's growth and investment plans and financial position.

- As per the Board of Directors' resolution numbered 2015/16 and dated 1 April 2015, a separate item was included in the agenda of the 2014 Ordinary General Assembly Meeting for informing the shareholders that no profit distribution will take place for the year 2014 despite the fact that the Company recorded a TL 97,376,000.00 net profit in its 2014 consolidated financial statements prepared in accordance with the Turkish Accounting Standards and a TL 94,096,919.00 net profit in its statutory financial statements prepared under the provisions of the Tax Procedure Code, as there remains no distributable profit after offsetting these against the previous years' losses and therefore, no dividends were paid.

- The Company's Dividend Distribution Policy is disclosed to the public via the Company's website and the annual report.

## **2.6. Transfer of Shares**

- The Company's Articles of Association does not contain any provisions restricting the transfer of shares.

## **PART III - PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1. Corporate Website and its Content**

- 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 regularly updated.

- Company's web address is "www.vestelinvestorrelations.com". Furthermore, pursuant to the "Regulation on Websites to be Launched by Joint Stock Companies" and the 1<sup>st</sup> paragraph of the Article 1524 of the Turkish Commercial Code, in accordance with the principles and procedures regarding the launching of a website, allocation of a section of this website to publishing the announcements that are required to be made by the Company under the law and to information society services, our Company procures Central Database Service Provider support services from Merkezi Kayıt Kuruluşu AŞ (CRA) and the announcements that are required to be made by the Company by law can be accessed through the e-Company Information Portal of the CRA.

- The Company's website contains the required information and documents stipulated in the CMB's Corporate Governance Principles and the Turkish Commercial Code.
- The information on the website is also available in English in order to provide information to international investors.

### **3.2. Annual Report**

- The Company's annual and interim reports are prepared in accordance with the Turkish Commercial Code and associated legislation, the Capital Market legislation, and hence, Corporate Governance Principles, and in sufficient detail to give the public access to complete and accurate information about the Company's operations and activities.
- Moreover, the Board of Directors' Annual Report is prepared in accordance with the provisions of the "Regulation Regarding the Determination of the Minimum Contents of the Companies' Annual Reports", published in the Official Gazette dated 28.08.2012 and numbered 28395.

## **PART IV - STAKEHOLDERS**

### **4.1. Informing Stakeholders**

- Stakeholders are individuals, institutions or interest groups that are related with the achievement of goals or activities of the Company such as employees, creditors, clients, suppliers and various non-governmental organizations. The Company protects the rights of the stakeholders, which are set by the legislation and mutual agreements, in its transactions and operations. In cases where these rights are not protected by law and mutual agreements, utmost care is given to protect the rights of the stakeholders in good faith and within the Company means.
- Stakeholders are regularly informed about the matters related to them in accordance with the Company's Public Disclosure Policy.
- Employees and management take part in periodic meetings which help employees to remain 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 the management and employees. In addition, employees are kept continuously informed via the corporate portal and e-mails.
- Periodic meetings are held with the customers and suppliers and all customers and suppliers are kept informed about the Company-related issues that may be of concern to them. The Company regularly organizes meetings with its dealers in order to measure customer satisfaction. When deemed necessary, additional one-on-one and group meetings are also held.
- The stakeholders can report Company's transactions violating legislation or not compliant with the ethical rules to the Corporate Governance Committee, Audit Committee or the Investor Relations Department by accessing them via phone and/or e-mail.

### **4.2. Stakeholders' Participation in Management**

- Models supporting the participation of stakeholders, primarily of the employees, in the company management are developed in a manner not to hinder the activities of the Corporation. Besides, the independent members serving on the Board of Directors guarantee that not only the Company and the shareholders, but also all the stakeholders are represented in management.
- The Executive Committee Member responsible for Human Resources represents the employees, one of the Company's largest stakeholder groups, on the Executive Committee.
- In making important decisions with regard to stakeholders, senior executives representing stakeholders



are invited to the Board and Executive Committee meetings to express their opinions. Moreover, attention is paid to ensure that employees participate in the Board and Executive Committee meetings at certain intervals so that they can provide their opinions first-hand.

- Employees may convey their proposals that will add value to the Company and their complaints, if any, to the Human Resources Department through the "Vestel Suggestion and Improvement System" located on the Company's corporate portal. Moreover, the employees can share their quality, cost and efficiency improving suggestions regarding the daily production processes and their creative ideas with the management within the scope of the Total Productive Maintenance and Kaizen-Continuous Improvement activities, in which the participation of all employees is ensured, by using the kiosks located in different parts of the factories, via the web, through "Suggestion and Appreciation Recognition System" located on the corporate portal or via the suggestion forms left in the suggestion boxes or in the autonomous maintenance boxes. The employee suggestions which are deemed to be suitable are transformed into projects in line with the Company's goals and strategies and improvements are achieved in all processes with teamwork.
- Vestel Elektronik pays utmost attention to the monitoring and evaluation of the customers' and dealers' suggestions and complaints. In this context, after-service satisfaction surveys are conducted with the customers and satisfaction messages are sent via phone in order to instantly measure whether the customers are satisfied with the service they have received. Regular face to face interviews are conducted with the dealers, authorized service centers and retail chains. "Stakeholder Perception Surveys" are conducted once a year by an independent research company in order to gather and evaluate the feedback of the stakeholders.
- In addition to surveys and visits, customers can also communicate their complaints and suggestions to Vestel Customer Services through the 7/24 serving Vestel Call Center, the corporate website or CapCanlı (Live) Support line that provides direct access to customer representatives through a mobile application, social media accounts, vmh@vestel.com.tr and via the dealers and service points. All the suggestions and complaints are handled by the complaint system which Vestel Customer Services is managing within the framework of ISO 10002 Customer Satisfaction Management System. Incoming complaints are recorded and followed by the complaint tracking number. Evaluation and resolution of the complaints and communication of solutions and feedback to and from the customers are standardized within the System. In order to prevent complaints and to ensure customer satisfaction, projects intended to eliminate the root causes of complaints as well as improvement studies are carried out. The system is intended to be constantly improved via the conduct of trainings, system audits, satisfaction management and complaint analysis.
- In order to give customers an exceptional experience that goes beyond mere satisfaction, calls that are finalized with an expression of thanks are followed. Further improvement activities are taken so as to ensure quality service and sustainability of the Company's success.

### **4.3. Human Resources Policy**

- The Company's human resources operations are carried out by the Vestel Human Resources Department, which reports to the Zorlu Holding Human Resources Group. The Department includes a Human Resources and Training Unit and an Industrial Relations Unit. Transactions related to the administrative affairs, career development and recruitment are carried out under the direct supervision of the Human Resources Director. Zorlu Holding Human Resources Group Head is also a member in the Executive Committee of the Vestel Group of Companies. Thus, provision of information on employee related issues to the management on a regular basis is ensured.
- The Company's Human Resources Policy is set forth in writing and covers all the 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 about their job descriptions and division of tasks, as well as the performance and compensation criteria through the Human Resources Policy.

- The following are implemented within the scope of the Human Resources Policy:
  - Recruitment, promotion and dismissal criteria are documented in writing. Recruitment and promotion criteria are detailed in the Recruitment Regulation and Promotion Regulation, respectively.
  - Vestel Group has in place a performance evaluation system which is based on individual performance, but is also linked to departmental and company-wide results, and is aimed at contributing to the individual development of employees and the corporate development of the organization. The outcomes from the performance evaluation system are used as an input for remuneration, training and career development.
  - Job evaluation has been performed according to the criteria of the Hay Group Grade system, and the employees were assigned to grades. The remuneration policy has been determined taking into consideration the said grading system and a remuneration system has been established, which is updated in line with the prevailing conditions.
  - Comprehensive training programs are held for employees. While the training process is centrally handled for all the Vestel Group of Companies, the whole process takes place on the intranet. Training programs are developed in a comprehensive scope and in a manner to facilitate advancement of employees in their careers. Employees are provided the opportunity to choose the training programs in line with their career plans and needs.
  - Vestel Technology Academy was founded mainly for Vestel Group’s engineering staff. The Academy provides masters and PhD level educational opportunities to around 200 employees. Additionally, the “Management Trainee” and similar programs are planned and implemented on a yearly basis in order to cultivate qualified managers.
  - Two separate career development structures have been set up: promotion and horizontal advancement. The system is run at periods specified in the regulation.
  - Employee orientation programs are being carried out. Individual programs are designed specifically for each department and position. The programs present differences in terms of duration and content.
  - Periodic information provision to employees is carried out using the corporate portal and the e-mail system. Each unit holds internal meetings at certain intervals. These are production meetings (every morning at factories), departmental meetings (every Monday), happy hour gatherings (on Fridays), quality management meetings (once in every two months), budget meetings (every month), and R&D new product meetings (every month).
  - All employees are treated equally and without any discrimination based on ethnic background, religion, language, race, gender, and the like whatsoever in all matters involving training, career development and promotion.
  - Measures are taken to prevent any practices that might cause discrimination among employees and all personnel are treated equally without any distinctions. There were no complaints from the employees related to discrimination.

#### **4.4. Code of Ethics and Social Responsibility**

- Vestel Elektronik’s Code of Ethics has been set forth in writing and published on the Company website within the frame of the Public Disclosure Policy. Utmost care is taken to ensure that the Code of Ethics, which is formulated for the Company and its employees, is complied with in full.
- Under its social responsibility principle, Vestel Elektronik undertakes social efforts by both contributing to the social responsibility projects carried out by Zorlu Holding in the areas of education, sports and culture, as well as by undertaking projects on its own. 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 the value created in this scope, in 2015 Vestel Elektronik published its progress report for the year 2014 on the [unglobalcompact.org](http://unglobalcompact.org) website 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), ICS (Initiative Clause Social) and Walmart audits by the independent audit firms. In 2016, DISNEY ILS and EICC (Electronic Industry Citizenship Coalition) social compliance audits, for which the preparation works were concluded in 2015, will be added to this list.

- Assuming the responsibilities of being a global player in consumer electronics and white goods, Vestel Elektronik carries out environmental impact reviews of all its operations, production lines, and products. The Company believes that it has a duty to be acutely aware of the health and safety of its employees, customers, and the general public who may be affected by its operations, products, and services and to protect the environment and nature for the good of future generations. Vestel Elektronik 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 the environment-related laws, legislation, and administrative regulations, and allocate sufficient and appropriate resources in its efforts to:

- Take environmental factors into account when evaluating projects for new products and operations,
- Reduce the use of harmful materials in its products and production processes and to search for materials that are less polluting,
- Reduce, reuse, recycle, and recover waste,
- Ensure savings of energy, water and natural resources by promoting productivity increases and use of new technologies,
- Use recycled/recyclable packaging materials wherever feasible,
- Conduct activities aimed at fostering environmental awareness.

- The Company's environmental practices were awarded various prizes in 2014. These are, in order, the First Prize in Manisa Organized Industrial Zone Environmentally Sensitive Facility Competition, First Prize in the Istanbul Chamber of Industry Environment Friendly Application Category, and ÇEVKO (Environmental Protection and Packaging Waste Recovery and Recycling Foundation) Green Point Industry Encouragement Prize.

- 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.

### **Compliance with National and International Legislation Related to the Environment and Energy:**

- The Company closely monitors its compliance with all the mandatory regulations throughout a product's life cycle. Legal compliance issues are dealt with in accordance with both ISO 14001 Environmental Management System and ISO 50001 Energy Management System standards. In order to safeguard the human and environmental health and safety, Vestel Elektronik has formulated many procedures that are rooted both in the mandatory regulatory requirements and in the management systems policy and the Company ensures that its operations abide strictly by such procedures and requirements.

The Company also fully complies with the following EU laws and regulations applicable to its industry:

- WEEE (Waste of Electrical and Electronic Equipment) Directive,
- RoHS - (Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment),
- Ecodesign Framework Directive for Energy-Related Products,
- REACH - Regulation of the Registration, Evaluation, Authorization and Restriction of Chemicals,
- Regulation on Energy Efficiency and Increasing Efficiency in the Use of Energy Resources.

## Energy Efficiency

- Vestel Elektronik capitalizes on energy efficiency opportunities in its operations and systematically implements various projects related to this area. The Company's main policy is to reach a high level of production with low energy consumption. In light of this approach, the Company reviews the energy consumption of its production processes and strives to obtain better results in terms of productivity and quality.
- Under the Environment and Energy Management Systems, the Company manages energy consumption and related processes in tandem with the Total Productive Maintenance (TPM) model, corporate business plans and the key performance indicators methodology. The Company ensures sustainability by successfully implementing the TPM Management System. TPM is a maintenance system, which targets zero equipment stoppage and zero quality defects in production systems. TPM is a maintenance management approach, which requires the participation of all employees in production and service processes, envisages autonomous maintenance, adopts a preventive approach rather than troubleshooting and allows for the highest degree of equipment efficiency. Environmental gains through the TPM system approach may be listed as follows:
  - Ensuring organization and order and reducing contamination with the 5S Approach,
  - Improvement works with the Kaizen approach,
  - Less equipment breakdown, less dissemination, saving of energy and raw materials with the Autonomous Maintenance approach,
  - Reducing scrap and rework, therefore, reducing waste,
  - Increasing efficiency and quality and achieving continuous improvement.
- Vestel Elektronik has successfully completed the first phase of the TPM Management System and on January 11, 2013, became eligible for receiving the "TPM Excellence Award". At the end of 2014, the Company successfully passed the consistent TPM commitment audit for the TPM Excellence Award. Vestel Beyaz Eşya, the Company's subsidiary, also received the "TPM Excellence Award" in 2014.
- Senior executives regularly monitor and 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 and ensured its continuity in 2014. During 2015, "Increasing Energy Efficiency in Injection Molding Machines with Variable Speed Drive Application", whose project previously obtained incentive approval from the Ministry of Energy and Natural Resources General Directorate of Renewable Energy, was completed in 36 machines and 3,000,000 kWh/year of energy savings were achieved since the implementation of the project.
- Additionally, the optimization of the pumps used in cooling systems in different areas of the factory was achieved with the usage of variable speed drive and the pumps were made to operate energy efficiently. Centralization of the A/C systems and the LED lighting conversion in different areas of the factory were some of the ongoing energy saving activities in 2015.

## Climate Change

- Climate change is not only an environmental but also a social and economic threat. Vestel Elektronik considers climate change as an important risk for both the future of the world and sustainability of the Company and carries out pivotal projects in this regard. The Company initiated studies for the measurement and reduction of its carbon footprints and participated in the Carbon Disclosure Project. In 2015, Vestel Elektronik published its carbon emissions data on the Carbon Disclosure Project's (CDP) website, cdproject. As is known, CDP is an initiative, which was initiated in 2000, to encourage companies, investors and governments to collect and share emissions-related data which could help in the fight against climate change. The companies from Turkey which responded to CDP are also rated according to the CDP's methodology, with the support of Ernst & Young Turkey. In CDP's 2015 evaluation, Vestel Elektronik's carbon disclosure score was raised from 89 to 95.

## Sustainability

- Environmental awareness and sustainability are the most important elements of Vestel Elektronik's vision. Due to the rapid change in social, economic and environmental factors in the world, the increasing strain on natural resources creates a threat for damaging the natural structure. Vestel Elektronik is aware that the sustainability of its success is possible only if it adheres to a fully-responsible approach in the design of its products. Considering this fact, Vestel Elektronik allocates a considerable amount of funds to research and development activities; for both reducing the energy consumed by its products and for the development of new environmentally friendly and recyclable materials that will be used in its products. Issues such as less power consumption, reliability for long product life, elimination of hazardous chemicals, use of recyclable materials, reducing variety in the use of materials and less use of raw materials, etc. are considered to be the main design elements in its product designs. Considering that the Company has annual production capacities of 15 million units in electronic and digital products and 10 million units in white goods, improving the design of a product will create a chain reaction in improving the environmental impacts in the supply chain, during the production and use of the product and at the end of the life of the product, such as reducing energy consumption, fuel consumption, transport-based carbon emissions, decreasing the use of packaging, etc. and thus, Vestel Elektronik has been constantly increasing the resources allocated to this matter.
- Vestel Elektronik has been included in the BIST Sustainability Index since November 2, 2015, as a result of the evaluations conducted by Borsa Istanbul regarding the Company's practices in the area of sustainability. BIST Sustainability Index is comprised of publicly traded companies with a high rating on corporate sustainability performance. Information related to sustainability issues can be found on the Company's website at [www.vestelinvestorrelations.com](http://www.vestelinvestorrelations.com).
- At Vestel Group of Companies ("Vestel"), of which Vestel Elektronik is a part, corporate development is equivalent to social development. With this approach, the Company will continue to firmly support the corporate social responsibility initiatives that add value to society, pioneer new initiatives in this area, and raise the social awareness by promoting its future oriented and eco-friendly products.
- 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 long-term projects. Prior to developing social responsibility projects, the Company first identifies the 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 it displays in all of its operations, never compromising its total quality approach.
- Many projects are carried out at Vestel, where the greatest care is shown for the disabled citizens at every opportunity. These projects are summarized below;
- Within the scope of "I am part of life" Project, aiming to support young people with Down syndrome and with mental disabilities and to include them in work life by offering them job opportunities at Vestel, 4 young people have been employed at Vestel; two with Down syndrome and two with mental disabilities.
- With the "Equal Chance" Project carried out at Vestel Elektronik factory, it was aimed to create employment for individuals who are hearing and visually impaired following various training programs. Within this scope, the number of disabled employees which started off as 11 on May 5, 2015 has increased to 104 by the end of the year. Production lines were specifically organized for those with disabilities in the areas they will work. "Basic Sign Language Education" was launched with the Celal Bayar University Continuing Education Center on December 22, 2015 to improve the lives of people with disabilities who were employed through this project, to increase the awareness of employees without disabilities and to strengthen their communication with each other. A total of 27 Vestel employees received their certificates by participating in this program .
- Vestel Elektronik does not only consider employment for the handicapped, but also tries to make their lives easier. For this purpose, the Company distributed wheelchairs to 8 handicapped citizens on the World Disability Day on December 8, 2015; led by Vestel AC Production Directorate.
- Within the last one year, 177 individuals with disabilities have been employed at Vestel Elektronik,

raising the total number of employees with disabilities to 275.

## PART V - BOARD OF DIRECTORS

### 5.1. Structure and Composition of the Board of Directors

#### Board of Directors

Member	Duty	Term of Office	Other Positions Held Within the Group	Positions Held Outside the Group	Status
Ahmet Nazif Zorlu	Chairman	Until 2015 Ordinary General Assembly Meeting	Chairman and Vice Chairman - Zorlu Group Companies	-	Non-executive
Ali Akın Tari	Vice Chairman	Until 2015 Ordinary General Assembly Meeting	Board Member - Vestel Beyaz Eşya San. ve Tic. AŞ, Vice Chairman - Zorlu Enerji Elektrik Üretim AŞ	Board Member and Audit Committee Member - Dilerbank; Board Member - Diler Holding	Independent
Selen Zorlu Melik	Board Member	Until 2015 Ordinary General Assembly Meeting	Deputy President - Zorlu Energy Group Board Member - Zorlu Group Companies	-	Non-executive
Mehmet Emre Zorlu	Board Member	Until 2015 Ordinary General Assembly Meeting	Board Member - Zorlu Group Companies	-	Non-executive
Mümin Cengiz Ultav	Board Member	Until 2015 Ordinary General Assembly Meeting	-	Chairman - Technology Development Foundation of Turkey (TTGV), Founding Member - Turkish Informatics Foundation (TBV) and Unix Users Foundation	Non-executive
Hacı Ahmet Kılıçoğlu	Board Member	Until 2015 Ordinary General Assembly Meeting	Vice Chairman - Vestel Beyaz Eşya San. ve Tic. AŞ, Board Member - Zorlu Enerji Elektrik Üretim AŞ	Board Member - Doğan Gazetecilik, Board Member - Şeker Mortgage Finansman	Independent

## **Ahmet Nazif Zorlu**

### **Chairman**

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family owned textiles business in Denizli, Babadağ. He opened his first textile store in Trabzon, later in 1970 Mr. Zorlu moved the Company's headquarters to Istanbul and laid the foundations of Zorlu Holding with his brother, Zeki Zorlu. Ahmet Zorlu set up his first company, Korteks, in 1976 and gathered all of his companies under the roof of Zorlu Holding in 1990. Acquiring Vestel in 1994, Ahmet Zorlu opened the door to new lines of business for Zorlu Holding. Zorlu's entrepreneurialism which began with the textile industry went on to manifest itself in more companies operating in highly diverse fields such as white goods, electronics, energy, property development, metallurgy, and defense.

With a keen interest in civil society organizations, Ahmet Zorlu is a member of the Board of Directors of the Foreign Economic Relations Board, the Turkish Industry and Business Association, the Education and Culture Foundation of the Society of Denizli, the Babadağ Industry and Business Association, and the Turkish Home Textile Industrialists and Businessmen Association. Ahmet Zorlu is the founder of Mehmet Zorlu Education, Health, Culture, and Solidarity Foundation (MZV) and carries out his social responsibility projects through MZV since its foundation in 1999. MZV has built many schools and provides scholarships to a large number of students. Ahmet Zorlu also attaches great importance to the social efforts aimed to boost the Turkish business world's influence abroad. Accordingly, he was awarded the Royal Spanish Order of Civil Merit by King Juan Carlos I of Spain in 2007 for his contribution to developing and strengthening the relations between Spain and Turkey.

## **Ali Akın Tarı**

### **Vice Chairman**

(1943 - Koruköy) After his graduation from the Istanbul Law Faculty, Ali Akın Tarı served as a Tax Inspector and as a Chief Tax Inspector at the Ministry of Finance between 1972 and 1986. He was appointed as the Vice-President of the Tax Inspectors Board in 1986 and Group Head of the Istanbul Tax Inspectors Board in 1989, and continued to serve in this position until he was appointed as a Board Member of the Banking Regulation and Supervision Agency in 2001. He was also elected as a Board Member of the Savings Deposit Insurance Fund in the same year. He left his position at the Banking Regulation and Supervision Agency when his period of duty expired in 2004, and was appointed as a Consultant for the Ministry of Finance. Mr. Tarı served in this position until 2007, when he voluntarily left his position in the public sector to work in different areas in the private sector. Mr. Tarı became a member of the Board of Directors and the Audit Committee of Dilerbank in 2008; in addition to this position, he was appointed as a member of the Board of Directors of Diler Holding in 2011. Besides his position as a Board Member at Vestel Elektronik, Mr. Tarı also serves as a Board Member at Vestel Beyaz Eşya and Zorlu Enerji.

## **Selen Zorlu Melik**

### **Board Member**

(1975 - Trabzon) Selen Zorlu Melik graduated from the Faculty of Economics and Administrative Sciences, Department of Business Administration at Uludağ University. She began her professional career at Denizbank in 1998. Following her internship at the Denizbank Bursa Branch, she joined the Management Trainee Program at the same bank in 1999. After working in a number of positions at the Denizbank head office, Mrs. Zorlu Melik attended a Marketing Certificate Program at the University of California, Berkeley, USA in 2001. She subsequently started to work at the Korteks Yarn Plant in 2002 and became a Board Member of the same company in 2004. Selen Zorlu Melik currently serves as a Board Member in numerous companies within the Zorlu Group as well as being a Board Member at Vestel Elektronik. Since April 2012, Mrs. Zorlu Melik has been acting as the Deputy President of Zorlu Energy Group.

## **Mehmet Emre Zorlu**

### **Board Member**

(1984 - Istanbul) Mehmet Emre Zorlu graduated from the Department of Electrical and Electronics Engineering at Koç University in 2006. He went on to complete a master's degree in Innovation and Technology Management from the University of Essex in the United Kingdom in 2007 and 2008. Mr. Zorlu began working at the Vestel Group of Companies in 2009. In addition to his position as a Board Member at Vestel Elektronik, Mr. Zorlu also serves as a Board Member at Zorlu Holding and its affiliated companies. Mehmet Emre Zorlu is a member of the Young Presidents' Organization (YPO), the Young Businessmen Association of Turkey (TÜGİAD) and Endeavor Turkey.

## **Mümin Cengiz Ultav**

### **Board Member**

(1950 - Eskişehir) Mümin 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 the President responsible for Technology. He stepped down from his position as a Member of the Executive Committee responsible for Strategic Planning and Technology on June 30, 2011. Mümin Cengiz Ultav currently serves as a Board Member at Vestel Elektronik Sanayi ve Ticaret AŞ.

## **Hacı Ahmet Kılıçoğlu**

### **Board Member**

(1956 - Giresun) Hacı Ahmet Kılıçoğlu graduated with a Bachelor's degree and Master's degree in Economics from the University of Essex. He started his professional career at the Ministry of Industry and Technology in 1979. In 1980 he became an Assistant Specialist at Türkiye İş Bankası and after working in the private sector for a couple of years, Mr. Kılıçoğlu held administrative positions at the United Nations Development Program (UNDP) and the F-16 project. He then took office at Türk Eximbank in 1987, where he worked in various positions. He later served as the CEO of the bank and as a Board Member between 1998 and 2010. He also served as a Board Member at the Banks Association of Turkey between 1998 and 2010 and was elected as the President of the World EximBanks Union (The Berne Union) in 2001. Mr. Kılıçoğlu also served as a Consultant to the President at the Islamic Development Bank between 2008 and 2009 and as a Vice Chairman at Denizbank in 2010. In addition to his position as a Board Member at Vestel Elektronik, Mr. Kılıçoğlu also serves as a Board Member at Vestel Beyaz Eşya and Zorlu Enerji, which are Zorlu Group Companies. He is also a Board Member at Şeker Mortgage Finansman AŞ and Doğan Gazetecilik AŞ.

The Chairman of the Executive Committee is Mr. Enis Turan Erdoğan.

## **Enis Turan Erdoğan**

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

(1955 - Mersin) Enis Turan Erdoğan graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1976 and completed a master's degree in Production Management at Brunel University in the UK in 1979. After serving in managerial positions for various firms in Turkey, Mr. Erdoğan joined Vestel in 1988. Having held various managerial positions at Vestel since 1988, he served as the President of Vestel Foreign Trade and a member of the Executive Committee of Vestel Elektronik until 2013. Turan Erdoğan was appointed as the Chairman of the Executive Committee of the Vestel Group of Companies on January 1, 2013. Mr. Erdoğan served as the President of TURKTRADE (Turkish Foreign Trade Association) for two periods between 2002 and 2006 before being the first Turkish citizen to be appointed as a Board Member of Europe's largest ICT Confederation, DIGITALEUROPE, a position which he held between 2010 and 2014.



- The Company's Board of Directors is structured to provide the highest level of efficiency and effectiveness. The Company pays utmost attention to compliance with the Capital Market Law and CMB regulations in this area.
- Vestel Elektronik's Board of Directors consists of 6 members. Four of the six members of the Board are non-executive members and two are independent members. In accordance with the CMB's Corporate Governance Communiqué, one third of the Board is comprised of independent Directors.
- The Chairman of the Board and the Chairman of the Executive Committee are different individuals: The Chairman of the Board is Mr. Ahmet Nazif Zorlu and Chairman of the Executive Committee is Mr. Enis Turan Erdoğan.
- There are no restrictions with respect to the Board members taking up other duty or duties outside the Company, but the regulations set forth in the Corporate Governance Principles are complied with in this regard.
- Prior to the General Assembly Meeting for the year 2014, two independent board member candidates were presented to the Corporate Governance Committee, which also fulfills the duties of the Nomination Committee. The candidates for the independent board membership submitted their written statement of independency within the framework of the legislation, Articles of Association and the independence criteria set forth in the Corporate Governance Communiqué to the Corporate Governance Committee at the time they were proposed as candidates. The Committee submitted its assessment report on whether these candidates fulfill the independence criteria to the Board of Directors on March 30, 2015. Upon a resolution by the Board of Directors dated April 1, 2015 and numbered 2015/12, it was decided that these candidates would be submitted to the approval of shareholders at the General Assembly to become independent Directors. The Board's proposal was approved by the shareholders at the 2014 General Assembly Meeting held on April 27, 2015. Information on the independent Board member candidates was disclosed to the public with the General Assembly Information Document issued together with the General Assembly invitation.

Statement of independence of the independent board member candidates is provided herein below:

"I hereby acknowledge, commit and declare that I have read and understood the capital market legislation, the Company's Articles of Association and the Capital Markets Board's Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance no. II-17.1, and that I meet all of the criteria required for Independent Board membership that are stipulated in the Principle no. 4.3.6 appended hereto within the framework of the applicable legislation."

- Board Members Mr. Hacı Ahmet Kılıçoğlu and Mr. Ali Akın Tarı are independent Directors who fulfill the independence criteria envisaged in the CMB's Corporate Governance Principles. No circumstances occurred during the reporting period to end the independence status of the independent board members.
- Currently, one female member serves on the Company's Board of Directors, and it is among the Company's medium-term targets to reach the minimum 25% ratio set in the Corporate Governance Principles for the female Directors. However, a policy has not yet been formulated towards reaching this goal.

## **5.2. Operating Principles of the Board of Directors**

- The gathering procedures and frequency of Board meetings are set forth in the Company's Articles of Association.
- Agendas for the Board meetings are determined by the Chairman and Board Members. Requests coming from the Company management are also taken into account when setting the meeting agendas.
- Article 16 of the Company's Articles of Association stipulates that Board meetings shall be held as and when deemed necessary, and at least once a month. The Board of Directors shall be convened by the Chairman of the Board or the Deputy Chairman when the Chairman is not available. Any member may

request from the Chairman to call the Board for a meeting.

- In order to increase the attendance at the meetings, the meeting dates are determined and notified to the Board Members at the beginning of the year. As a result, Board Members are given the opportunity to adjust their schedules according to meeting dates. As another measure to increase attendance at the meetings, the following article was added to the Company's 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 of Directors convenes with absolute majority and resolves with the majority of those present at the meetings.
- During 2015, the Board of Directors passed 55 decisions in 42 meetings held. The meeting attendance rate was 100%, and 100% of the decisions were passed with the unanimous votes of the attendants.
- Invitation to the meetings is made via e-mail at least 7 days before the meeting. The secretariat which has been set up within the Company to report to the Board of Directors, provides the Board Members with the agenda and documents related to the matters on the agenda, together with the invitation.
- Reasonable and detailed justifications for dissenting votes are required to be entered into the records on matters for which there were differing opinions at the Board meetings; however, there has never been such an instance to date. The minutes taken by the Board's secretariat also include any questions posed by the members and the responses given.
- No Board member, including the Chairman, has a preferential voting right or the right to veto Board's decisions. Each member possesses an equal vote.
- The Board decisions relating to all kinds of related party transactions of the Company are taken with the approval of the majority of the independent board members in accordance with the Corporate Governance Principles.
- A Directors & Officers Liability Policy has been purchased to cover the potential losses which the Company may suffer due to the wrongful acts of the board members in the execution of their duties. However, the total annual liability limit does not exceed 25% of the Company's share capital.

### **5.3. Number, Structure and Independence of the Board Committees**

- In order to help the Board of Directors to perform its duties and responsibilities more effectively, a Corporate Governance Committee, an Early Detection of Risk Committee and an Audit Committee have been set up, all three of which report directly to the Board. Owing to the nature of the Board structure, the Company has not set up a separate "Remuneration Committee" or a "Nomination Committee", the duties of which are performed by the Corporate Governance Committee.
- As per the Corporate Governance Principle no 4.5.3, all members of the Audit Committee and the chairmen of the other committees are elected from among the independent members of the Board. In accordance with the Principles, the Chief Executive Officer does not serve on the committees.
- Committee members Mr. Ali Akın Tar> and Mr. Hacı Ahmet Kılıçoğlu serve on more than one committee due to the number of the Board Members and the committee formation requirements in accordance with the CMB's Corporate Governance Principles.
- Committees convene at intervals stipulated by the legislation and the related Committee's working principles or upon a request from a member. The Committees' activities and meeting minutes are presented to the Board of Directors.
- All kinds of resources and support are provided by the Board of Directors to the committees to enable them to perform their duties. Committees can invite individuals who are deemed to be necessary to their meetings in order to obtain their views.
- Duties, working principles and the members of the Committees are determined by the Board of Directors and are publicly disclosed on the Public Disclosure Platform and the Company website.

## Audit Committee

- The Audit Committee was set up for the effective oversight of the Company's financial and operational activities pursuant to the Article 3 of the CMB's Communiqué Serial X, No: 19. The Committee is responsible for the supervision of the Company's accounting system, public disclosure of the financial information, independent auditing and the operation and efficiency of the Company's internal control and internal audit system.
- The Audit Committee can seek the opinions of independent experts on matters which they find necessary with regard to their activities. The costs of the consultancy services required by the Audit Committee are borne by the Company.
- Pursuant to the CMB's Communiqué on Corporate Governance no: II-17.1, the "Working Principles of the Audit Committee" were revised and approved at the Board of Directors' meeting dated March 27, 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company website.
- The Audit Committee is structured in accordance with the Capital Markets Board's Corporate Governance Principles and comprises two members.
- The Chairman of the Committee was elected from among the independent members of the Board and certain criteria were taken into account in the election process. The Chairman of the Audit Committee is ensured to have served in a similar position previously, have the knowledge and experience needed to analyze financial statements and be versed in accounting standards.
- Both Audit Committee members were elected from among the independent Directors. The Chairman of the Committee is Mr. Ali Akin Tari, and the other member is Mr. Hacı Ahmet Kılıçoğlu.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 28 April 2015:

<b>Committee Members</b>	<b>Duty</b>	<b>Status</b>
Ali Akin Tari	Chairman of the Committee	Independent Board Member
Hacı Ahmet Kılıçoğlu	Member of the Committee	Independent Board Member

- In principle, the Audit Committee shall convene at least four times a year, being once in each quarter. The Committee convened 6 times in 2015.
- The Board of Directors' secretariat is responsible for keeping the records of the decisions made by the Committee, as well as the minutes of the meetings.
- The Committee carries out its activities in line with the working principles put into writing in detail.
- In 2015, the Audit Committee performed the following functions:
  - Monitoring of the Company's financial and operational activities,
  - Supervision and approval of the accuracy and conformity of the annual and interim financial statements, which will be disclosed to the public, with the accounting principles employed by the Company,
  - Election of the independent audit firm, preparation of the independent audit contract and initiation of the independent audit process,
  - Following up of the effectiveness and performance of the independent audit activity,
  - Supervision of the operation and efficiency of the internal control and internal audit system, conducting studies on the efficiency and adequacy of the internal control system and reporting its evaluations to the Board of Directors,
  - Review and approval of the internal control and internal audit reports.

## Corporate Governance Committee

- The Corporate Governance Committee was established to monitor the Company's compliance with the CMB's Corporate Governance Principles, carry out studies for improvement and make proposals to the Board of Directors in order to improve the implementation of corporate governance practices.
- Pursuant to the CMB's Communiqué on Corporate Governance no: II-17.1, the "Working Principles of the Corporate Governance Committee" were revised and approved at the Board of Directors' meeting dated 27 March 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company website.
- The Corporate Governance Committee is composed of at least three members, including two non-executive Board Members and the Investor Relations Manager. The Chairman of the Committee is Mr. Ali Akin Tari, an independent Board member.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 28 April 2015:

Committee Members	Duty	Status
Ali Akin Tari	Chairman of the Committee	Independent Board Member
Mehmet Emre Zorlu	Member of the Committee	Non-executive Board Member
Serap Mutlu	Member of the Committee	Investor Relations Director

- In principle, the Committee convenes at least twice a year in order to ensure the effective performance of its duties. Corporate Governance Committee convened 3 times in 2015.
- The activities carried out by the Corporate Governance Committee in 2015, in accordance with its working principles put into writing in detail, are presented below:
  - Proposing improvements in corporate governance practices to the Board of Directors in order to enhance compliance with the CMB's Communiqué on Corporate Governance no. II-17.1; conducting and supervising the necessary works for the alignment with the legislation,
  - Overseeing the activities of the Investor Relations Department,
  - Preparing the evaluation reports on the independency status of the independent Board member candidates for submission to the Board of Directors,
  - Carrying out the activities related with the Corporate Governance Rating.

## Early Detection of Risk Committee

- The Early Detection of Risk Committee was set up in order to identify the risks which could threaten the existence, development and continuity of the Company, take the necessary measures against the identified risks and undertake risk management activities in line with the Turkish Commercial Code, Articles of Association and CMB's Communiqué on Corporate Governance Principles. The Committee continues its activities with regard to the early detection of threats which may have negative consequences on the development and continuity of the Company and manage the risks effectively by developing action plans against the identified threats.
- Pursuant to the CMB's Communiqué on Corporate Governance no: II-17.1, the "Working Principles of the Early Detection of Risk Committee" were revised and approved at the Board of Directors' meeting dated 27 March 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company 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 Chairman of the Committee is the independent Board member, Mr. Hacı Ahmet Kılıçoğlu. The other member is Mrs. Selen Zorlu Melik.

- Early Detection of Risk Committee submits a report to the Board of Directors once in every two months.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 28 April 2015:

<b>Committee Members</b>	<b>Duty</b>	<b>Status</b>
Hacı Ahmet Kılıçoğlu	Chairman of the Committee	Independent Board Member
Selen Zorlu Melik	Member of the Committee	Non-executive Board Member

- The Early Detection of Risk Committee convenes as frequently as necessitated for the efficiency of its activities and in principle at least three times a year. The Committee held 6 meetings in 2015 and presented 6 risk reports to the Board of Directors.

- The activities carried out by the Committee in 2015, in line with the working principles put into writing in detail, are presented below:

- High risk evaluation was carried out and risk inventory was prepared containing strategic, financial and operational risks which are critically important for the Company.
- Risks were evaluated in two different ways, namely, with (residual risk) and without (inherent risk) taking into account the efficiency performance of the existing control and precaution measures.
- Inherent and residual risks contained in the risk reports were evaluated based on the 4-tier scale (Acceptable, Acceptable with Control, Undesired, Unacceptable).
- Sector and company based risks contained in the risk reports were grouped under 9 main risk headings (External Environment, Operational, Authorization, Information Technology and Technology, Honesty/Integrity, Financial, Process/Operational, Reporting and Strategic) according to COSO (The Committee of Sponsoring Organizations of the Treadway Commission) risk taxonomy.
- As a result of these assessments, it was seen that risks were generally gathered under the main headings of External Environment, Operational, Financial and Strategic.
- As a result of the risk inventory and risk management analyses, risk reports were prepared and submitted to the Committee in order to ensure early detection of risks which may jeopardize the Company's existence, development and continuity and adoption of the necessary measures against the detected risks and management of risk.

These reports were as follows:

- o PESTLE analysis for the White Goods Sector,
  - o PESTLE analysis for the Consumer Electronics Sector,
  - o Corporate Sustainability,
  - o Evaluation of the performance in the first quarter of 2015,
  - o Vestel Risk Inventory and
  - o Risk Management in Real Sector and Vestel's Practices.
- Risks and action plans are recorded into and followed-up through the SAP GRC (Governance, Risk and Compliance) System by the Corporate Risk Management Department.

#### **5.4. Risk Management and Internal Control Mechanism**

- Zorlu Holding Corporate Risk Management Department was founded in 2012 with the purpose of early detecting the risks that may jeopardize the existence, development and continuity of Vestel Elektronik, taking the necessary measures against the identified risks, and managing the risks in a centralized manner. The Zorlu Holding Risk Policy and Procedure and Corporate Risk Management Framework, which

are applicable to all the Zorlu Group companies, form the basis for the Group's risk management activities.

- The Company makes intensive use of information technologies and uses the SAP system to secure internal control. Through the SAP system, all the integrated business processes in the Company are carried out/registered on the information systems, thus granting increased speed and productivity to the business. Efficient use of these systems allows employees and managers to easily access all sorts of information and reports that concern them in line with their authorities. Vestel Elektronik employs the SAP GRC (Governance Risk Compliance) system to monitor the risks which the Company is exposed to.

- The Company's internal control systems are evaluated with a risk-focused approach by taking into account the risks which are identified through the risk management analysis and/or during the internal control activities and by taking into account the related actions for risk reduction. During the course of its activities carried out in line with its vision and mission, the Company may become exposed to risks related with the strategic goals, financial position, operational activities, legislation, occupational health and safety, and protection of assets and reputation. In order to accurately define and manage these risks, Zorlu Holding Corporate Risk Management philosophy is summarized below:

- Incorporating risks into the decision-making mechanisms by establishing risk awareness and risk culture throughout the Company,
- Collaborating to reveal the risks and opportunities that may have an impact on the Company's targets based on a shared perception,
- Defining and evaluating risks according to their impact and probability,
- Proactively managing these risks through the best actions taken in accordance with the risk appetite.

- Founded on 15 March 2013, the Early Detection of Risk Committee is involved in the early detection of risks that could jeopardize the existence, development and continuity of the related companies, implementation of the necessary measures against the identified risks, and management of risks for the purposes of achieving compliance with the Article 378 of the Turkish Commercial Code no. 6102 and of coordinated risk management.

- The Internal Audit Department reviews the efficiency and effectiveness of these systems at certain intervals in accordance with the approved annual plans, and reports the results to the Board of Directors for necessary action.

## **5.5. Strategic Targets of the Company**

- In addition to managing and representing the Company with a rational and prudent risk approach which optimizes the balance between growth, risk and return and which is above all the mindful of the Company's long-term interests, the Board of Directors is also responsible for achievement of the Company's pre-set financial and operational targets.

- The Board of Directors or the management may formulate opinions on the Company's strategic targets. The Board of Directors always seeks the opinions of the 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. Actions to achieve the approved targets are initiated as soon as possible; the results are regularly monitored throughout the year by the managers and reported to the Board of Directors.

- The Board of Directors holds an evaluation meeting at least once a year in order to review the Company's operational performance and degree of target achievement.

## **5.6. Financial Benefits**

- The Company's Remuneration Policy for the Board Members and Executive Managers, which has been accepted by the Board of Directors' decision dated 18 May 2012 and made available for the information of shareholders on the Company website pursuant to the Corporate Governance Principles, was amended

in line with the new Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance, and was publicly disclosed on 26 March 2014 via the Public Disclosure Platform and was also made available for the information of the shareholders via the Company website.

- The attendance fees to be paid to the members of the Board of Directors are determined each year at the General Assembly Meeting. The fee is determined according to the Board Member's status (whether independent or executive), responsibilities, seniority, know-how, skills and experience.
- Vestel Elektronik's Board members were paid a total gross sum of TL 101,000.00 as an attendance fee in 2015, commensurate with the practices of the peer companies in the sector. The amounts for 2016 will be decided at the 2015 Ordinary General Assembly Meeting. No other benefits are provided to Board members.
- There is no rewarding scheme based on the performance measurement for the Board members.
- The Company does not use payment plans such as dividend, stock options or payment options based on the Company's performance in the remuneration of the independent Board members.
- The salaries of Vestel Elektronik's Executive Managers are determined by the Board of Directors. In addition, Executive Managers may be entitled to bonus payments at the end of the year, in line with the Company's financial performance and their respective contribution to this performance. The amounts of such bonus payments are determined by the Board of Directors. The "Senior Executive Remuneration Policy" is determined in accordance with the size of the Company's production and sales activities, the extensiveness of its operations, existence of international operations, the number of employees, subsidiaries and their weight in total operations, the level of knowledge required to sustain the operations, the characteristics of the sector, the competitive environment, and the level of salaries paid by the peer companies.
- Remunerations provided to the Company's Chairman, Board Members and Executives Managers are disclosed in the footnotes of the financial statements and in the annual report on a cumulative basis. In this regard, the total amount of remunerations paid to the above during the 12 months ending on 31 December 2015 was TL 25,448 thousand (01.01-31.12.2014: TL 19,433 thousand).
- During 2015, the Company did not lend money or make credit available to any Board Member or Executive Manager, did not extend the maturity of the existing loans nor improved conditions, did not lend any credit via a third party under the name of a personal loan or grant any guarantee such as surety in their favor.