



BASED UPON
“The Corporate Governance Principles of Turkey” issued by
the Capital Markets Board of Turkey

RATING REPORT ON
VESTEL ELEKTRONIK A.S.



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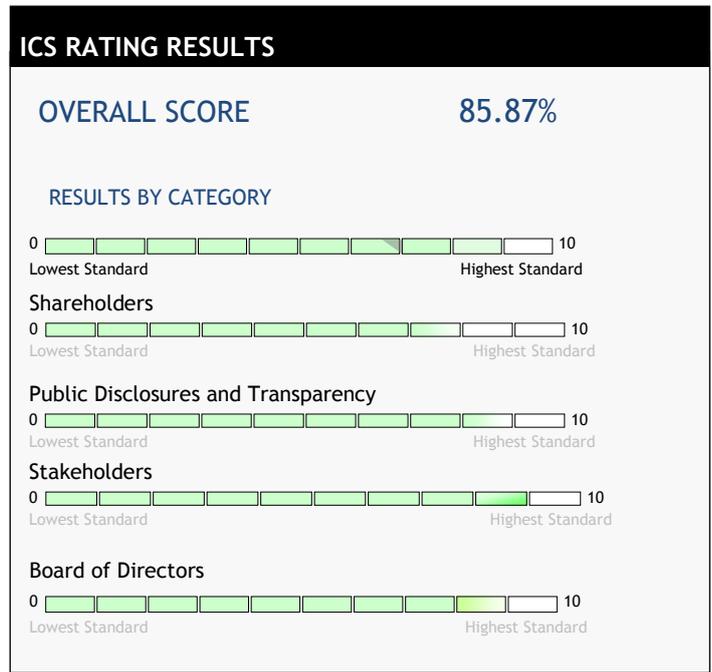
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Ratings Summary

ISS Corporate Services (hereafter, ICS) assigns a rating score of 8.58 to Vestel Elektronik (Vestel). This rating reflects a good overall performance of the company regarding its current corporate governance structures as measured against the Principles of the Turkish Capital Markets Board (CMB). Vestel continues to make an effort to adopt progressive corporate governance practices in its corporate management structures and this is reflected in its improved score. These changes include, but are not limited to; an enhanced risk management structure, updated articles of association, a smaller board, an updated disclosure policy, a new IR web site, and an extended FAQ section on the website. The degree of compliance with the underlying CMB principles of 85.87% indicates that the company has made a strong effort to comply with the CMB principles

Vestel has steadily built upon its solid corporate governance foundation with a range of corporate governance enhancements in the past several years in numerous areas; such as and internal control and risk management reporting mechanisms, a sound ethical and human resources policy and diligent and consistent communication with its stakeholders. The company is also in the process of re-designing its website as part of this effort.

The Rating Report is based on information provided to ICS prior to December 2006, February 2008 February 2009, 2010, and February 2011 for the first version and its updates, respectively. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

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RATING METHODOLOGY

UNDERLYING REFERENCE

The corporate governance (CG) rating at hand has been conducted by ISS' Corporate Services division based on the *Capital Markets Board (CMB) CG Principles* (CMB Principles). As such, it differs in content and methodology from ISS' standard CG ratings that are based on ISS' own methodology.

With respect to global financial market developments the CMB of Turkey has defined CG principles in 2003, followed by an amendment in early 2005. The CMB Principles have been compiled in line with an approach to restructure and harmonize the country's capital market according to international standards. Created by a committee consisting of representatives of the CMB, the Istanbul Stock Exchange, the Turkish Corporate Governance Forum as well as participants from the academic field and the private sector, the established CMB Principles represent a synthesis of various national and international regulations and codes (e.g. the *OECD Corporate Governance Principles*) on the one side and particular domestic considerations on the other side.

The CMB Principles are divided into four main sections:

- Shareholders
- Public Disclosure and Transparency
- Stakeholders
- Board of Directors

In addition to existing legislation, the Principles include provisions that go beyond legal obligation. Though the company is not obliged to fulfill these additional provisions, it has to fully apply a "comply or explain" approach. However, the Principles also contain certain recommendations, where a deviation does not have to be disclosed.

THE RATING

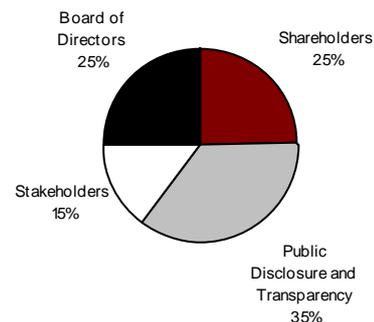
Based upon the CMB Principles, we identified more than 350 criteria to be included into the rating. Each single criterion has been examined thoroughly upon compliance by the company, on the basis of publicly available information. Additional information was provided by the company upon request.

Correspondence and conversations with senior company representatives clarified and expanded upon the disclosures.

While in most instances a straightforward 0 (no) or 1 (yes) scoring approach has been applied, we also attributed a score of 0.5 points in some instances to acknowledge a partial fulfillment by the company or where the rating criteria could not be applied to the full extent. In order to reach the highest rating result, a company also has to comply with the recommendations put forward by the CMB Principles.

The weighting scheme to be applied to the four main sections was pre-determined by the CMB as outlined below:

Weighting Scheme



Further sub-weightings have been attributed to the sub-criteria according to ISS' own reference.

Based upon the scoring and adjusted weightings the overall rating result has been calculated. The result reflects the overall compliance of the company with the constituted CG rating criteria. Besides the overall assessment, results also have been calculated for each main section, providing a differentiated picture of the company's strengths and weaknesses.

The rating results are displayed as a percentage, thereby indicating the most accurate result, and as a numeric result on a scale from zero (lowest) to ten (highest) with half-point steps to provide nuanced results.

EXECUTIVE RATING SUMMARY

Though the corporate governance (CG) structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the CG situation on the country level. Despite the fact that the country level is not a part of the rating itself, we believe that an overview can enable investors to enhance their CG perspective and evaluation in a more holistic approach.

Turkey, as a promising emerging market and a candidate for future EU accession, is well aware of structural changes and the need for an ongoing development and harmonization of its capital market legislation and has amended its legislation accordingly. Although, Turkey can be considered as a latecomer in CG development, it has tried to speed up the progress since the year 2000. The overall legal framework regulating public companies in Turkey is determined by the Turkish Commercial Code, the Capital Markets Law, the Decree-law, Capital Markets Board (CMB) regulations, and *Istanbul Stock Exchange* (ISE) listing requirements. Focusing in particular on CG the CMB and the ISE can be observed as key players in promoting relevant regulations. They are supported by several other organisations such as the *Turkish Industrialists' and Businessmen's Association*, *Corporate Governance Association of Turkey*, *Corporate Governance & Sustainability Center* and the *Corporate Governance Forum of Turkey*. However, despite rapid process on the regulatory side to improve the legal and institutional framework, the necessary implementation on the companies' side remains dissatisfying. According to a survey on CG in Turkey, conducted by *The Institute of International Finance* in 2005, the country finds itself still at an early stage of implementing a strong equity culture.

In the following, general aspects of Turkish CG practice are outlined.

COUNTRY ROUNDUP

- Within Turkish companies stock ownership is concentrated, very often characterised by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings

- are quite common. Through these mechanisms Turkish families control a considerable amount of Turkish listed companies. Additionally one can also find shares containing multiple voting rights, thus preserving family control.
- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers appear to be rare, thus, weakening the market for corporate control. However, state ownership has declined significantly in line with massive privatization, but is still to be found in the energy, communication and mining industries. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few state-owned companies. The two types of equity securities in Turkey are bearer and registered shares, whereby most of the shares traded at ISE belong to the former one.
- Minority rights are granted to shareholders that own at least 5 % of the company's capital, providing them with the right to call an extraordinary General Meeting or bring in a shareholder proposal.
- In order to vote at a General Meeting, shareholders must either be present in person or can be represented by a proxy. Provisions do not contain postal or electronic voting possibilities as well as voting via a company representative, so called oriented proxy voting.
- Even though preemptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude preemptive rights in case of capital increases up to 100 % of their registered capital.
- Mandatory tender offer bid requirements exist according to different thresholds (e.g. increasing stake above 50 %)
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75%) are passed.

- With the beginning of 2008, listed companies have been urged to adopt IFRS accounting standards.
- Turkish companies have a single tier board structure.
- The CMB Principles outline rules that regulate the independence of board members, thereby also indicating that the board should be composed of at least 2 independent members and/or to at least one third.

VESTEL'S PERFORMANCE OVERVIEW

Vestel's overall rating result of 85.87 indicates a good level of compliance with the established rating criteria with respect to the CMB principles. Transferred to the numeric rating scale, the company's result equals an 8.58 conveying that the company has very good CG structures and performance and shows clear efforts to implement existing regulations and to follow best practice standards as suggested by the CMB. However, the result also signals that there still remains some room to add momentum to the compliance with the CMB principles.

At the 2005 Annual General Meeting (AGM) it was agreed to revise Vestel's Articles of Association (AoA) according to the CMB principles. The matters concerned by the amendment were, among others, the company's capital, object and scope; the board's independence; the creation of a board's secretariat and committees (Audit Committee and CG and Appointments Committee); and the introduction of rules related to the AGM. The Articles of Association (3rd and 34th) were updated again in 2010 to accurately reflect the company's vision statement and for general house-keeping matters.

Vestel has made significant efforts regarding the establishment of an information policy, leading to broadly enhanced disclosure practices. In addition to a CG statement, the company discloses the mandatory CG Compliance Report as part of its annual report. In addition, Vestel also established a Corporate Governance and Appointments Committee. In 2007, Vestel improved its website, introduced a performance-based compensation model for its employees and implemented several actions to

strengthen its internal audit systems. Considering these developments one can see Vestel is proactively pursuing good corporate governance practices.

In addition, Vestel continues to enhance the Corporate Governance section of the website. This enables investors to see updates to their governance structures in a timely manner. Minutes of the AGM, for example are posted regularly after the meeting has occurred.

Reflecting the single results of the four main components of the rating, Vestel performs well in all of them, and continues to though show particular strength in its stakeholder relations.

SHAREHOLDERS

With respect to shareholder issues, Vestel closely follows the good practices outlined by the CMB principles. A dividend policy is in place and voting rights are defined sufficiently. Following the conversion of registered to bearer shares which was decided in the AGM of 2006, the company now only has bearer shares.

An Investor Relations Unit is in place in order to maintain continuous communications with shareholders. One of its main responsibilities is the corporate investor relations' website. The company is also in the process of updating its website, as well as continuing improvements to formalizing its internal control and risk management systems. The web-site is scheduled to be updated later this year.

As Vestel is controlled by a majority shareholder with a family background, this shareholder structure could potentially be viewed as being detrimental to the interests of minority shareholders. The company has not implemented cumulative voting procedures yet, and shareholders are not able to appoint external auditors on their behalf. Moreover, preemptive rights can be excluded by the board in case of an increase of capital, according to the AoA. This is, however, a rather common practice in Turkey in connection with planned Secondary Public Offerings (SPO). Furthermore, the company believes that the rights of minority shareholders are guaranteed through the independent directors on the board.

The AGM follows principles ensuring fair and equitable treatment of shareholders. The invitation to the AGM was uploaded to the landing page of the corporate website and announced in two official newspapers four weeks prior to the meeting. Other documents related to the AGM e.g. a summary of the voting results and attendance rate (minutes) are also made available to shareholders in a timely manner

PUBLIC DISCLOSURE AND TRANSPARENCY

A new information policy has been approved by the Board and published on the corporate website. The Company also has a corporate website for investors with a CG section. The English site is also easy to navigate and updated accordingly. Relevant information related to past AGM's and agenda items is stored and easily accessible in the corporate governance section on the Company's website.

The company continues to enhance its level of transparency. Its adherence to its code of ethics and the insider trading list (with the people having potential access to confidential information) and the measures to avoid insider trading are publicly disclosed. Disclosure from the external auditor again reveals that it does not offer consulting services and that it is subject to regular rotation. Both conditions work to ensure independence.

STAKEHOLDERS

Stakeholders' issues are duly considered and respected by Vestel and continue to be corporate governance strength. While most CMB suggestions are followed, some minor deficiencies are identified and examined within the rating report.

The company takes actions to address stakeholders' issues through its Investor Relations Department and the corporate website. The company is very active and responsive on all of these fronts.

Although stakeholders' opinions are taken into account in the management of Vestel, a comprehensive model to ensure this interaction is not in place. The ethical rules applicable provide the essential rules that govern the relationships between the company and its different stakeholders. This dynamic continues to be evaluated by the company.

Vestel has a Human Resources policy and has introduced a performance based compensation model. This process has continued in 2010.

BOARD OF DIRECTORS

The board of Vestel consists of seven members, comprising two executive and five non-executive members, of which two are independent. However, this is not in compliance with the guideline that one-third of directors qualify as independent according to a strict interpretation of the CMB Principles. In order to support the work of the board, two committees have been established: the Corporate Governance and Appointments Committee and the Audit Committee. Both committees are comprised of non-executive directors and are headed by an independent board member. The age limit for the members of the board is 75.

The board can be considered as actively involved in the company's development and performance and contributes to a material extent in setting up the vision and mission of the company.

Every board member is entitled to one vote without any privileges. Our assessment did not reveal issues that would question a good working atmosphere during board meetings. The company provides basic rules for the procedures for running the meetings in article 16 of the AoA. The dates of the board meetings are set at the beginning of the year and the meeting calendar is sent to all board members. The remuneration structure of board members does not follow all CMB recommendations on the subject. For instance, attendance or committee fees are not part of the remuneration structure.

A secretariat was established to support the work of board members and ensure proper communication. This effort is facilitated by the Investor Relations.

The Executive Committee, which is in charge of the day-to-day management of the company, is composed of eight members, of which two are board members. A monthly report of the work performed by the executives as recommended by the CMB is produced. Compensation, however, remains to be an area for improvement

FINAL REMARKS

Investors are able to evaluate the corporate governance practices of Vestel according to their individual preferences. On the whole, the established structures and mechanisms can be considered in line with the CMB principles. Continuing the implementation of these principles at country level and considering international best practice will further enhance CG practices at Vestel and lower potential risk factors for investors. As structural changes in the capital market of Turkey proceed and economic development remains benign, one can assume that Turkey will become increasingly attractive to foreign investors. However, existing holding structures and majority shareholdings could be seen as a threat to minority shareholders, discouraging investment.

Thus, an extension of the free float paired with an amplified engagement by domestic and international shareholders, can be considered favorable, especially by foreign investors, in counterbalancing the fact that the majority shareholder is a holding company owned by the executive chairman.

COMPANY OVERVIEW

Vestel (full name: “Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi”) was originally founded under the name “Ferguson Elektronik Sanayi ve Ticaret Anonim Şirketi” in 1983. An initial public offering of part of the company’s shares was conducted in 1990, which was followed by an additional public offering in 2000. Today, the company’s free float amounts to approximately 22.46% while 74.81% are held by Collar Holding BV which is fully owned by Mr. Ahmet Nazif Zorlu, who thereby is able to exercise full control over Vestel. In April 2006, the CMB carried a resolution assuring that all shares from a group traded on the Stock Exchange are converted into the same type. Following this regulation, Vestel decided at the AGM of 2006 on the conversion of all registered shares into bearer shares.

In addition to the production of televisions, Vestel’s original core business, the company expanded into the production of white goods and digital devices. The Vestel Group of Companies is a leading provider in the Turkish and global markets. In 2009, the Company reported total revenues of U.S. \$3.1 bn. The Television Segment, which represents the major business area of the company, constituted approximately 60% of the Company’s consolidated revenues while White Goods sales constituted approximately 35%.

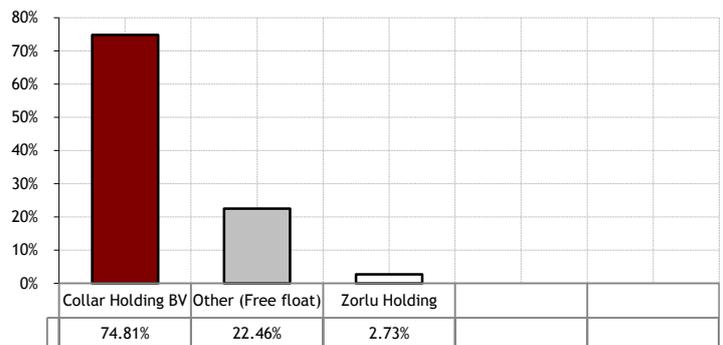
Furthermore, in line with rapid growth attained in recent years, Vestel remains one of the top worldwide producers of appliances. As an international company Vestel generates about three-fourths of its revenues in foreign markets. It has been among Turkey’s top export champions for several years and exports to 100 countries around the world.

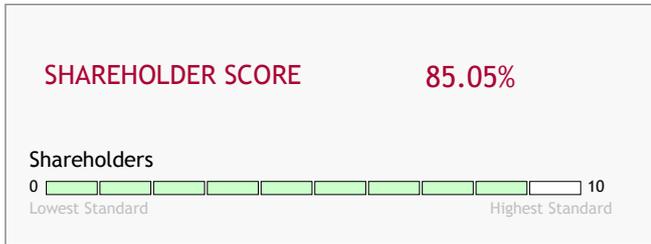
The company received financial ratings from Fitch, Standard and Poors (S&P) and Moody’s, whereby Fitch attributed a “B stable“, S&P a “B- stable ” and Moody’s a “B3- negative” respectively.

Table 1: Stock performance

	YTL
08.02.2011	2.54
52 Week High*	2.76
52 Week Low*	2.04
*One year / (Source: Bloomberg 08.02.2011)	

Table 2: Shareholder Structure of VESTEL





SECTION 1 - SHAREHOLDERS

the existing shareholders to acquire new shares (exclusion of preemptive rights). This feature continues to be in place today.

It should also be noted that at the Corporate Governance Association of Turkey (TKYD) honored Vestel for being one of the first companies to receive a corporate governance rating and for receiving one of the highest increases in its rating at the first annual International Governance Award Ceremony earlier this year.

1 Summary

Vestel continues to attain a good result of 8.5 in this category, in line with the overall rating score.

A clear dividend policy is in place and voting rights are well defined. Each share is subject to the one share - one vote - one dividend principle. However, in case of a capital increase, the board can restrict the rights of the existing shareholders to acquire new shares (exclusion of preemptive rights). This feature continues to be in place today.

An Investor Relations Unit has been established to enable shareholders to exercise their rights and obtain relevant information. The Investor Relations' website is easily accessible from the company's main website and includes information concerning the company's corporate governance structure, financials, and pertinent news.

Minority rights are clearly defined. However, the right to request an external auditor is still not granted and cumulative voting does not apply.

The AGM's invitation, agenda and note including the proxy voting form is uploaded to the main page of the corporate website and announced in two leading newspapers 4 weeks prior to the meeting. A summary of the voting results and attendance rate (minutes) was uploaded on the company website. The AGM is run in a fair and efficient manner and shareholders are allowed to exercise their statutory rights. The website is in the process of being updated and is scheduled to be launched in the first half of 2011.

A clear dividend policy is in place and voting rights are well defined. Each share is subject to the one share - one vote - one dividend principle. However, in case of a capital increase, the board can restrict the rights of

1.1 Rights of Shareholders

GOVERNANCE FOCUS
+ Established dividend policy
+ Clearly defined voting rights
+ Proxy voting
+ No preferred stocks
+ Respect of one share - one vote - one dividend principle
+ Minority rights apply to shareholders owning at least 5 % of equity capital
± Information provided to shareholders
- No cumulative voting procedures
- Shareholders are not able to appoint an external auditor

1.1.1 Dividend and Voting Rights

A dividend policy is established and accessible through the company's public documents and through the website, in English and Turkish. A consistent distribution policy is stated in the Articles of Association (AoA): the distributable net profit is distributed in four successive steps: first legal reserve of 5% must be set aside, first dividend set at a rate and amount determined by the CMB, second dividend or extraordinary reserve determined by the AGM, and secondary reserve of one tenth of the remaining amount. The dividend distribution policy can also be found separately on the company's website.

None of the company's shares incorporate special rights concerning the distribution of the company's profits. Each share is entitled to an equal dividend.

In the last AGM in May 2010, it was decided that dividends would not be distributed to shareholders.

The most important aspects of the dividend policy are made available throughout the company's public documents, available on the website. This information should appear also in the prospectus and circulars, but this section cannot be found on the website.

Voting rights are well defined in the company's AoA, ensuring equal and clear voting procedures. The exercise of voting rights can be delegated to a proxy whether or not the person is shareholder.

According to the AoA, voting is exercised by show of hands, though closed ballots are mandatory if requested by 5% of shareholders represented at the AGM. There are no ceilings on the number of votes a shareholder might exercise during the meeting.

As the company has not issued any preferred stock, each share is entitled to the one share - one vote - one dividend principle without any further privileges. The right to vote is automatically granted when the share is purchased, and no arrangements should be installed that would hinder this right or cause a delay in exercising voting rights, following the share acquisition. In the case of a capital increase, the board can decide to exclude preemptive rights, according to article 6 of the AoA. This is, however, a common practice in Turkey in connection with SPOs.

Shareholders are enabled to exercise their proxy voting rights, through either another shareholder or a non-shareholder. Postal or electronic voting procedures are not yet permitted by law in Turkey. In order to comply with the CMB guidelines, Vestel makes the electronic proxy form available on its website. Agencies like Reuters or Bloomberg serve as the main communication channel with international investors in order to inform them of the AGM notices. When exercising their votes international shareholders mostly use local intermediaries as proxies.

There are no provisions installed or included in the AoA that may impede the free transfer of shares by shareholders.

According to our analysis, we identified no provisions hindering the equitable treatment of shareholders.

As it is common standard in Turkish listed companies, an official representative of the Ministry of Industry and Trade attends AGMs to oversee legal aspects. The AoA state that no decision taken at an AGM is valid when the commissioner is absent. And in case of prior awareness of contentious issues an additional observer of the CMB would be present.

1.1.2 Shareholders' Right to Obtain and Evaluate Information

Information is provided to shareholders and Vestel has made a strong effort to comply with the CG guidelines, and this remains the case today. Some essential pieces of information are only disclosed during the meeting itself, like the names and details of the candidates to be elected to the board. Although the CMB principles do not provide any time-lines for the disclosure of such information, international investors would appreciate timely disclosure to adequately execute cross-border votes.

Shareholders are still not permitted by the AoA to appoint an external auditor on their behalf, as suggested by the CMB principles. The Company's Compliance Report clearly explains the reasons for non compliance with regard to the appointment of a special auditor and it is true that it is an optional provision under the code. The possibility of appointing an external auditor if there are well founded grounds on which to do so, is indeed considered a progressive corporate governance practice.

On the other hand, the company fulfills some important criteria that help to effectively provide information to shareholders.

The AoA, for example, contain provisions to disclose minimum information about board candidates to the shareholders, as well as the possibility to open the AGM

to other stakeholders. In practice, however, and as previously mentioned, detailed information on candidates for board election was only provided shortly before or at the AGM.

The company has an active Investor Relations Unit that enables shareholders to exercise their rights, ease access to information for shareholders, to keep shareholders updated, and to oversee the company's information policy. This unit is also responsible for the website and is closely related to the Corporate Governance and Appointments Committee (CGAC). The head of the unit communicates directly with the CFO, the CTO and the head of the CGAC and attends the committee's meetings. The Investor Relations Department is lead by Figen Cevik

1.1.3 Minority Rights

Minority rights, as stipulated by the AoA, are granted to shareholders owning (collectively) at least 5% of the equity capital. Those rights include raising a request to call an extraordinary meeting or requesting special agenda items. According to the Turkish Commercial Code, both aspects are up to the discretion of the board of directors, though shareholders can appeal to the court to decide on the AGM to convene.

Cumulative voting procedures are not permitted by the company, in the belief that the effect of cumulative voting on the board is achievable by the presence of independent directors on the board.

1.2 General Meeting

GOVERNANCE FOCUS
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Sufficient information disclosure on candidates
+ Board remuneration is determined by the General Meeting
- Information on candidates provided at the AGM

1.2.1 Invitation

The announcement of the place and date of the AGM is announced on the company's website and through two national newspapers four weeks prior to the meeting. In 2010, the AGM notice and agenda items were posted one month in advance of the AGM. An additional document containing supplementary information on the agenda items is submitted to shareholders three weeks in advance to the meeting. The agenda is prepared in a solid manner, clearly indicating each agenda item.

Nevertheless, there is still room for improvement: only abbreviated information is provided in all the AGM documents; some relevant information is provided to shareholders on the day of the meeting (e.g. the details of the candidates to the board). Access to timely information on the AGM is of critical importance for institutional investors. Vestel has progressively improved both the timeliness and completeness of the information regarding the AGM.

The company provides additional information, e.g. the annual report and financial statements which are accessible three weeks prior to the meeting at the company headquarters. Considering the administrative proceedings, voting procedures are set up in a clear and understandable manner and proxy forms are available in written and electronic form.

Since the 2006 AGM, all shares are bearer shares. Holders of shares or its proxies have to receive an admission card ahead of the AGM. Therefore shareholders must apply to the company's headquarters at least seven days prior to the meeting in order to receive the entrance pass. Without an admission card shareholders may not attend the AGM. This procedure is still valid. The Central Registry Agency keeps a shareholder record and Vestel requests this record before the AGM. Once the entrance ticket has been received, the shares are blocked and thus cannot be traded until after the AGM. The Articles of Association does contain provisions regarding the adoption by the general meeting of decisions such as the sale, acquisition or lease of a substantial amount of assets, and such decisions are subject to authorization of the General Directorate and the Board of Directors.

1.2.2 Functioning

Vestel held its AGM on the 26th of May 2010, not in the three months following the end of its financial year.

However, it is common practice in Turkey that companies have their AGM's between April and June.

The agenda, invitation and the annual report and financial statements were made available to shareholders prior to the meeting, at the headquarters and on the website well in advance of the AGM. The minutes were also uploaded after the meeting. A booklet at the entrance of the AGM room documents the information of all the participants and their corresponding number of votes.

Since Vestel is headquartered in Istanbul, this was the location of the AGM in 2010. The AGM was held on May 26th, 2010 at Zorlu Plaza 34380 Avclar - Istanbul. This location is considered as easily accessible to shareholders.

Following our examination, Vestel's AGMs continue to be held in an appropriate way, apparently led in an unbiased manner by the chairman and overseen by an official representative of the Ministry of Industry and Trade (in his absence no decision can be taken, according to the AoA), and thereby ensuring that all shareholders are able to exercise their statutory rights.

The AGM functions as a forum to discuss the company's annual report and financial results. The appointed audit company is held responsible to present the latter to the auditorium. The chairman reads a summary of the annual report at the beginning of the AGM. This is followed by a discussion of the questions raised by shareholders.

It is our understanding that, the chairman of the meeting seems to ensure the equitable participation among shareholders and seems to lead the meeting in a fair and efficient manner, where each agenda item is voted upon separately and where there are no special privileges enjoyed by any shareholders.

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. The reason for the absence of board members at the AGM is stated by the chairman of the meeting, as is recommended by the CMB principles. At the AGM in 2010, however, five of the seven directors were present at the meeting. According to the annual report all questions coming from shareholders were responded to in detail.

Shareholders are allowed to intervene with no limit on their speaking -time. In line with local shareholder practices, these possibilities are only used within limits. The votes are counted one by one and the global result (accepted or not) is announced at the meeting.

The AoA enable the AGM (with a majority of three-fourth) to allow board members to be engaged in business with the company or competition against the company. Once again in 2010, no board member made use of this authorization and was involved in business or competitive activities with the company.

Candidates to be elected to the board of directors are obliged to disclose a wide range of information covering nearly all aspects put forward by the CMB principles. These requests, which are also included in the company's AoA, and comprise for example, their level of education, previous board membership and experience, financial status, as well as independence considerations. All of this information was provided to the shareholders at the meeting. The specific right of shareholders to ask questions to the candidates is not mentioned, but according to information obtained from the company, such rights are provided.

Remuneration of the board members is subject to the AGM and is determined by the shareholders that are given the opportunity to express their views and suggestions in relation to any agenda item.

Deviating from the CMB guidelines, the AoA do not contain a provision that requires the approval at the AGM of issues such as buying, selling or leasing company's assets. The company states, however, it requires this flexibility in order to be able to make deals quickly and to avoid missing good opportunities.

1.2.3 After the General Meeting

As a follow-up to the meeting, minutes are made available for the examination of shareholders at the company's own headquarters and at those of Vestel Holding. This information is also disclosed on the company's website summarizing and reflecting the meeting in a short but clear manner. Information pertaining to the last eight annual meetings of

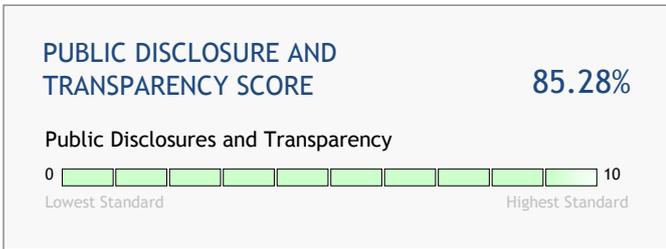
shareholders is stored on the company's website is easily accessible.

Also, the Investor Relations Department was very active once again in 2010 meeting with investors and responding to shareholder questions. Altogether, this department participated in three conferences and one road show. It also engaged in fifty one-on-one meetings, seventy five inquiries by e-mail and over one hundred inquiries via telephone. The venues in which it participated are listed below:

- Unicredit Menkul Değerler "Investor Conference" London September 2010
- EFG Istanbul Securities "Investor Conference" Bodrum 27-28 May 2010
- ING Securities "Investor Conference" Antalya 29-30 April 2010
- BGC Partners Road-Show London March 2010

In compliance with the CMB guidelines, in cases where questions are raised by shareholders that cannot be answered immediately, the Investor Relations Unit is responsible to answer them within one week of the meeting.

SECTION 2 - PUBLIC DISCLOSURE AND TRANSPARENCY



2 Summary

Vestel scores 8.52 in this category, in line with the overall rating result. This reflects a good flow of information between the company and investors and an acceptable level of transparency.

A specific website for investors with a CG section is easily accessible. The company's most recent annual report is detailed in terms of form and content. It contains a corporate governance section that explains the company's rationale for opting-out of key governance provisions, such as cumulative voting and the appointment of a special auditor.

A Public Disclosure Policy (PDP) document contains Vestel's information policy, and the Investor Relations Unit is responsible for its implementation. It is also easily accessible on the company's website.

Vestel also discloses a Code of Ethics and a comprehensive Insider Trading document. These documents are updated on a periodic basis and are form a major part of new employee orientation and on-going training programs. This document covers all pertinent areas governing model employee behavior.

This code also ensures that all of the company's reports and financial information is reported in a timely and accurate manner. Additional safeguards governing the behavior towards clients, employees and corporate governance principles are also formalized in this document.

2.1 Disclosure Means

GOVERNANCE FOCUS
+ Website in Turkish and English version
+ Website contains and archives information disclosed to the public
+ Website provides valuable information for investors, including documents for download
+ Board members and members of the Audit committee signed the annual report

2.1.1 Website

Vestel has created a dedicated website for Investor Relations. This website is very robust and contains a separate section for corporate governance that is continually updated in a timely fashion. It also contains a detailed Frequently Asked Questions section that provides investors with easy access to financial documents, ratings, information demanded by the CMB principles; it has reached a good level. The company has shown significant efforts in enhancing the presentation and received an award for it in 2007 from the US based Interactive Media Council. For foreign investors an English version of the website is available. The content is structured in a sound manner, where investors find relevant documents (e.g. annual reports, articles of association, and audit reports) available for download. A new version of the site is scheduled to be released later in 2011.

In current form, it contains much of the information suggested by the CMB principles, e.g. information about the shareholder structure and the management, the articles of association or annual reports, financial statements, or the news translated into English. There is a dedicated corporate governance section that includes information on shareholder rights, the organizational structure of Vestel, and a CG compliance report.

However, some information is still not provided, e.g. the prospectuses and circulars and minutes of the board meetings is still missing.

In reference to the AGM the website contains relevant and updated information for shareholders. This

includes the agenda, informative documents, the minutes and the list of participants. This area has shown continuous improvement and is a consistent and valuable resource for investors.

2.1.2 Annual Report

Overall, the annual report continues to be prepared in a reasonable way according to the content provided and information relevant to investors. It continues to build upon previous improvements from previous years.

The annual report includes the board’s signature in order to explicitly indicate that the financial statements truly reflect the current financial status as well as that the company acts in accordance with the related legislation. The audit report was signed by the external auditors and accepted by the board on April 6th 2010.

There is a dedicated section regarding corporate social responsibility in the annual report. It outlines a thorough and concrete plan regarding employees’ social rights and the environment. It also highlights reductions and advances the company has made in areas such as energy consumption, sustainability and waste management.

The opinions of rating agencies on the company are also provided in the annual report. A web section called ‘Bond & Rating Information’ shows the recent reports of those rating agencies. The company’s website also keeps investors apprised about the company’s rating in a timely manner.

There is a risk management mechanism in place and a detailed explanation of the different types of risks encompassed (liquidity, currency, credit, etc). The company is still in the process of formalizing its risk management control system.

While the annual report provides basic elements, there is still room for improvement to cover more items, as outlined by the CMB principles. Issues that could be added include: information on the remuneration of executives, a statement referring to how the company prevents conflicts of interest between the company and related companies offering investment, consulting and auditing services, as well as future forecasts. Vestel does not demand individual independence

statements of its independent board members. In order to fully comply with the CMB guidelines, Vestel may consider issuing individual independence statements by each single independent board member and provide more detailed information on remuneration to board members.

2.2 Disclosure Procedures

GOVERNANCE FOCUS
+ Disclosure policy is established and covers material disclosure aspects
+ Disclosure proceedings are clearly defined and assigned to high level personnel
+ Forward looking information is handled reasonably
+ Ethical rules are disclosed
+ Audit company is subject to regular rotation and does not provide any consulting services
+ The company takes measures to prevent insider trading and discloses a list of insiders
- No unilateral declaration of the board stating that all disclosure principles are duly kept

2.2.1 Information Policy

The information policy, as set forth in a Public Disclosure Policy document, has been updated by Vestel in 2010. It has been disclosed to the public and is permanently accessible through the company’s website. The disclosure policy aims at providing shareholders, stakeholders and the public at large with timely, complete, clear, and accurate information in line with the CMB regulations and with CG principles. To underscore its relevance, the BoD introduces, develops and monitors the public disclosure policy, while the Investor Relations Unit is responsible for its implementation and follow-up.

The disclosure policy covers scope, forms, frequency and methods of disclosure, informs about the company’s authorized persons regarding public disclosure (chairman and members of the executive board), and outlines how the company deals with investors, among others. Vestel may make public

statements concerning its forward looking statements. This information must be associated with the company's financial results, and must be made by authorized persons.

The company stated its adherence to the following principles: all amendments of the disclosure policy should be publicly announced and put on the corporate website within 24 hours; and special circumstances are prepared by the Investor Relations Unit and sent to the ISE and published simultaneously on the corporate website.

2.2.2 Public Disclosure

After reviewing the public disclosure of Vestel, no issues could be found, that would harm investors' interests. The responsibility for public disclosure is clearly defined and is assigned to the chairman and the executive committee members. Additionally, the established committees (Corporate Governance and Appointments Committee and Audit Committee) are closely involved in public disclosure issues. Two executives are currently responsible for public disclosures, with the authority to sign official documents: Mr. Cem Köksal, CFO, and Mr. Cem Kadirgan, executive as stated on the company's Corporate Governance Principles Compliance Report.

An Investor Relations Unit is well established and familiar with the responsibility for publicly disclosing all information about the company. The unit, managed by Figen Cevik, is in close collaboration with Cem Köksal (Executive Board Member), and Alp Dayı (CFO), that attend most investor meetings and provide detailed information regarding the company's operations.

Within the scope of its public disclosure the company publicly announces its dividend policy. Financial statements are disclosed in line with legislation and international accounting standards. As current legislation does not allow companies to grant shares to employees as a means of incentive compensation, the company does not provide disclosure on this aspect. However, legislation is expected to change and the company is considering whether to review its policy taking into account the new conditions.

Vestel's shares are traded on the Istanbul Stock Exchange in Turkey and also OTC in London. The annual report states that all of the company's special circumstance announcements made at stock exchanges outside the country are simultaneously made in Turkey as well. Similarly, special circumstance announcements made to the ISE and CMB are simultaneously made to the appropriate stock exchanges abroad.

When announcing forward looking information to the market the company states that it will act carefully and reasonably, providing underlying statistical data and avoiding exaggerated or misleading information. Forward-looking statements need the approval of the Board of Directors and prior notification to the Investor Relations Unit. Due to the nature of forward looking information and the implied uncertainty, the company reviews its given predictions and assumptions and will disclose revised information about the company's projections together with the reasons for the changes. As mentioned before, the principles applicable to forward looking information are included in the disclosure policy of the company.

2.3 Transparency Issues

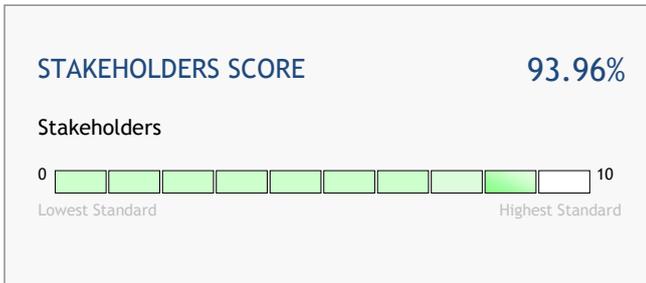
Transparency issues cover ethical behavior, insider trading rules and the functions of the external audit.

To ensure a high degree of transparency Vestel discloses its ethical rules to the public. In addition to its PDP document, Vestel also issued a Code of Ethics to provide further guidance for its business activities.

In order to prevent insider trading Vestel tries to enforce necessary measures and precautions. It has published a two-page Insider trading document that provides some information on the matter like definitions, implementation, the internal control unit responsibilities, and penalties for violators.

Since the appointed audit company (currently Grant Thornton International) does not provide any consulting services, it can be considered as independent from having other business interests that may impede the objectivity of the auditing services. As the audit company should be subject to regular rotation, the AoA states that Vestel may work with the same independent auditor for no more than five years.

SECTION 3 - STAKEHOLDERS



GOVERNANCE FOCUS
+ Companywide human resources policy
+ Employee rights are warranted
+ Code of Ethics governing the company-wide relationships
+ Performance-based compensation model
± No integral model to include shareholders in the management, but some actions in place

3 Summary

Vestel reaches an excellent result of 9.39 in this category, outperforming the overall rating score.

Even if stakeholders do not take part in the management of the company, there are mechanisms that address stakeholders issues e.g. an Investor Relations Unit, a robust corporate website, periodical meetings with both customers and suppliers and the participation of employees in BoD meetings. Accordingly, independent directors are diligent in safeguarding the rights of minority investors.

A Code of Ethics provides the essential rules to be applied in the relationships between the company and its stakeholders, namely the employees, the customers, the environment and the community. However, compensation in case of violation of rights is only foreseen for customers and there are no concrete measures in place to avoid conflicts of interest.

Noteworthy issues include the existence of a Customer Communications Center and the award of an ISO environmental certificates that serve as examples of the efforts made by Vestel.

A Human Resources policy is in place and a performance based compensation model for employees was introduced in 2007. There is also a Corporate Social Responsibility section on to the annual report outlining Vestel's social and environmental actions.

3.1 Participation in Management

Stakeholders do not take part in the management. However, in order to take into account the stakeholders' opinions in the management of the company, as recommended by the CMB principles, some actions are in place, like for instance: stakeholders are continuously informed through the Investor Relations Unit and the corporate website; and there are periodical meetings with customers and suppliers. To date, no specific measures have been set up to ensure an integral model to include stakeholders in the Company's management.

According to the Corporate Governance Compliance report, attention is given to having employees take part in Board of Directors meetings at regular intervals in order to have first-hand access to their opinions, as suggested by the CMB principles.

3.2 Company Policy

3.2.1 Rights and Duties of Stakeholders

Vestel recognizes the rights of employees and customers explicitly in the Code of Ethics and in the Social Responsibility chapter in the annual report, and the rights of other stakeholder groups in the Corporate and Social Responsibility section in the AR. A copy of the Code of Ethics can also be found on the company's website.

However, the company only foresees compensation in case of violation of the rights of the customers but not of other stakeholders.

There is a declaration of intentions on the recognition of the right of all its stakeholders to have equal, complete, timely, and fast access to information about the company, and some specific information provided on stakeholders' rights can be found in the above aforementioned section.

Vestel manifests its intention to avoid conflicts of interest, but does not establish concrete measures in order to do so and does neither explain how potential disputes between the company and the stakeholders are dealt with.

3.2.2 Relation with Customers and Suppliers

Vestel takes a great effort to ensure customer satisfaction. As a proof of this, the company has regular meetings with its customers and suppliers concerning the marketing and sale of its goods and services. Additionally, a Customer Communications Center is in place to deal with customers' problems. Special attention is paid to quality control and the company is working towards the implementation of a Total Quality Management system.

Compensation is provided to customers for any losses or damages they may suffer on account of the company's products and services.

3.3 Employees and Social Responsibility

The Human Resources Unit is responsible for the conduct and development of the human resources policy.

The company ensures that equal opportunities are provided to people with similar qualifications. While, according to the company,

Human Resources policy in Zorlu is based on the rule "equal opportunity" which denies race, language, religion, sex, age discrimination. In recruitments for Zorlu Group, discrimination is strictly disallowed.

Individual performance rating in Zorlu Holding is realized one time in a year. In order to prevent the usage of data regarding cultural, ethnical background and sex of the employees a performance rating system was adopted in the Group Level. In this system in order to avoid subjective evaluation, rating of at least two managers is a must.

The company expresses its belief of having a duty to be mindful of all stakeholders who may be affected by its

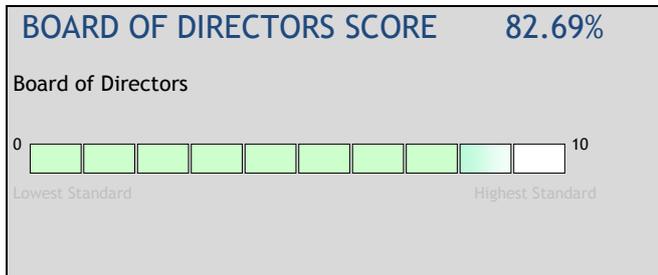
activities, products, and services and to protect the environment and nature for the good of future generations. The CSR section continues on the AR provides concrete measurable data and actions. When evaluating new projects the company considers using less polluting materials; reducing waste and recycling; or conducting activities that raise environmental awareness. Vestel was awarded for its efforts in this respect with the TS-EN ISO 9001 and the TS-EN ISO 14001 Environmental Management System Certificate in 1998. This certificate is renewed every year, according to the company. In addition, the The Zorlu Group is a signatory of the U.N. Global Compact Initiative.

With respect to performance based compensation, a model was introduced in 2007. It foresees employees' evaluations at least yearly in line with specific performance criteria. The details of this model are proprietary and not disclosed.

The company has prepared a succinct Code of Ethics and disclosed it to the public. This code contains the essential rules that govern the company-wide relationships with its stakeholders: customers, personnel, corporate governance principles, the sector and competitors, conflicts of interest, social responsibility and the environment. All new employees are subject to these rules and it is an integral part of the company's training program.

The company provides information on its social responsibility activities within its annual report as well as on its website. In addition, Vestel states that it makes contributions in the areas of education, sports and culture. Information on the concrete actions carried out can be found in the CSR section of the AR. The Mehmet Zorlu Foundation manages Vestel's charitable and social efforts. It continued to be very active in these areas in 2010.

SECTION 4 - BOARD OF DIRECTORS



Summary

Vestel continues to score 8.26 in this category and continues to show upward momentum.

Vestel's articles include a provision that states that the board can consist of a minimum of three and a maximum of eleven directors. Currently, there are seven members in the BoD, two executives (ED) and five non-executives (NED), of whom two are independent. The structure of the board remains the same as in 2010. The board structure does not strictly comply with the one-third proportion of independent directors recommended by the CMB principles, but has independent chairs on both respective committees. The AoA describes clearly the duties of the board members. And board members declare their compliance with corporate governance principles. An official and public disclosed declaration confirming the careful preparation of financial statements is not provided by the board, but a declaration of the board accepting the AR has been added to the AR. Accordingly, financials are approved and signed by the board.

The suggested separation of the chairman and CEO positions is respected. However, the company is controlled by Ahmet Zorlu who owns over 74.81% of the shares and has appointed two members of the BoD.

Each board member has one vote without any privileges. Attendance at board meetings is encouraged by Vestel with a rule that imposes resignation on members who do not attend three consecutive meetings.

The remuneration policy could be further improved in order to comply with the CMB principles: there is no performance-based incentive scheme and no different model for ED and NED disclosed.

GOVERNANCE FOCUS

- + The board plays an active role in the company's strategic planning
- + Each board member is entitled to one vote
- + A secretariat has been established to support the board
- + The majority of the board is composed of NEDs
- Authority and responsibility of each board member is not disclosed
- Priority should be given to the use of cumulative voting in the election of the board members.

Two committees have been set up to support the work of the board: Audit Committee and CG and Appointments Committee (CGAC). They are both headed by independent directors and their respective charters outline their composition and duties in a brief but clear manner.

There are risk management and internal control systems in place. The internal unit of the Zorlu Group checks Vestel's internal control system. A risk management and internal control section has been included in the website.

An Executive Committee is responsible of the day-to-day running of the company. It consists of eight members, two of whom are board members.

BOARD OF DIRECTORS

4.11 Principles of Activity, Duties, and Responsibilities of the Board of Directors

According to the undertaken examination, the board of directors fulfills its duties with diligence and meets its responsibilities to a high degree. This continues to be the case in 2010. For example, the board should also be praised for its high attendance rate of directors at board meetings (94%).

As stated in the AoA, the board defines the mission and vision statements and is thereby leading the company. According to the annual report, once a year the Board of Directors (BoD) convenes to conduct an annual review and assessment of the degree to which the company has accomplished its objectives and activities in light of previous performance. It takes an active role in this respect and this is evident in the company's annual report.

There are, however, no measures in place to encourage employees to work for the company over a long period of time and no specific mention either to the role of the board in settling disputes between the company and the shareholders. However, the company revealed that these disputes are still discussed at board meetings.

A good interaction is achieved between the BoD, the CG and Appointments Committee (CGAC) and the Investor Relations Unit. Regular meetings between the aforementioned parties continue to take place. The mechanism in place provides that the CGAC interacts with the Investor Relations Unit on the one side and with the BoD on the other. In addition to that, the director of the Investor Relations Unit attends the CGAC's meetings.

According to the company, the flow of information has improved. Information is provided to directors upon request. Moreover, managers may be invited to take part in meetings of the board to explain matters that are on the agenda so that board members become better informed about specific issues.

Overall, the AoA contain clear rules describing the activities and duties of board members. Board members in theory have no restrictions before accepting outside duties. Nevertheless, as suggested by the CMB principles the AoA provide guidance to the issue of board members engaging in business or competitive activities with the company. Accordingly, such activities have to be approved by three-fourths of the company's shareholders at the AGM. The annual report states that no board member engaged in any business or competed with the company in 2010. The holding of outside positions by board members is not a serious concern in Turkey, as long as they can dedicate 10-15 days a year to the monthly board meetings.

According to the company, Vestel does apply a recommendation put forward by the CMB principles, envisioning that before board members start their work, they are to declare compliance with all necessary internal and external regulations. This can be found on the first page of the company's Corporate Governance Compliance Report.

An official and publicly disclosed declaration confirming the careful preparation of financial statements is not provided by the board, but a declaration of the board accepting the AR has been added to the AR.

Turkish Law foresees the joint liability of the board. In accordance with this, the AoA states that the BoD should perform and carry out its duties in accordance with the provisions of the Capital Markets Law, Turkish Commercial Law and the AoA.

There are no sanctions foreseen for employees that obstruct the flow of information to board members, apart from the ones foreseen in Turkish Labour Law. Vestel may consider including those in internal regulations or in the AoA.

4.12 Structure

The board of Vestel is composed of seven members of whom two are executive (ED) and five are non-executive (NED) directors. The age limit is 75. Board

members are elected for a period of maximum three years, with re-election possible at the end of term.

The suggested separation of the chairman of the board and the CEO is followed, but there are several family members on the board: the chairman, Ahmet Nazif Zorlu, Olgun Zorlu, and Emre Zorlu. The chairman of the board fully owns Collar Holding BV, which holds 74.81% of Vestel’s shares. This underscores the strong family ownership common in Turkey.

The board is, however, comprised of two independent members out of seven. Vestel is close in compliance on this front with the suggested proportion of one-third. As the CMB guidelines anticipate moving up to the next higher number of independent directors if a clear mathematical proportion of one third cannot be reached. Moreover, the CG statement declares that the directors have to comply with the criteria put forward by the CMB guidelines and according to article 12 of the AoA, the qualifications of independent board members shall comply with the conditions of independence set forth in the CMB principles. To qualify as an independent board member, in line with the CMB, the candidate has to fulfil the following criteria: e.g. no direct or indirect relations to the company in terms of employment, capital or commerce with the company within the last two years, no employment with an audit or a consulting company that offered their services to the company, and no compensation besides the compensation for board membership. This last criteria regarding remuneration, for instance, is not mentioned when analysing two independent directors, Yilmaz Argüden and Ekrem Pakdemirli. Notwithstanding article 18 of the AoA states, that the compensation of independent board members shall be at levels that will not have an effect on their independence.

In order to fully comply with the CMB guidelines, Vestel may consider issuing individual independence statements by each single independent board member, and providing more detailed information on remuneration to board members.

Table 3: Board Structure

Name	ED / NED	Independence
Mr. Ahmet Nazif Zorlu (Chairman)	NED	No
Mr. Ekrem Pakdemirli	NED	Yes
Mr. Emre Zorlu	NED	No
Mr. Ömer Yüngül	ED	No
Mr. Enis Turan Erdogan	ED	No
Mr. Olgun Zorlu	NED	No
Mr. Yilmaz Argüden	NED	Yes

Appointed board members at Vestel seem to be highly qualified and show a high level of knowledge and experience, reflected in long-lasting career backgrounds. Vestel’s board can draw on a wealth of expertise in the industry sector but also other areas as law, public sector, and business. The average age is close to 50, the oldest being 70 and the youngest 25. There are no women on the board. All have university studies except for the chairman.

The company takes into consideration the qualifications of its board members. The annual report states that to date there has been no need for a training or compliance program for company directors, but that if such a program does become necessary, it will be carried out by the CGAC. Since there has not been such a case yet, a clear evaluation of the adaptation program remains open.

In reference to the election of the board members Vestel does not permit cumulative voting.

4.13 Functioning

Executives have to attend meetings of the board whenever necessary and requested. In case of dissenting votes the dissenting board members have to disclose the reasons that will be recorded in the minutes. Each board member is entitled to one vote without any preferential voting or veto rights. There is no mention of the chairman having cast a vote.

All Board members must be present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB principles, related to important company’s operations such as the establishment of

committees, the dividend policy or the decrease or increase of capital.

In order to ensure adequate preparation, the agenda and relevant documentation are provided to board members one or two days in advance. These documents are delivered by mail, fax, and e-mail. A board secretariat has been established in order to prepare and assist the board meetings as well as to ensure convenient access to information for board members. According to information provided by the board members, the agenda is prepared by the CEO and sent to all board members so that they can propose changes to it.

Vestel shows special attention to the functioning of the BoD. For instance, the overall rate of attendance at board meetings was over 85% in 2010. To encourage attendance the following rule was added to the AoA: “A member of the board who does not take part in three consecutive meetings shall be deemed to have resigned his seat.”

The board of directors met 38 times in 2010, the overall attendance was 94%.

The board and majority decision quorum are both stated in the AoA: the board shall convene in the presence of at least one more than half the number of its membership, decisions shall be taken by a majority of the meeting's participants.

Board meetings appear to be conducted in an open manner. There is a clear definition of the duties of the board and its secretariat; and article 16 of the AoA provides basic rules about the procedures for administrating the meetings. In addition, board meetings are organized in the beginning of the year and the meeting calendar is sent to board members. Interviews suggest that occasionally decisions are taken rather independently and swiftly by the chairman without further discussion with the other board members e.g. the remuneration policy. This holds the benefit that decisions are usually taken quickly but not always with the necessary thoroughness.

4.14 Remuneration

No additional attendance or committee membership fees are paid; only a bonus for executives at the end of the year is foreseen. However, the compensation is discussed and determined by the AGM, in theory providing material power to the shareholders. According to the CG statement, the remuneration is commensurate with precedents in the sector.

Table 4: Board Compensation

POSITION	COMPENSATION (PER YEAR, IN YTL)
Chairman	70000
Vice-Chairman	70000
Member	70000

Vestel does not offer performance based incentive schemes, as proposed by the CMB principles. While the CMB Principles do not indicate a difference between ED and NED in terms of remuneration, one should keep in mind that international best practice suggests that performance based incentive schemes should be granted to ED only.

In line with performance-based incentives the CMB principles also recommend accountability of the board members according to the company's level of success. Within this scope the board should declare possible deviations in the results within the annual report, conduct a self-assessment and a performance evaluation. Each year the CGAC assesses the members of the BoD to determine whether or not they have fulfilled their duties and responsibilities.

To avoid conflicts of interest Vestel strictly adheres to the principle not to grant loans in any way to board members or executives. This restriction is still in place in 2010.

4.2 Board Committees

GOVERNANCE FOCUS
+ Two committees have been established
+ Experts are elected to the committees
+ Audit Committee oversees external audit appointment and audit execution
+ Corporate Governance and Appointments Committee deals with Corporate Governance issues proactively
+ Committees head by independent directors

4.21 In General

The board of Vestel has established two board committees to support its work and ensure an effective and efficient work flow. There is an Audit Committee (AC) and a Corporate Governance Committee (CGC).

According to the CMB Law, each committee should be composed of at least two members. The Audit Committee and Corporate Governance Committees both have two members, respectively.

The CGC does not fulfill the CMB suggestion to be composed of a majority of NEDs. The company may wish to consider increasing the size of this committee in the future.

Table 5: Committee Overview

COMMITTEE	NO. OF MEMBERS	INDEPENDENT CHAIRMAN*	NO. OF NED
Audit	2	YES	2
Corporate Governance	2	YES	2
*according to the status "Independent Board Member"			

4.22 AUDIT COMMITTEE

The Audit Committee oversees the financial and operational activities of the company. In doing so the committee should be supported by the board and be enabled to access all necessary information. In support of this, there is a committee charter on the company's website that is easily accessible through an embedded link.

It is the task of the AC to ensure that all internal and external audit activities are carried out adequately and transparently. It advises the board in appointing the external audit company and attends the appointing

process. This includes, amongst others, a statement on the independence of the audit company. According to Vestel's CG statement, the AC scrutinizes the effectiveness and adequacy of the internal control system and the risk management system. It is also responsible for ensuring that measures are taken such that internal controls are transparent. Furthermore, the AC is responsible for the company's financial disclosure. Internally, the AC is also responsible for evaluating the audit system. According to the Company, and in accordance with CMB guidelines, the Audit Committee is tasked with responding to complaints and suggestions put forward by any member of the company.

The external audit firm is invited to the meetings of evaluation of the financial statements if the committee members consider that its presence could help clarify issues.

Table 6: Audit Committee Composition

Name	Board Member	NED	Independence
Mr. Ekrem Pakdemirli	Yes	Yes	Yes
Mr. Mehmet Emre Zorlu	Yes	Yes	No

A CG committee was created in 2006, with the aim of monitoring the company's compliance with CG principles. It met 3 times in 2010.

Table 7: Corporate Governance Committee Composition

Name	Board Member	NED	Independence
Mr. Yilmaz Argüden	Yes	Yes	Yes
Mr. Olgun Zorlu	Yes	Yes	No

Core responsibilities of the committee during are: to determine the compliance with CG principles, to develop recommendations on the appointments, structure and effectiveness of the BoD, and to work towards the adoption of a regulation on conflicts of interest.

The charter of the CGC is available in Turkish and English, and an abbreviated version be found on the website.

4.3 Internal Control and Risk Management

Vestel’s BoD has defined and implemented a risk management mechanism and an internal control system. The former defines and assesses existing and potential risks. For instance a detailed examination of Vestel’s main risks coming from the financial instruments is provided in the annual report (liquidity, foreign, credit and currency risks). The latter incorporates all financial, operational and compliance controls, and provides an assessment of risk at regular intervals. Vestel employs the SAP system to manage its activities and operations, which allows the board to evaluate the effectiveness of the internal control system continuously. The internal audit unit of the Zorlu Group periodically checks the Company’s internal control system from the standpoint of financial and legal compliance and its reports go directly to the Audit Committee. This unit is composed of 8 qualified auditors, of whom two work exclusively for Vestel, and is in charge of the internal audit of all Zorlu Holding companies.

The CG statement examines the working processes of both mechanisms (risk management and internal control system) and explains the different steps involved.

Financial risks (i.e. currency, interest rate) are monitored and managed by the Treasury Department of the company. Operational risks are dutifully managed and monitored by the Internal Audit Department of the Group.

Further, it is a duty of the board to oversee whether or not the company complies with the relevant legislation, AoA, in-house regulations and policies. Our analysis did not reveal any instance that the board would fail to fulfill this duty in an adequate manner. The company’s website also features a section related to risk management and internal control. In 2007, several actions were implemented in order to strengthen Vestel’s internal control system. For instance, a partner from the independent audit company was invited to AC meetings; the internal audit department was reorganized and the Internal Audit charter was modified.

Executives

GOVERNANCE FOCUS
+ Reporting to the Board of Directors
+ Operational monthly report prepared by the executives
- No distinction between ED and NED in the definition of responsibilities or the compensation
- Not liable for company’s losses caused by a violation of their duties

The day-to-day running of the company is assigned to the Executive Committee, consisting of seven senior executives and the two executive members of the board.

The Executive Committee is mentioned in the CG statement and its composition is described in the annual report. Its duties are not stated in Vestel’s public documents. The annual report states that the authorities and responsibilities of the company’s directors are spelled out in the AoA and published on the website. These duties are clearly spelled out in the AoA. No distinctions, however, are made between ED and NED in terms of responsibilities or compensation.

Correspondence with the company revealed that The Financial Analysis and Reporting Department in collaboration with the Marketing and Manufacturing prepare a monthly report on operational on the operational and financial performance of the Group. This report, in turn, is presented to the board on a monthly basis

Table 9: Composition of the Executive Committee

Name	Position / Function	Board Member
Mr. Ömer Yüngül	Chairman/CEO	Yes
Mr. Enis Turan Erdogan	Member/Global trade and OEM sales	Yes
Mr. Izzet Güvenir	Member/ White goods	No
Mr. Cengiz Ultav	Member/ Strategic planning and technology	No
Mr. Cem Köksal	Member/ Finance	No
Mr. Ihsaner Alkim	Member/ Electronics R&D	No
Mr. Necmi Kavusturan	Member/ Human Resources	No
Mr. Ozer Ekmekçiler	Member/ Vestel electronics, Vestelkom, Vestel Digital, Vestel Russia	No

4 Appendix

SHAREHOLDER STRUCTURE

Table: Shareholders of Vestel

Shareholder	Nominal value (TRY)	% shareholding interest
Collar Holding BV	250,952,128	74.81%
Zorlu Holding	9,148,547	2.73%
Other Free Float	144,746,879	22.46%

SOURCE: COMPANY WEBSITE

BOARD OVERVIEW

Table 10: Board of Directors

Name	Age	First Appointment	Position	Executive / Non-Executive Director	Independence	Member of Executive Committee	CGAC	AC
Mr. Ahmet Nazif Zorlu	66	1994	Chairman	NED	No			
Mr. Ekrem Pakdemirli	71		Deputy Chairman	NED	Yes			X
Mr. Mehmet Emre Zorlu	26		Member	NED	No			x
Mr. Ömer Yüngül	55		Member	ED	No	X		
Mr. Enis Turan Erdogan	55		Member	ED	No	X		
Mr. Yılmaz Argüden	52	2005	Member	NED	Yes		X	
Mr. Olgun Zorlu	45	1998	Member	NED	No		x	

Source: Annual report 2011

CGAC=Corporate Governance & Appointments Committee / AC=Audit Committee