

# Corporate Governance Principles Compliance Report

## 1. Statement of Compliance With Corporate Governance Principles

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

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

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

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

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

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

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

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

## PART I: SHAREHOLDERS

### 2. INVESTOR RELATIONS UNIT

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

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

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

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

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

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

### 4. INFORMATION ON GENERAL MEETINGS

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

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

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

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

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

## 5. VOTING RIGHTS AND MINORITY RIGHTS

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

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

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

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

## 6. DIVIDEND RIGHTS

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

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

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

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

### 7. TRANSFER OF SHARES

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

## PART II: PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. DISCLOSURE POLICY

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

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

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

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

### 9. THE CORPORATE WEBSITE AND ITS CONTENTS

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

## 10. ANNUAL REPORT

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

## PART III: STAKEHOLDERS

### 11. KEEPING STAKEHOLDERS INFORMED

- Stakeholders are continuously informed in accordance with the Company's Public Disclosure Policy.
- Employees and management take part in periodic meetings held to keep employees actively informed about the Company. Attention is given to ensure two-way communication with information flowing upward to management from employees as well as downward from management to employees. The Company adheres to an "open door policy" to keep channels of communication open between management and personnel. In addition, employees are also kept continuously informed by means of the corporate intranet.
- Periodic meetings are held with customers and suppliers and all customers and suppliers are kept informed about Company-related issues that may be of concern to them. The Company regularly organizes meetings for its dealers in order to measure customer satisfaction. When deemed necessary, additional one-on-one and group meetings are also held.
- Stakeholders can report any Company transactions that may violate applicable law or ethical rules to the Corporate Governance Committee or Audit Committee by accessing the Investor Relations Unit via telephone and/or e-mail.

### 12. STAKEHOLDER PARTICIPATION IN MANAGEMENT

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

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

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

### 13. HUMAN RESOURCES POLICY

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

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

### 14. CODE OF ETHICS AND SOCIAL RESPONSIBILITY

- Vestel Elektronik San. ve Tic. A.Ş.’s Code of Ethics has been set down in writing and published on the corporate website within the framework of the Public Disclosure Policy. Utmost care is taken to ensure that the Code of Ethics which is formulated for Company, the Board Members, and the employees is complied with in full.
- Vestel Elektronik undertakes social efforts in the form of contributions to services in education, sports and culture offered by Zorlu Holding, and as direct initiatives taken on by the Company under its social responsibility principle. Zorlu Group, of which Vestel Elektronik is a member, took a major step in bringing a global social responsibility dimension to the principles and values espoused since its foundation, by signing the United Nations Global Compact in 2007. Since signatory companies to the compact commit themselves to issuing annual progress reports outlining their activities and gains in this scope, in 2012 Vestel Elektronik published its progress report for the year 2011 on the website [unglobalcompact.org](http://unglobalcompact.org) via Zorlu Holding.
- In support of responsible and ethical business practices, the Company is a Class B member of SEDEX (Supplier Data Ethical Exchange), and a registered supplier with the BSCI (Business Social Compliance Initiative). In addition to the SEDEX and BSCI social responsibility audits, the Company also undergoes periodic FWC (Fair Working Conditions) and ICS (Initiative Clause Sociale) audits by independent audit firms.
- Assuming the responsibilities of being a global player in consumer electronics, Vestel Elektronik San. ve Tic. A.Ş. carries out environmental impact reviews of all its operations, production lines, and products. Vestel believes that it has a duty to be acutely aware of the health and safety of employees, customers, and the general public who may be affected by its activities, products, and services and to protect the environment and nature for the good of future generations. Vestel demonstrated its commitment to this area by obtaining TS-EN ISO 14001 Environmental Management System Certification in 1998. The Company has pledged itself to continuously improve its performance on environmental issues, prevent pollution, strictly obey all environment-related laws, regulations, and administrative provisions, and allocate sufficient and proper resources in its efforts to:
  - Take environmental factors into account when evaluating new product projects and operations;
  - Reduce the use of harmful materials in its product design and production processes and to investigate the use of materials that are less polluting;

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

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

Under the Environmental Management System, the Company manages energy consumption and related processes in tandem with the total productive maintenance (TPM) model, corporate business plans and the key performance indicators methodology. Senior executives regularly monitor and duly assess the relevant performance results. The Company has assigned an energy officer and energy management representative to ensure that the Energy Management System is operated efficiently. Our factory passed all the required audits in 2012 and obtained TS EN 50001 Energy Management System Certification.

The main energy improvement projects completed include the following:

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

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

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

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

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



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

## PART IV: THE BOARD OF DIRECTORS

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

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

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

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

#### **Ali Akın Tari - Vice Chairman**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 16. WORKING PRINCIPLES OF THE BOARD OF DIRECTORS

- Agendas for Board of Directors meetings are determined in line with the requests of the Chairman and Board Members. Requests coming from Company management are also influential in setting meeting agendas.
- Article 16 of the Company's Articles of Association sets out that Board meetings will be held as and when deemed necessary, and at least once a month. In order to increase attendance at meetings, the meeting dates were determined at the beginning of the year and the Board Members were notified. As a result, Board Members were given the opportunity to shape their schedules according to the meeting dates. As another measure to increase attendance at meetings, the following article was added to the Articles of Association: "The Board membership of a Board Member who fails to participate in three consecutive meetings without the Board's permission is deemed to be null and void."
- The Board adopted a total of 89 resolutions during the year; of these, 54 resolutions were adopted unanimously and the remaining 35 by majority.
- Invitations to the meetings are made by postal mail, fax, and e-mail. In line with Corporate Governance Principles, a secretariat has been set up within the Company that is responsible to the Board of Directors. This secretariat notifies Board Members of meetings at least a week (seven days) in advance of the meeting date, and provides them with the agenda and documents related to the matters on the agenda.

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

- Upon a resolution of Vestel Elektronik San. ve Tic. A.Ş.'s Board of Directors dated October 17, 2012 and numbered 2012/65, the significance threshold requiring the approval of the Board of Directors in common and continuous asset, service and liability transfers between our Company and its related parties was set as 0.5% of the total assets or 0.5% of the net sales in the last 12 months shown in the latest financial statements disclosed to the public as per CMB regulations. Accordingly, transactions exceeding this threshold were approved by the Board.

- In the accounting period ending on December 31, 2012, there were no related party transactions outside the scope of the Board of Directors resolution dated October 17, 2012 and numbered 2012/65, and/or significant transactions within the scope of Corporate Governance Principles Article 1.3.10.

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

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

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

### Audit Committee

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

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

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

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

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

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

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

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

## Corporate Governance Committee

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

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

## Early Detection of Risk Committee

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

### 18. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

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

### 19. THE COMPANY'S STRATEGIC TARGETS

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

## 20. FINANCIAL BENEFITS

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