



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

RATING REPORT ON
VESTEL ELEKTRONIK A.S.



RATING RELEASE DATE
24 February 2012



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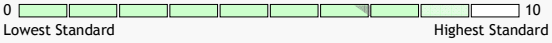
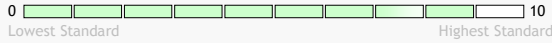
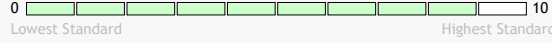
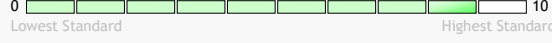
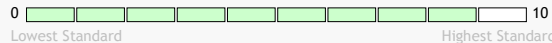
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ISS 
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RATING SUMMARY

COMPANY INFORMATION		ICS RATING RESULTS	
 Vestel Ambarlı Petrol Ofisi Dolun Tesisleri Yolu, Zorlu Plaza 34840 Avcılar-Istanbul TURKEY www.vestel.com.tr	CHAIRMAN Mr. Ahmet Nazif Zorlu CEO Mr. Ömer Yüngül EXECUTIVE COMMITTEE MEMBER RESPONSIBLE FOR FINANCE Mr. Cem Köksal HEAD CORPORATE GOVERNANCE COMMITTEE Mr. Yılmaz Argüden	OVERALL SCORE 88.32% 0  10 Lowest Standard Highest Standard	
CORPORATE FINANCE & INVESTOR RELATIONS Ms. Figen Cevik Phone: +90 212 422 01 07 Fax: +90 212 422 01 06 E- Mail: figen.cevik@vestel.com.tr		RESULTS BY CATEGORY Shareholders 0  10 Lowest Standard Highest Standard Public Disclosures and Transparency 0  10 Lowest Standard Highest Standard Stakeholders 0  10 Lowest Standard Highest Standard Board of Directors 0  10 Lowest Standard Highest Standard	

SUMMARY

ISS Corporate Services (hereafter, ICS) assigns a rating score of 8.83 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 since its last rating. These changes include, but are not limited to; an enhanced risk management structure, strengthened insider trading and information policy, updated articles of association, an improved investor relations website, and an extended FAQ section on the website. The degree of compliance with the underlying CMB principles of 8.83 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 Rating Report is based on information provided to ICS prior to December 2006, February 2008, 2009, 2010, 2011, and 2012 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* (the 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. A more recent amendment on 30th of December 2011 was made by the CMB to the CG Principles. All new recommendations must be incorporated into the companies' articles of association by 30 June 2012. In light of the aforementioned changes to the CG Principles, ICS will be updating its rating methodology under the supervision of the CMB in due course.

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 on the one side and particular domestic considerations on the other side.

The CMB Principles are divided into four main sections: (i) Shareholders; (ii) Public Disclosure and Transparency; (iii) Stakeholders; and (iv) 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

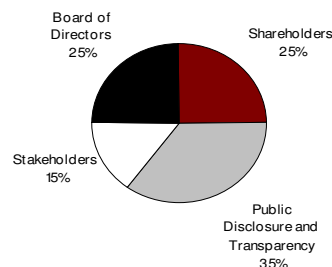
Based upon the CMB Principles, we identified more than 350 criteria to be included into the rating. Each

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 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 structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the corporate governance landscape 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 perspective and evaluation of corporate governance 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 to corporate governance, 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 new Turkish Commercial Code (which takes effect on 1 July 2012), the Capital Markets Law, the Decree-law, Capital Markets Board (CMB) regulations, and *Istanbul Stock Exchange* (ISE) listing requirements. Focusing in particular on corporate governance, 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 corporate governance 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.
- 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.
- Even though pre-emptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude pre-emptive 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.

- Listed companies have adopted IFRS accounting standards.
- Turkish companies have a single tier board structure.
- The current 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 8.83 indicates a good level of compliance with the established rating criteria with respect to the CMB principles. 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 Corporate Governance Committee); and the introduction of rules related to the AGM. The company's AoA (Articles 3 and 12) were once again updated at the 2011 AGM.

In addition, upon engagement, Vestel provided ICS with the provisional article amendments it envisions to make in order to comply with the new CG Principles which take effect on 30 June 2012. As these article amendments have yet to be approved by Vestel's shareholders, ICS will not disclose the details but could confirm that the provisional amendments will further improve Vestel's corporate governance structures and practices.

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 Committee.

Vestel has continuously improved its website since 2007 with most recently improving its FAQ section of the website for investors to get fast access to information on corporate governance practices and financial reports, 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 CG 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 on the day 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 show particular strength in its stakeholder relations.

SHAREHOLDERS

With respect to shareholder issues, Vestel closely follows the recommendations outlined by the CMB. Most importantly, the company adheres to the "one share, one vote" principle given the absence of preferred shares. Following the conversion of registered to bearer shares which was decided in the AGM of 2006, the company now has only bearer shares. A dividend policy is in place and well communicated.

Vestel has an Investor Relations Unit which continuously maintains communications with its shareholders. Some of its responsibilities include the maintenance of the corporate investor relations' website and Corporate Finance, the latter providing an additional advantage to investors as they are well versed on the company's activities.

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 neither implemented cumulative voting procedures nor does there appear to be an intention to do so in the near future. To this end, Vestel is of the view that the representation to be provided by cumulative

voting on the board is achieved by the presence of independent members on the board. Other areas that Vestel deviates from global best practice are the absence of a provision in its AoA that grants individuals the right to request the appointment of a special auditor (however, such right has been enshrined in Turkish law), and that pre-emptive rights can be excluded by the board in case of an increase. With respect to the latter, we note that this is a rather common practice in Turkey in connection with planned Secondary Public Offerings (SPO).

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 three weeks prior to the meeting. Other documents related to the AGM e.g. a summary of the voting results and attendance rate (known as the "Minutes of the AGM") are also made available to shareholders in a timely manner.

PUBLIC DISCLOSURE AND TRANSPARENCY

Vestel has an information policy, which has been approved by the Board, published on its 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 disclosed. Disclosure from the external auditor again reveals that it does not offer consulting services and that it is subject to regular rotation.

STAKEHOLDERS

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

although stakeholders' opinions are taken into account in the management of Vestel, a comprehensive model to ensure this interaction has not been well documented and disclosed publicly.

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

Vestel has a Human Resources policy which ensures that no discrimination takes place within in its workforce. In addition, the company offers its employees a performance-based compensation model and continued education benefits.

BOARD OF DIRECTORS

The board of Vestel consists of eight members, comprising two executive and six non-executive members, of which two are independent. However, this is not in compliance with the current CMB 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 board committees have been established: the Corporate Governance 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 Unit. According to Vestel's AoA, the documents and information on the agenda items are delivered to the board members at least seven days before the meeting. In addition, the board members are entitled to request information from Vestel's management through the secretariat at any time.

The Executive Committee, which is in charge of the day-to-day management of the company, is composed of six 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 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, approximately 75% of the company’s issued share capital is owned 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. For the year ended 30 December 2010, Vestel reported total revenues from continuing operations of TL 5.3 bn (USD 3.5 bn). The Television Segment, which represents the major business area of the company, constituted approximately 64% of Vestel’s consolidated revenues while White Goods sales constituted approximately 34%.

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 more than 100 countries around the world.

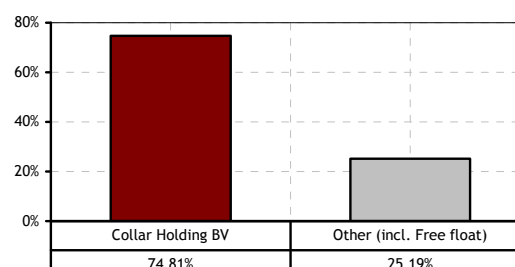
The company received financial ratings from Fitch, Standard and Poors (S&P) and Moody’s, whereby Fitch attributed a “B stable“, S&P a “B- positive” and Moody’s a “B3 positive” respectively.

Table 1: Stock performance

	TL
8 February 2012	2.13
52 Week High	2.17
52 Week Low	1.79

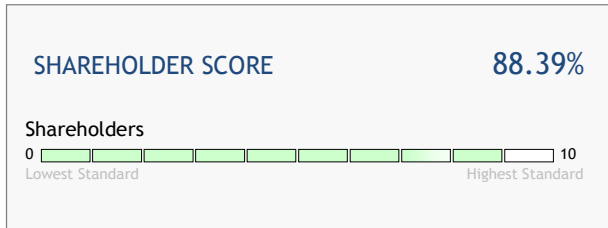
Source: Company website 8 February 2012

Table 2: Shareholder Structure of VESTEL



Source: Company website 8 February 2012

SECTION 1 - SHAREHOLDERS



Summary

Vestel continues to attain a good result of 8.83 in this category, with an increased score since our last review.

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 pre-emptive 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. Another good feature of the Investor Relations' website is the fact that foreign investors could access it in English.

Minority rights are clearly defined. However, the right to request a special auditor is still not granted under Vestel's Articles of Association (AoA) and cumulative voting still 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 3 weeks prior to the meeting. A summary of the voting results and attendance rate (the Minutes of the AGM) is uploaded on the company website on the same day of the AGM. The AGM is run in a fair and efficient manner and shareholders are allowed to exercise their statutory rights. Although not included in

the company's AoA, Vestel does permit stakeholders and media to attend general meetings if asked beforehand.

Although no dividend was paid during the past financial year, Vestel maintains a clear dividend policy. Vestel's dividend policy suggests that a dividend minimum at the rate of 25% of the distributable net income shall be distributed to shareholders. The amount of dividends to be distributed will also depend on national and global economic conditions and the company's growth plan.

Vestel's 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 pre-emptive 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 in early 2011.

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
- No cumulative voting procedures
- Shareholders are not able to appoint a special auditor pursuant to the AoA

1.1.1 Dividend and Voting Rights

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

A dividend policy is established and accessible through the company's public documents and through the website, in English and Turkish. This information should appear also in the prospectus and circulars, but this section cannot be found on the website.

A consistent distribution policy is stated in the 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.

At the last AGM in May 211, it was decided that no dividends be distributed to shareholders. Although profits had been made for the 2010 financial year, no profit remained as a result of deductions of 2010 earnings from previous years' losses. Accordingly, it was unanimously decided by the board not to distribute profits in 2011.

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

In the case of a capital increase, the board can decide to exclude pre-emptive 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.

As it is common standard in listed Turkish 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 a commissioner is absent. Where it is the case of prior awareness of contentious issues, an additional observer of the CMB would be present.

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

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 Principles, 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. To this end, Vestel has confirmed that such information will be disclosed well in advance of the 2011 AGM given the new recommendations of the CMB.

Shareholders are still not permitted under the AoA to appoint a special auditor on their behalf, as suggested by the CMB Principles. The Company's Corporate Governance 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 CMB Principles. The possibility of appointing a special auditor if there are well founded grounds on which to do so, is indeed considered a progressive corporate governance practice and afforded under the revised Turkish Commercial Code (which will take effect on 1 July 2012).

On the other hand, the company fulfills some important criteria that help to effectively provide information to shareholders. The company's 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 is 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 Committee (CGC). The head of the Unit communicates directly with the CFO, the Executive Committee and the head of the CGC 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.

Mirroring market practice, Vestel does not permit cumulative voting procedures in the belief that the effect of cumulative voting on the board is achieved by the presence of independent directors on the board.

In line with minority rights, the ability to appoint a special auditor is considered crucial, though this is only a recommendation by the CMB principles. Vestel does not grant this right and notes that it has not received any requests in that sense during the reporting period.

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 well in advance of the general meeting. In 2011, the AGM notice and agenda items were posted more than a one month in advance of the AGM. An additional document containing supplementary information on the agenda items was submitted to shareholders at the same time as the notice. The agenda was prepared in a solid manner, clearly indicating each agenda item (including the proposed amendments to the AoA).

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.

1.2.2 Functioning

Vestel held its AGM on the 26th of May 2011, 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 right 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 2011. The AGM was held on the 26th of May 2011 at Zorlu Plaza, 34380 Avcılar - Istanbul. This location is considered as easily accessible to shareholders.

Following our examination, Vestel's AGMs continue to be held in an appropriate way, 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 and the company's financial performance at the beginning of the AGM. This is followed by a discussion of the questions raised by shareholders. According to Vestel, all questions coming from shareholders were responded to in detail.

It is our understanding that the chairman of the meeting ensures an equitable participation among shareholders and leads 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 2011, six of the seven directors were present.

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 2011, 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, comprise for example, their educational background, previous board membership(s) and experience, financial status, and 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.

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 promptly.

Remuneration of the board members is subject to shareholder approval at the AGM. Although no remuneration policy for board members is disclosed, we note that shareholders are given the opportunity to express their views and suggestions in relation to such topic at the AGM. In 2011, shareholders approved a gross annual fee totaling TL 77,000 to each director for their activities during the year; this represents an increase of 10% when compared to the previous financial year.

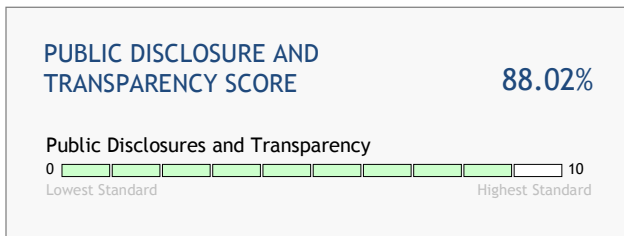
Deviating from the CMB guidelines, the AoA do not contain a provision that requires the approval at the AGM of issues such as buying, selling or leasing company's assets. The company states, however, it requires this flexibility in order to be able to make deals quickly and to avoid missing good opportunities. In addition, through engagement, the company states that such right is now provided under the new CMB Principles and the Turkish Commercial Code. As such, Vestel will be making an amendment to its AoA, amongst other things, to provide such right.

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 headquarters. This information is also disclosed on the company's website (both in English and in Turkish) summarizing and reflecting the meeting in a short but clear manner. Information pertaining to the last nine annual meetings of shareholders is stored on the company's website is easily accessible.

Also, the Investor Relations Unit was very active in meeting with investors and responding to shareholder questions. Altogether, this department participated in six conferences organized by brokerage houses. It also engaged in around one hundred meetings, more than one hundred inquiries by e-mail and over one hundred inquiries via telephone.

SECTION 2 - PUBLIC DISCLOSURE AND TRANSPARENCY



Summary

Vestel scores 8.80 in this category. This reflects a good flow of information between the company and its investors and an acceptable level of transparency.

A specific website for investors with a Corporate Governance (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. With respect to the latter, the Insider Trading document was updated in 2011 and made more robust. These documents are updated on a periodic basis and form a major part of new employee orientation and on-going training programs. With regard to the Code of Ethics, this document is a set of essential rules that have been formulated to govern the company-wide relationships, the relationships between the company and its employees, and the relationships of all employees and the company with customers, suppliers, and other stakeholders; to achieve the most effective use of resources; and to prevent unfair completion.

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.

1.3 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

1.3.1 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. It also contains a detailed Frequently Asked Questions (FAQ) section that provides investors with easy access to financial documents, shareholder structure, and credit ratings.

The company has shown significant efforts in enhancing the presentation of the website 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 also available, which does not differ in content from the Turkish version. The content is structured in a sound manner, where investors find relevant documents suggested by the CMB for inclusion (e.g. annual reports, corporate news, corporate governance, and I.R. Calendar).

The dedicated corporate governance section of the website includes information on the ownership structure, board of directors, executive committee, and past/current general meetings of shareholders, Code of Ethics, Public Disclosure Policy, and a Corporate Governance Compliance Report. However, some information is still not provided, e.g. the

prospectuses and circulars and minutes of the board meetings.

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.

1.3.2 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 31st of March 2011.

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 'Ratings' 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, interest rate, foreign current, credit). The Zorlu Holding Internal Audit's risk-based internal audit approach has been brought to fruition and presented to senior management, which sanctioned the same, during 2010. The company states that its senior management is kept constantly informed on risk management and internal controls through a systematic audit methodology.

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 but are not limited to: 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. Specifically on the issue of future forecasts, Vestel states they do not provide such information for competition purposes. 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.

1.4 Disclosure Procedures

GOVERNANCE FOCUS
<ul style="list-style-type: none"> + Disclosure policy is established and covers material disclosure aspects + Disclosure proceedings are clearly defined and assigned to high level personnel + 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 - Future forecasts for sales, company's level of efficiency, company's market share, etc are not adequately disclosed - Precautionary measures that may be taken in order to prevent any possible conflicts of interest arising between the company and the related organizations which offer investment advice, investment analysis, and rating activity, etc are not disclosed

1.4.1 Information Policy

The information policy, as set forth in a Public Disclosure Policy document, was last 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 board of directors 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. 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.

1.4.2 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 Committee and Audit Committee) are closely involved in public disclosure issues. Three executives are currently responsible for public disclosures, with the authority to sign official documents: Mr. Cem Köksal (Executive Committee member responsible for Finance), Mr. Alp Dayı (CFO of Vestel), and Mrs. Özden Bozatlı (IFRS and Budgeting Manager of Vestel).

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 Çevik, is in close collaboration with Cem Köksal, Alp Dayı, and Özden Bozatlı.

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 GDRs are traded also Over-the-Counter (OTC) market in London. Announcements made to the ISE and CMB are simultaneously translated into English and put on Vestel's website.

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.

1.5 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.

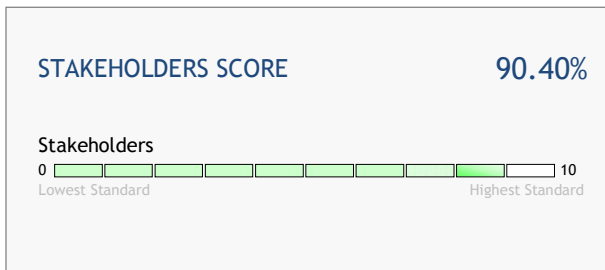
In order to prevent insider trading Vestel tries to enforce necessary measures and precautions. It has published an Insider trading document that provides information on the matter like definitions, implementation, the internal control unit responsibilities, and penalties for violators.

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 for the rotation of auditors, the company follows the CMB's Principles. The Communiqué, in principle, requires mandatory independent auditing firm rotation within a maximum period of seven years.

SECTION 3 - STAKEHOLDERS



Summary

Vestel reaches an excellent result of 9.04 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 board meetings. Accordingly, independent directors are diligent in safeguarding the rights of minority investors.

The company's 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 in the annual report outlining Vestel's social and environmental actions.

The company adheres to an "open door policy" to keep channels of communication open between management and personnel.

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

1.6 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, such as: 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 meetings at regular intervals in order to have first-hand access to their opinions, as suggested by the CMB principles.

1.7 Company Policy

1.7.1 Rights and Duties of Stakeholders

Vestel recognizes the rights of employees and customers explicitly in its Code of Ethics and in the Social Responsibility section of its annual report. A copy of the Code of Ethics can also be found on the company's website.

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 not explain how potential disputes between the company and the stakeholders are dealt with. In addition, the company only foresees compensation in case of violation of the rights of the customers but not of other stakeholders.

1.7.2 Relation with Customers and Suppliers

Vestel makes a great effort to ensure customer satisfaction. As a proof, 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.

1.8 Employees and Social Responsibility

The company has prepared a succinct Code of Ethics which is available for public scrutiny. This Code contains the essential rules that govern the company-wide relationships with its stakeholders. All new employees are subject to these rules and it is an integral part of the company's training program.

The Human Resources Unit is responsible for the conduct and development of the human resources policy. Vestel has a written code for its human resources, which includes provisions with respect to recruitment, promotion, and dismissal, the severance pay system, training, career planning and measurement of employees' performances.

The company ensures that equal opportunities are provided employees with similar qualifications. According to the company, the Human Resources policy in Zorlu is based on the rule "equal opportunity" which denies any sort of discrimination. In recruitments for Zorlu Group, discrimination is strictly disallowed. To this end, we note that there were no complaints from employees concerning discrimination.

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

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 considered proprietary by Vestel and have not been disclosed.

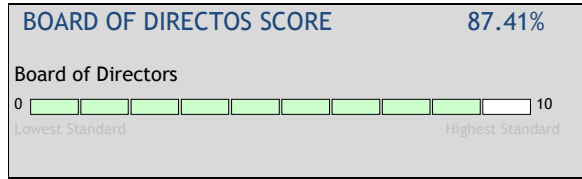
Staying on the subject of employees, notwithstanding other training programs within Vestel, the company launched the Vestel Technology Academy in September 2010 in cooperation with Özyeğin University to improve the technical knowledge of its engineers. Currently, 162 engineers participate in the program, 74 of whom also receive academic education.

With regard to Corporate Social Responsibility (CSR), 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 of the company's annual report provides a number of initiatives and progress updates. 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 Standard, TS-EN ISO 14001 Environmental Management System Certificate, and ISO 18001 Occupational Health and Safety Management System Certification. In addition, the Zorlu Group is a signatory of the U.N. Global Compact Initiative since 2007. Finally, we note that no lawsuits were lodged against the company in 2010 on account of environmental damage.

In addition, Vestel 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 annual report.

SECTION 4 - BOARD OF DIRECTORS



Summary

Vestel has significantly improved its score to 8.74 in this category when compared to last year and continues to show upward momentum.

Some of the positive steps the company has taken include the fact that non-executive board members conduct internal meetings from time to time. The company is encouraged to improve its disclosure to provide more insight to the way how the board operates. Another area where some progress has been noted is the fact that the board members take an active role in setting out career plans for company employees. Finally, although the presence of a formal adaptation program remains questionable, the company has informed us that the newly appointed board member, Cengiz Ultav, was informed about the board procedures.

Certain areas for improvement do remain, however. For example, any duty that the board member may accept outside the company is not subject to certain rules and limited. In addition, the AoA does not appear to contain a provision that would impose sanctions on employees that obstruct flow of information to the board. Specifically on this issue, the company relies on market and labour law.

Vestel's current AoA includes a provision that states that the board can consist of a minimum of three and a maximum of eleven directors. Currently, there are eight board members, two executives (ED) and six non-executives (NEDs), of whom two are designated as independent. The structure of the board remains relatively similar to that in 2010 with the exception that a further NED has been appointed at last year's AGM. Cengiz Ultav, who is considered to be non-

independent given his former role as Vestel's Executive Committee member responsible for strategic planning and technology, is Vestel's newest board member.

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
- Priority should be given to the use of cumulative voting in the election of the board members
- Board members are not restricted to accept other positions outside the company
- Remote access not provided for board members

An Executive Committee is responsible of the day-to-day running of the company. It consists of six members, two of whom are board members. Two board committees have been set up to support the work of the board: Audit Committee and the Corporate Governance Committee. Their respective charters outline their composition and duties in a brief but clear manner.

Vestel's current board structure does not strictly comply with CMB's recommendation that one-third of the board be comprised of independent directors. However, we do note that the two board committees (Corporate Governance and Audit Committees) are chaired by independent directors. The suggested separation of the chairman and CEO positions is respected. However, the company is controlled by Ahmet Zorlu who owns over three-fourths of the issued share capital. A further two Zorlu family members are present on the company's board.

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.

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.

BOARD OF DIRECTORS

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

Following a review, the board of directors appears to fulfill its duties with diligence and meets its responsibilities to a high degree. This continues to be the case in 2011. For example, the overall board attendance at board meetings remains high at 87%.

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 convenes to conduct an annual review and assessment of the degree to which the company accomplished its objectives and of its activities in light of previous years' performance. In the conduct of this review and assessment, the board debates the degree to which objectives have been accomplished, the effectiveness of the company's activities, past performance, and the company's strategies.

A board resolution requires that differences of opinions arising at board meetings and reasonable and detail justifications for dissenting votes be entered into the record; however, to date, there has never been an instance of this according to Vestel. The minutes taken by the board's secretariat also include any questions that members ask and the responses that are made to them.

A good interaction is achieved between the board, the Corporate Governance Committee, and the Investor Relations Unit. Regular meetings between the aforementioned parties continue to take place. The mechanism in place provides that the Corporate Governance Committee interacts with the Investor Relations Unit on the one side and with the main board on the other. In addition to that, the Head of the Investor Relations Unit attends the Corporate Governance Committee 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.

Although Vestel could improve on providing additional disclosure as to the activities and duties of board members, we consider on an overall basis that the AoA provides clear rules on this regard.

Board members in theory have no restrictions before accepting outside duties. Nevertheless, as suggested by the CMB principles, the AoA provides 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 sufficient time for board meetings.

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 financial statements has been added to the annual report.

Turkish Law foresees the joint liability of the board. In accordance with this, the AoA states that the board 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 eight members of whom two are executive (ED) and six are non-executive directors (NEDs). The age limit is 75. Pursuant to the current AoA, 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 approximately three-fourths of Vestel's issued share capital. This underscores the strong family ownership that is common in Turkey.

The board is, however, comprised of two independent members out of eight. Vestel falls short of complying with CMB's guidelines that one-third of a board be comprised of independent directors. To qualify as an independent board member, in line with the CMB, the candidate has to fulfil the following criteria: 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. The last criterion regarding remuneration, for instance, is not mentioned when analysing the independence of the two independent directors - Yilmaz Argüden and Ekrem Pakdemirli.

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 Zorlu (Chairman)	NED	No
Mr. Ekrem Pakdemirli	NED	Yes
Mr. Mehmet Emre Zorlu	NED	No
Mr. Ömer Yüngül	ED	No
Mr. Enis Turan Erdogan	ED	No
Mr. Olgun Zorlu	NED	No
Mr. Recep Yilmaz Argüden	NED	Yes
Mr. Cengiz Ultav	NED	No

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 approximately 56, the oldest being 73 and the youngest 28. 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 Corporate Governance Committee.

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.

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 a week 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 previously 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 pays special attention to the functioning of the board of directors. For instance, the overall rate of

attendance at board meetings was over 87% last year. To encourage attendance the following rule was added to the AoA: “The members failing to attend three (3) consecutive Board meetings for any reason and without excuse are regarded as resigned from their office.”

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.

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 at the AGM, in theory providing material power to the shareholders. According to the Corporate Governance Compliance Report, remuneration is commensurate with the practices of the peer companies in the sector.

Table 4: Board Compensation (per annum, in TL)

POSITION	2010	2009
Chairman	77,000	70,000
Vice-Chairman	77,000	70,000
Member	77,000	70,000

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 Corporate Governance Committee assesses the members of the board of directors 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.

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 Committee deals with corporate governance issues proactively
+ Committees head by independent directors

4.2.1 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 and a Corporate Governance Committee.

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

Table 5: Committee Overview

Committee	No. Of Members	Independent Chairman*	No. Of NEDs
Audit	2	Yes	2
Corporate Governance	2	Yes	2

* according to the status "independent Board member"

4.2.2 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 Audit Committee 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 Corporate Governance Compliance Report, the Audit Committee scrutinizes the effectiveness and adequacy of the internal control and the risk management systems. The Committee is also responsible for ensuring that measures are taken such that internal controls are transparent. Furthermore, the Committee is responsible for the company's financial disclosure. Internally, the Audit Committee 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 Corporate Governance Committee was created in 2005, with the aim of monitoring the company's compliance with corporate governance principles and best practices. The charter of the Corporate Governance Committee is available in Turkish and English, and an abbreviated version can be found on the website.

The core responsibilities of the Corporate Governance are to: (i) determine the compliance with CG Principles; (ii) develop recommendations on the appointments; (iii) structure and ensure effectiveness of the board of directors; and (iv) work towards the adoption of a regulation on conflicts of interest.

The Corporate Governance Committee 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

4.3 Internal Control and Risk Management

Vestel's board of directors 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. 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.

Vestel is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result both from its operating and investing activities. Vestel's risk management is coordinated at its headquarters, in close co-operation with the board, and focuses on actively securing the group's short to medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns. Vestel does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks, as mentioned above, are associated with liquidity, foreign currency, interest rate and credit.

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. 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 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 Audit Committee meetings; the internal audit department was reorganized and the Internal Audit charter was modified.

4.4 Executives

GOVERNANCE FOCUS
<ul style="list-style-type: none">+ Reporting to the Board of Directors+ Operational monthly report prepared by the executives- Remuneration policy for executives not clear- A formalized communication method does not appear to be in place between the CEO and other executives and third persons

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

The composition of the Executive Committee can be found in the company's latest annual report. The duties of the Executive Committee 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 EDs and NEDs 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 8: 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. 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

5 Appendix

SHAREHOLDER STRUCTURE

Shareholder	Nominal Value (TL)	% shareholding interest
Collar Holding BV	250,952,128	74.81%
Free Float	84,501,555	25.19%
Other	2,593	0.00%

SOURCE: COMPANY WEBSITE (9 FEBRUARY 2012)

BOARD OVERVIEW

Table 9: Board of Directors

Name	Age	First Appointment	Position	ED/NED	Independence	Member of Executive Committee	CGC	AC
Mr. Ahmet Nazif Zorlu	68	1994	Chairman	NED	No			
Mr. Ekrem Pakdemirli	73		Deputy Chairman	NED	Yes			X
Mr. Mehmet Emre Zorlu	28		Member	NED	No			x
Mr. Ömer Yüngül	57		Member	ED	No	X		
Mr. Enis Turan Erdogan	57		Member	ED	No	X		
Mr. Yilmaz Argüden	54	2005	Member	NED	Yes		X	
Mr. Olgun Zorlu	47	1998	Member	NED	No		x	
Mr. Cengiz Ultav	62	2011	Member	NED	No			

Source: Activity Report (1 January - 30 June 2011)
CGC=Corporate Governance Committee / AC=Audit Committee