



RiskMetrics Group

ISS CORPORATE GOVERNANCE RATING

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

26.02.2009

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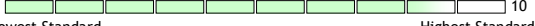
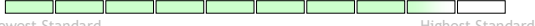



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RATING SUMMARY

COMPANY INFORMATION		ICS RATING RESULTS	
 <p>Vestel Ambarlı Petrol Ofisi Dolun Tesisleri Yolu, Zorlu Plaza 34840 Avcılar-Istanbul TURKEY www.vestel.com.tr</p>	<p>CHAIRMAN Mr. Ahmet Nazif Zorlu</p> <p>CEO Mr. Ömer Yüngül</p> <p>CFO Mr. Cem Köksal</p> <p>HEAD CORPORATE GOVERNANCE COMMITTEE Mr. Yılmaz Argüden</p>	<p>OVERALL SCORE 83.38%</p> <p>0  10 Lowest Standard Highest Standard</p>	
	<p>ICORPORATE 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</p>		<p>RESULTS BY CATEGORY</p> <p>Shareholders 0  10 Lowest Standard Highest Standard</p> <p>Public Disclosures and Transparency 0  10 Lowest Standard Highest Standard</p> <p>Stakeholders 0  10 Lowest Standard Highest Standard</p> <p>Board of Directors 0  10 Lowest Standard Highest Standard</p>

SUMMARY

ISS Corporate Services (hereafter, ICS) assigns a rating score of 8.5 to Vestel. This rating reflects the very good overall performance of the company regarding its current corporate governance structures as measured against the Principles of the Turkish Capital Markets Board (CMB). Despite the high compliance of around 83% with the underlying CMB principles, the rating also indicates that beside the good performance there is still room for improvement and further implementation of corporate governance mechanisms.

The rating report at hand represents the second rating update after Vestel had received a first rating released in 2007. Vestel then had been rated with a score of 7,5. In the first update, released in 2008, it received a score of 8.5. This score is confirmed now. Vestel has implemented a range of Corporate Governance friendly measures in the past years with broadly improved disclosure.

Vestel scores particularly well in its Stakeholders standards and slightly lower on its Board of Directors practices.

METHODOLOGY AT A GLANCE

ICS was appointed by Vestel in March 2006 to review its current corporate governance structures and workings in line with Corporate Governance Principles developed by the Turkish Capital Markets Board. ICS conducted

updates of its analysis and rating throughout February 2007 and 2008. The rating is based on public information. “One-on-one” interviews with board members and the head of the Investor Relations Unit expanded upon the disclosures.

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

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RATING METHODOLOGY

UNDERLYING REFERENCE

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

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

The CMB Principles are divided into four main sections:

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

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

THE RATING

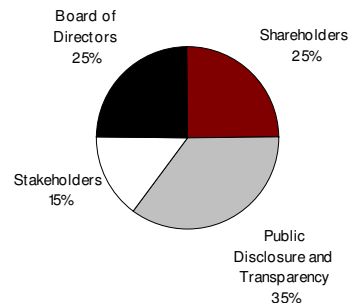
Based upon the CMB Principles, we identified more than 350 criteria to be included into the rating. Each single criterion has been examined thoroughly upon compliance by the company, on the basis of publicly available information. Additional information was

provided by the company upon request. "One-on-one" interviews with senior company representatives clarified and expanded upon the disclosures.

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

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

Weighting Scheme



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

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

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

EXECUTIVE RATING SUMMARY

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

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

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

COUNTRY ROUNDUP

- Within Turkish companies stock ownership is concentrated, very often characterised by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings are quite common. Through these mechanisms Turkish families control a considerable amount of

Turkish listed companies. Additionally one can also find shares containing multiple voting rights, thus preserving family control.

- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers appear to be rare, thus, weakening the market for corporate control. However, state ownership has declined significantly in line with massive privatization, but is still to be found in the energy, communication and mining industries. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few state-owned companies. The two types of equity securities in Turkey are bearer and registered shares, whereby most of the shares traded at ISE belong to the former one.
- Minority rights are granted to shareholders that own at least 5 % of the company's capital, providing them with the right to call an extraordinary General Meeting or bring in a shareholder proposal.
- In order to vote at a General Meeting, shareholders must either be present in person or can be represented by a proxy. Provisions do not contain postal or electronic voting possibilities as well as voting via a company representative, so called oriented proxy voting.
- Even though preemptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude preemptive rights in case of capital increases up to 100 % of their registered capital.
- Mandatory tender offer bid requirements exist according to different thresholds (e.g. increasing stake above 25 %)
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75%) are passed.
- With the beginning of 2008, listed companies have been urged to adopt IFRS accounting standards.
- Turkish companies have a single tier board structure.
- The CMB Principles outline rules that regulate the independence of board members, thereby also

indicating that the board should be composed of at least 2 independent members and/or to at least one third.

VESTEL'S PERFORMANCE OVERVIEW

Vestel's overall rating result of 83.29% indicates a good level of compliance with the established rating criteria with respect to the CMB principles. Transferred to the numeric rating scale, the company's result equals a 8.5 conveying that the company has very good CG structures and performance and shows clear efforts to implement existing regulations and to follow best practice standards as suggested by the CMB. However, the result also signals that there is still room to add momentum to the compliance with the CMB principles.

At the beginning of 2005, Vestel reviewed its practices and implemented pertinent CG mechanisms.

At the 2005 Annual General Meeting (AGM) it was agreed to revise Vestel's Articles of Association (AoA) according to the CMB principles. The matters concerned by the amendment were, among others, the company's capital, object and scope; the board's independence; the creation of a board's secretariat and committees (Audit Committee and CG and Appointments Committee); and the introduction of rules related to the AGM.

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 line with that Vestel also established a Corporate Governance and Appointments Committee. In 2007, Vestel improved its website, introduced a performance-based compensation model for its employees and implemented several actions to strengthen its internal audit systems. Considering these developments one can see evidence that Vestel is proactively pursuing good corporate governance practices. However, compliance and disclosure in certain issues remains an elusive task.

Reflecting the single results of the four main components of the rating, Vestel performs well in all of them, though showing particular strength in its Stakeholders area and slightly more weaknesses in its Board of Directors practices.

SHAREHOLDERS

With respect to shareholder issues, Vestel has attempted to adhere to and pursue good practices as outlined by the CMB principles. A dividend policy is in place and voting rights are defined sufficiently. Following the conversion of registered to bearer shares which was decided in the AGM of 2006, the company now only has bearer shares. An Investor Relations Unit is in place in order to maintain continuous communications with shareholders. One of its main responsibilities is the corporate investor relations' website. The IR website has undergone extensive construction in the last few years and the completeness of information has reached a satisfactory level.

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

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 three weeks prior to the meeting. Other documents related to the AGM e.g. a summary of the voting results and attendance rate (minutes) were also made available to shareholders.

PUBLIC DISCLOSURE AND TRANSPARENCY

The company issued a disclosure policy and discloses material information on its website, where essential documents can be downloaded. The company has a corporate website. In addition to it, a separate website for investors with a CG section was set up and a redesigned version was made available as of mid January 2007. The separate IR-site has a link to the main website. The extensive updating efforts made are positively recognised and point in the right direction. The most noticeable deficiency of Vestel's IR-site was belated information, but the extensive maintenance work has clearly achieved betterment. The AGM invitation was relayed on the main corporate website three weeks prior to the meeting. Other relevant information related to past AGM's were also provided.

The company has taken several measures to enhance its level of transparency. The Code of Ethics and the Insider Trading document are two examples. Disclosure from the external auditor reveals that it does not offer consulting services and that it is subject to regular rotation. Both conditions work to ensure independence.

STAKEHOLDERS

Stakeholders' issues are duly considered and respected by Vestel. While most CMB suggestions are followed, some deficiencies are identified and examined within the rating report.

The company takes measures to address stakeholders issues through the Investor Relations Unit, the corporate website, or periodical meetings with customers and suppliers.

A succinct Code of Ethics provides the essential rules that govern the relationships between the company and its different stakeholders.

Another noteworthy issue is the existence of a Customer Communications Center, that operates as a helpdesk for customers' queries, and the award of ISO 9001 and ISO 14001 environmental certificates, showing Vestel's commitment to be mindful to protect the environment.

Vestel has a Human Resources policy and foresees the regular participation of employees in BoD meetings. A performance based compensation model was introduced in 2007.

Charitable and social actions are delegated to the Mehmet Zorlu Foundation. Those and the environmental actions are examined on the new CSR section of the AR.

BOARD OF DIRECTORS

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

Both committees are comprised of non-executive directors and are headed by an independent board member. The age limit for the members of the board is 75.

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

Every board member is entitled to one vote without any privileges. Our assessment did not reveal issues that would question a good working atmosphere during board meetings. The company provides basic rules for the procedures for running the meetings in article 16 of the AoA. The dates of the board meetings are set at the beginning of the year and the meeting calendar is sent to all board members. The remuneration structure of board members does not follow all CMB recommendations on the subject. For instance, there is no performance based incentive for executives and 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.

The Executive Committee, which is in charge of the day-to-day management of the company, is composed of eight members, of which two are board members. A monthly report of the work performed by the executives as recommended by the CMB, is produced. Compensation is not sufficiently explained in the company's public documents.

FINAL REMARKS

With the rating at hand, 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 favourable, especially by foreign investors, in counterbalancing the fact that the majority shareholder is a holding company owned by the executive chairman.

A revised compensation model for board members with performance based elements for executives would further improve Vestel's corporate governance practices.

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” dating back to 1983. An initial public offering of a part of the company’s shares was conducted in 1990 following an additional public offering in 2000. To date, the company’s free float amounts to approximately 48.38% while 51.62% are held by Collar Holding BV which is fully owned by Mr. Ahmet Nazif Zorlu, who thereby is able to exercise full control over Vestel. In April 2006, the CMB carried a resolution that aims at 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. Through its subsidiaries and shareholdings Vestel disposes of production facilities in Turkey and Russia and other business locations in Turkey and main Western European countries. As an international company Vestel generates about three-fourths of its revenues in foreign markets. With a focus on export markets since its origins, it has been among Turkey’s top export champions for several years and exports to 100 countries around the world.

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

Table 1: Stock performance

	YTL
18.02.2009	0.78
52 Week High*	2.14
52 Week Low*	0.61
*1 year / (Source: Reuters)	

Table 2: Shareholder Structure of Vestel

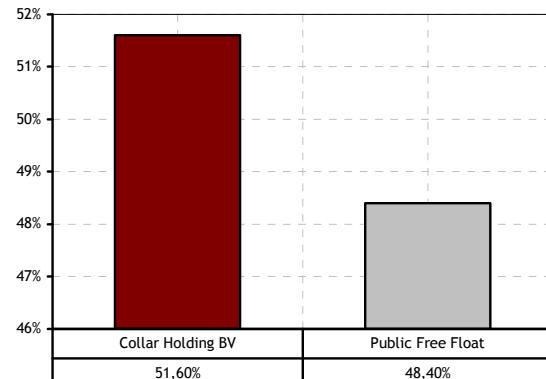
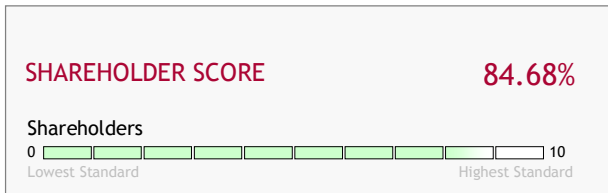


Table 3: Revenue breakdown (in USD m)

	2004	2005	2006	2007
Domestic	687	927	854	893
Foreign	2595	2400	2805	2665
(Source: Vestel)				

SECTION 1 - SHAREHOLDERS



1 Summary

Vestel reaches a good result of 8,5 in this category, in line with the overall rating score.

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

An Investor Relations Unit has been established to enable shareholders to exercise their rights and obtain relevant information. The new Investor Relations' website has been in a gradual construction and enhancement process in the last years.

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

The AGM's invitation, agenda and note including the proxy voting form were made available to shareholders by mail and uploaded to the main page of the corporate website three weeks prior to the meeting. A summary of the voting results and attendance rate (minutes) was uploaded on the company website. The AGM is run in a fair and efficient manner and shareholders are allowed to exercise their statutory rights.

1.1 Rights of Shareholders

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

1.1.1 Dividend and Voting Rights

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

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

In the last AGM, it was decided that dividends would not be distributed to shareholders as there was no profit left after the deduction of profit from the previous years' losses.

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

Voting rights are well defined in the company's AoA, ensuring equal and clear voting procedures.

According to the AoA, voting is exercised by show of hands, though closed ballots are mandatory if requested by 5% of shareholders represented at the AGM.

There are no ceilings on the number of votes a shareholder might exercise during the meeting.

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

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

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

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

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

awareness of contentious issues an additional observer of the CMB would be present.

1.1.2 Shareholders' Right to Obtain and Evaluate Information

Information is provided to shareholders and Vestel has made an effort to comply with the CG guidelines, but there is still room for improvement. The information regarding the AGM could be more complete and provided in a more timely manner. Some essential pieces of information are only disclosed during the meeting itself, like the names and details of the candidates to be elected to the board. Although the CMB principles do not provide any time-lines for the disclosure of such information, international investors would appreciate timely disclosure to adequately execute cross-border votes.

Shareholders are not permitted by the AoA to appoint an external auditor on their behalf, as suggested by the CMB principles. The company explains that significant public participation in the company might incite confrontational shareholders to disrupt the sound functioning of the company. This argument however can be partly refuted by the CMB threshold of 5% necessary to appoint an external auditor. This represents an entry barrier, material enough to deter any minor actions. The possibility of appointing an external auditor if there are well founded grounds on which to do so, is indeed considered a basic tenet of shareholders' rights.

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

The AoA 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, exhaustive information on candidates for board election was only provided shortly before or at the AGM.

The company has established an Investor Relations Unit in order to enable shareholders to exercise their rights, ease access to information for shareholders, to keep shareholders updated, and to oversee the company's information policy. This unit is also responsible for the

website and is closely related to the Corporate Governance and Appointments Committee (CGAC). The head of the unit communicates directly with the CFO, the CTO and the head of the CGAC and attends the committee's meetings.

IR's main duties cover: keeping record of shareholders, updating the corporate website, responding to shareholders' requests; monitoring the AGM and preparing and attending investor meetings.

Vestel does not have a strictly formulated communication strategy but organises information events like road shows to meet institutional investors and publishes information using different news-agencies. In 2007, the Investor Relations Unit has participated in several conferences, replied to about 120 questions, participated in HSBC's Forum in London and had about 30 face-to-face meetings. This demonstrates the company's intention of organising more regular meetings between board members and various types of shareholders.

There is some material information that must be disclosed by law, e.g. legal or commercial relationships. This information is communicated to the ISE that will publish it in its daily or weekly reports. Since August 2006 this information is translated into English and then sent to institutional investors and published on the website.

'Thomson Extel Pan European Survey 2008' ranked Vestel as the top performer company on IR related issues in Turkey in 2008 and Figen Cevik, IR head, as the best IR professional.

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.

In line with minority rights, the ability to appoint an external auditor is considered crucial, though this is only a recommendation by the CMB principles. Vestel

does not grant this right due to the large public participation in the company and notes that it has not received any requests in that sense in the reporting period.

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

1.2 General Meeting

Governance Focus
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Sufficient information disclosure on candidates
+ Board remuneration is determined by the General Meeting
± General Meeting allowed directors to engage in business and competitive activities with the company
- Information on candidates provided at the AGM

1.2.1 Invitation

In the run-up to the AGM, shareholders could be better informed by Vestel. The announcement of the place and date of the AGM is sent by registered mail to the shareholders and there is information available at the headquarters and on the website and through two national newspapers. An additional document containing supplementary information on the agenda items is submitted to shareholders three weeks in advance to the meeting. The agenda is prepared in a solid manner, clearly indicating each agenda item.

Nevertheless, there is still room for improvement: only abbreviated information is provided in all the AGM documents; some relevant information is provided to shareholders on the day of the meeting (e.g. the details of the candidates to the board). Access to timely information on the AGM is of critical importance for institutional investors. Vestel had certain weaknesses here, but has considerably stepped up efforts for enhanced disclosure.

The company provides additional information, e.g. the annual report and financial statements which are

accessible three weeks prior to the meeting at the 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's 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. The Central Registry Agency keeps a shareholder record and companies in theory can request this information, although in practice this is rarely done. 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 28th of May 2008, 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. The minutes were also uploaded after the meeting. A booklet at the entrance of the AGM room documents the information of all the participants and their corresponding number of votes.

Since Vestel is headquartered in Istanbul, this was the location of the AGM in 2008. This location can be considered as easily accessible to many shareholders.

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

The AGM functions as a forum to discuss the company's annual report and financial results. The appointed audit company is held responsible to present the latter to the auditorium. The chairman reads a summary of

the annual report at the beginning of the AGM. This is followed by a discussion of the questions raised by shareholders. With around 100/150 attendants (52% of shares in 2008's AGM), physical participation is rather low.

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

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. The reasons for the absence of board members at the AGM is stated by the chairman of the meeting, as recommended by the CMB principles. In the AGM, however, all candidates to the board were present. According to the annual report all questions coming from shareholders were responded to in detail. Shareholders are allowed to intervene with no limit on their speaking -time. In line with local shareholder practices, these possibilities are only used within limits.

The 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. As reported in 2008, 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 level of education, previous board membership and experience, their financial status as well as independence considerations. All of this information was provided to the shareholders at the meeting. The specific right of shareholders to ask questions to the candidates is not mentioned, but according to information obtained from the company, such rights are provided. Shareholders rarely use this possibility, though.

Remuneration of the board members is subject to the AGM and is determined by shareholders, that are given

the opportunity to express their views and suggestions in relation to any agenda item.

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

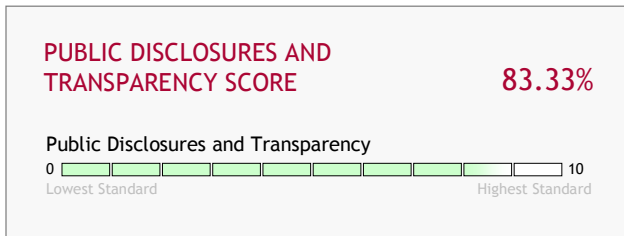
The votes are counted one by one and the global result (accepted or not) is announced at the meeting and stated in the AGM minutes.

1.2.3 After the General Meeting

As a follow-up to the meeting, minutes are made available for the examination of shareholders at the company's own headquarters and at those of Vestel Holding. This information is also disclosed on the company's website summarising and reflecting the meeting in a short but clear manner. Information of the AGM of the last 6 years is available on the company's website.

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

SECTION 2 - PUBLIC DISCLOSURE AND TRANSPARENCY



2 Summary

Vestel scores 8.5 in this category, in line with the overall rating result. This reflects a reasonable flow of information between the company and investors and an acceptable level of transparency.

A specific website for investors with a CG section was set up and redesigned recently. The annual report is reasonable in terms of form and content, but could be further improved, e.g. providing information on forecasts and on executive remuneration.

A Public Disclosure Policy (PDP) document contains Vestel's information policy, and the Investor Relations Unit is responsible for its implementation.

Vestel also discloses a Code of Ethics and an Insider Trading document.

2.1 Disclosure Means

Governance Focus
+ Website in Turkish and English version
+ Website contains and archives information disclosed to the public
+ Website provides valuable information for investors, including documents for download
+ Board members and members of the Audit committee signed the annual report
± The annual report provides fair information, though can be improved

2.1.1 Website

Vestel has created a specific website for Investor Relations. It was under construction for several months and although it does yet not fully contain all the information demanded by the CMB principles, it has

reached a good level. The company has shown significant efforts in enhancing the presentation and received an award for it in 2007 from the US based Interactive Media Council. For foreign investors an English version of the website is available. The content is structured in a sound manner, where investors find relevant documents (e.g. annual reports, articles of association, audit reports, analyst presentations) available for download.

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

However, some information is not provided, e.g. the prospectuses and circulars, or frequently asked questions and answers; other documents are not available in English, e.g. the minutes of 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.

As a means of communication the use of the website is also subject to and incorporated in the company's disclosure policy.

2.1.2 Annual Report

Overall, the annual report is prepared in a reasonable way according to the content provided and information relevant to investors.

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 is signed by

external auditors and features a statement about the internal audit system.

A Corporate Social Responsibility section in the annual report outlines a concrete plan regarding employees' social rights and the environment.

The opinions of different rating agencies about the company are also provided in the annual report. A web section called 'Bond & Rating Information' shows the recent reports of those rating agencies.

There is a risk management mechanism in place and a detailed explanation of the different types of risks encompassed (liquidity, currency, credit, etc).

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 are: 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. Correspondence with the company revealed that this last issue was discussed at a board meeting at the end of 2008 and it was decided to work on a standard forecast communication procedure.

Vestel does not demand individual independence statements of its independent board members. The disclosure of an explicit independent statement would further enhance credibility and transparency.

The annual report provides information on an open lawsuit filed against Vestel.

2.2 Disclosure Procedures

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

2.2.1 Information Policy

The information policy, as set forth in a Public Disclosure Policy document, has been enhanced by Vestel in 2008. It has been disclosed to the public and is permanently accessible through the company's website. The disclosure policy aims at providing shareholders, stakeholders and the public at large with timely, complete, clear, and accurate information in line with the CMB regulations and with CG principles. To underscore its relevance, the BoD introduces, develops and monitors the public disclosure policy, while the Investor Relations Unit is responsible for its implementation and follow-up.

The disclosure policy covers scope, forms, frequency and methods of disclosure, informs about the company's authorized persons regarding public disclosure (chairman and members of the executive board), and outlines how the company deals with investors, among others. Vestel may make public statements concerning its forward looking statements. This information must be associated with the company's financial results, and must be made by authorized persons.

The company stated its adherence to the following principles: all amendments of the disclosure policy should be publicly announced and put on the corporate

website within one week's time; and special circumstances should be prepared by the Investor Relations Unit and sent to the ISE and published simultaneously on the corporate website.

2.2.2 Public Disclosure

After reviewing the public disclosure of Vestel no issues could be found, that would harm investors' interests. The responsibility for public disclosure is clearly defined and is assigned to the chairman and the executive committee members. Additionally, the established committees (Corporate Governance and Appointments Committee and Audit Committee) are closely involved in public disclosure issues. Two executives are currently responsible for public disclosures, with the authority to sign official documents: Mr. Cem Köksal, CFO, and Mr. Cem Kadirgan, executive. However, a publicly available declaration by the board on whether or not the principles are duly followed is missing.

An Investor Relations Unit has been set up with the responsibility for publicly disclosing all information about the company. The unit, managed by Figen Cevik, is in close collaboration with Cem Köksal (CFO), and Cengiz Ultav (CTO), that attend most investor meetings and provide detailed information regarding the company's operations.

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

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

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

2.3 Transparency Issues

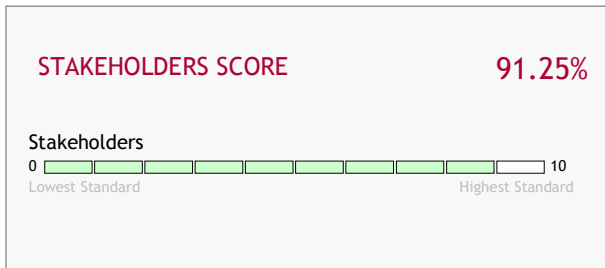
Transparency issues cover ethical behavior, insider trading rules and the functions of the external audit.

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

In order to prevent insider trading Vestel tries to enforce necessary measures and precautions. It has published a two-page Insider trading document that provides some information on the matter like definitions, implementation, the internal control unit responsibilities, and penalties for violators. Correspondence with the company revealed that a new insider trading code of conduct will be completed in 2009.

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

SECTION 3 - STAKEHOLDERS



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

3 Summary

Vestel reaches an excellent result of 9.0 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, the corporate website, periodical meetings with customers and suppliers or the participation of employees in BoD meetings.

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

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

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

3.1 Participation to the Management

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

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

3.2 Company Policy

3.2.1 Rights and Duties of Stakeholders

Vestel recognizes the rights of employees and customers explicitly in the Code of Ethics and in the Social Responsibility chapter in the annual report, and the rights of other stakeholder groups in the Corporate and Social Responsibility section in the AR.

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

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

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

3.2.2 Relation with Customers and Suppliers

Vestel takes a great effort to ensure customer satisfaction. As a proof of this, the company has regular meetings with its customers and suppliers

concerning the marketing and sale of its goods and services. Additionally, a Customer Communications Center is in place to deal with customers' problems. Special attention is paid to quality control and the company is working towards the implementation of a Total Quality Management system.

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

3.3 Employees and Social Responsibility

The Human Resources Unit is responsible for the conduct and development of the human resources policy. Interviews with board members revealed that Vestel has opportunities to improve its human resources policy.

The company ensures that equal opportunities are provided to people with similar qualifications. While, according to the company, no cases of discrimination have been reported, the explicit mechanisms to avoid such instances remain unclear, except for the periodical polls conducted to measure employees' satisfaction.

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 new CSR section on the AR provides concrete measurable data and actions. When evaluating new projects the company considers using less polluting materials; reducing waste and recycling; or conducting activities that raise environmental awareness. Vestel was awarded for its efforts in this respect with the TS-EN ISO 9001 and the TS-EN ISO 14001 Environmental Management System Certificate in 1998. This certificate is renewed every year, according to the company. In addition, Vestel is a signatory of the Global Compact initiative since 2007.

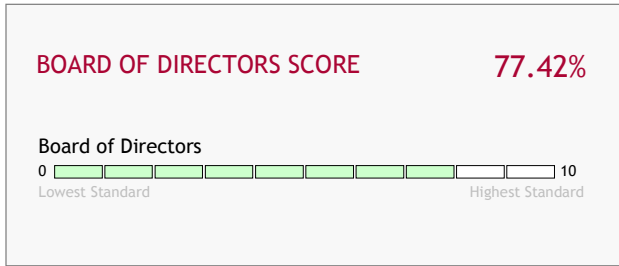
With respect to performance based compensation, a model was introduced in 2007. It foresees employees' evaluations at least yearly in line with specific performance criteria.

The company has prepared a succinct Code of Ethics and disclosed it to the public. This code contains the

essential rules that govern the company-wide relationships with its stakeholders: customers, personnel, corporate governance principles, the sector and competitors, conflicts of interest, social responsibility and the environment.

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

SECTION 4 - BOARD OF DIRECTORS



4 Summary

Vestel scores 8.0 in this category. Though the compliance is good, there is opportunity for improvement.

There are seven members in the BoD, two executives (ED) and five non-executives (NED), of whom two are independent. The board structure does not strictly comply with the one-third proportion of independent directors recommended by the CMB principles. The AoA describes clearly the duties of the board members. However, board members do not prepare explicit declarations of compliance with internal and external regulations, as recommended by the CMB guidelines.

The suggested separation of the chairman and CEO positions is respected. However, the company is controlled by Ahmed Zorlu who owns over 51% of the shares and has appointed two members of the BoD.

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

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

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

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

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

4.1 Board of Directors

Governance Focus
+ The board plays an active role in the company's strategic planning
+ Each board member is entitled to one vote
+ Secretariat has been established to support the board
+ Company does not lend money to board members or executives
+ Majority of the board is composed of NEDs
± Shareholders can request the board to call a general meeting but decision comes from the board
- Less than one third of board members fully meet the independence criteria
- Compensation does not include incentive schemes and is not explained in detail

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

According to the undertaken examination, the board of directors fulfills its duties with diligence and meets its responsibilities to a high degree.

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

There are no measures in place to encourage employees to work for the company over a long period of time and no specific mention either to the role of the board in settling disputes between the company and the shareholders or in ensuring the effective exercise of shareholders rights. However, interviews with board members reveal that those disputes are discussed at board meetings.

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

Interviews with board members have shown that the flow of information could be improved. However, the company is moving in the right direction and tries to provide information when directors request it. Moreover, managers may be invited to take part in meetings of the board to explain matters that are on the agenda so that board members become better informed about specific issues.

Overall, the AoA contain clear rules describing the activities and duties of board members. Board members in theory have no restrictions before accepting outside duties. Nevertheless, as suggested by the CMB principles the AoA provide guidance to the issue of board members engaging in business or competitive activities with the company. Accordingly, such activities have to be approved by three-fourths of the

company's shareholders at the AGM. The annual report states that no board member engaged in any business or competed with the company in 2007. The holding of outside positions by board members is not a serious concern in Turkey, as long as they can dedicate 10-15 days a year to the monthly board meetings.

Interviews with board members showed that Vestel does not apply a recommendation put forward by the CMB principles, envisioning that before board members start their work, they are to declare compliance with all necessary internal and external regulations.

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

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

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

4.1.2 Structure

The board of Vestel is composed of seven members of whom two are executive (ED) and five are non-executive (NED) directors. The age limit is 75. Board members are elected for a period of maximum three years, with re-election possible at the end of term.

The suggested separation of the chairman of the board and the CEO is followed, but there are several family members on the board: the chairman, Ahmet Nazif Zorlu and Emre Zorlu. The chairman of the board fully owns Collar Holding BV, which holds 51.62% of Vestel's shares. This underscores the strong family ownership common in Turkey.

Even though the board comprises independent members, Vestel fails to fully comply with the suggested proportion of one-third. As the CMB

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

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

Table 4: Board Structure

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

Appointed board members at Vestel seem to be highly qualified and show a high level of knowledge and experience, reflected in long-lasting career backgrounds. Vestel's board can draw on a wealth of expertise in the industry sector but also other areas as law, public sector, and business. The average age is close to 50, the oldest being 70 and the youngest 25.

There are no women on the board. All have university studies except for the chairman.

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

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

4.1.3 Functioning

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

All Board members must be present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB principles, related to important company's operations such as the establishment of committees, the dividend policy or the decrease or increase of capital.

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

Vestel shows special attention to the functioning of the BoD. For instance, the overall rate of attendance at board meetings was 90% in 2007. To encourage attendance the following rule was added to the AoA: "A member of the board who does not take part in three consecutive meetings shall be deemed to have resigned his seat."

The BoD must meet at least twelve times a year; it met a total of 12 times during 2007.

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 running the meetings. In addition, board meetings are organised in the beginning of the year and the meeting calendar is sent to board members. Interviews suggest that occasionally decisions are taken rather independently and swiftly by the chairman without further discussion with the other board members e.g. the remuneration policy. This holds the benefit that decisions are usually taken quickly but not always with the necessary thoroughness.

4.1.4 Remuneration

Considering remuneration aspects, Vestel does not live up to the requirements of the CMB principles. Currently the compensation is solely composed of a fixed salary of 60,000YTL a year (28.110 € approx.). No additional attendance or committee membership fees are paid; only a bonus for executives at the end of the year is foreseen. However, the compensation is discussed and determined by the AGM, in theory providing material power to the shareholders. According to the CG statement, the remuneration is commensurate with precedents in the sector.

Table 5: Board Compensation

Position	Compensation (per year, in YTL)
Chairman	60000
Vice-Chairman	60000
Member	60000

Vestel does not offer performance based incentive schemes, as proposed by the CMB principles. While the CMB Principles do not indicate a difference between ED

and NED in terms of remuneration, one should keep in mind that international best practice suggests that performance based incentive schemes should be granted to ED only.

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

To avoid conflicts of interest Vestel strictly adheres to the principle not to grant loans in any way to board members or executives.

4.2 Board Committees

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

4.2.1 In General

The board of Vestel has established two board committees to support its work and ensure an effective and efficient work flow.

There is an Audit Committee and a Corporate Governance and Appointments Committee (CGAC).

The heads for the committees have been elected from the independent board members: Ekrem Pakdemirli (Audit) and Yilmaz Argüden (CGAC).

According to the CMB Law, each committee should be composed of at least two members. Both committees have two members.

Both committees also fulfill the CMB suggestion to be composed of a majority of NEDs.

Table 6: Committee Overview

Committee	No. of Members	Independent Chairman*	No. of NED
Audit	2	Yes	2
Corporate Governance and Appointments	2	Yes	2

*according to the status "Independent Board Member"

The work of each committee is closely related to the board, as the results of the committee meetings are summarised in the minutes along with special reports and communicated to the board afterwards.

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, but this is not specifically mentioned.

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 CG statement, the AC studies the effectiveness and adequacy of the internal control system. It is also responsible that measures are taken in order to ensure that internal control is transparent. Furthermore, the AC takes care of the company's financial disclosure. Internally, the AC is also responsible for evaluating the audit system and for responding to complaints and suggestions put forward by any member of the company.

The committee is elected for one year. In the conduct of its activities, it can solicit the opinions of independent experts, whose fees would be paid by 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. It shall meet at least four times a year according to the AoA. It met three times in 2007. At least twice a year the AC should evaluate

itself and transfer the results and its recommendations to the board.

Vestel prepared an English version of the charter of the Audit Committee. This is not required by the CMB CG principles, but it helps outlining more details of the work of the AC.

Table 7: Audit Committee Composition

Name	Board Member	NED	Independence
Mr. Ekrem Pakdemirli	Yes	Yes	Yes
Mr. Cem Bodur	Yes	Yes	No

4.2.3 Corporate Governance Committee

It is the main purpose of the CGAC to monitor the company's compliance with CG principles and make recommendations to the board concerning directors' appointments. The committee is elected every year and should meet at least three times a year. It met three times in 2007. As for the AC, the opinions of independent experts can be used, and their fees would be paid by Vestel. Once a year the committee conducts an assessment of its own work and a performance evaluation of the board. It can present recommendations to improve the working principles of the BoD and of itself.

The committee seems to pursue its tasks actively as demonstrated in the mandatory CG compliance report that forms part of the annual report. As suggested by the CMB Vestel's CEO does not fulfill a duty in this committee and it is headed by an independent board member.

Table 8: Corporate Governance Committee Composition

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

Core responsibilities of the committee during 2007 have been: to establish CG principles, to develop recommendations about the structure and effectiveness of the BoD, to evaluate the structures

and functions of the committees and make recommendations on it, and to organise and coordinate the Investor Relations Unit.

The charter of the CGAC is available in Turkish and English.

4.3 Internal Control and Risk Management

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

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

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

4.4 Executives

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

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

The Executive Committee is mentioned in the CG statement and its composition is described in the annual report. Its duties are not stated in Vestel's public documents. The annual report states that the authorities and responsibilities of the company's directors are spelled out in the AoA and published on the website. However, in the AoA and on the website, this information does not appear. Only the BoD's duties are examined, and no distinctions are made between ED and NED in terms of responsibilities or compensation.

There is no mention on the monthly report of the work performed by the executives, as recommended by the CMB. Notwithstanding, the strategy department of Vestel prepares a monthly report on operational performance, that is presented to the board each month.

Table 9: Composition of the Executive Committee

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

There is no provision that executives are to compensate losses that occur as a result of not performing their duties properly.

The CEO of Vestel can look back on a long lasting career with a proven track record of management experience.

Up to now non-competition clauses have not been allowed under Turkish law. So, Vestel cannot fulfill the recommendation of the CMB Principles that suggest including such provisions into the employment contract.

5 Appendix

DETAILED SHAREHOLDER STRUCTURE

The following tables provide an overview of Vestel's shareholder's structure. The first one displays the majority shareholder Collar Holding (fully owned by Vestel's chairman Mr. Ahmet Nacif Zorlu) and the free float. The second one shows the holding of mutual funds as part of the free float.

Table 10: General shareholder structure of Vestel

Shareholder	Nominal value (try)	% shareholding interest
Collar Holding BV	90,566,143	51.62
Publicly held	84,890,132	48.38

SOURCE: WEBSITE

Table 11: Main Shareholders of Vestel

Shareholder	Shares held	% of Capital
East Capital Asset Management AB	2,673,301	1.52
Blackrock Investment Management Ltd.	1,650,145	0.94
Genesis Investment Management, LLP	1,486,844	0.85
Dimensional Fund Advisors LP	1,355,363	0.77
Russell Investment Group	1,179,616	0.67
Acadian Asset Management LLC	545,968	0.31

SOURCE: REUTERS(18.02.2009)

BOARD OVERVIEW

Table 12: Board of Directors

Name	Age	First Appointment	Position	Executive / Non-Executive Director	Independence	Member of Executive Committee	CGAC	AC
Mr. Ahmet Nazif Zorlu	64	1994	Chairman	NED	No			
Mr. Ekrem Pakdemirli	70		Deputy Chairman	NED	Yes			X
Mr. Emre Zorlu	25	2000	Member	NED	No		X	
Mr. Ömer Yüngül	54		Member	ED	No	X		
Mr. Enis Turan Erdogan	54		Member	ED	No	X		
Mr. Cem Bodur	48	2000	Member	NED	No			X
Mr. Yilmaz Argüden	51	2005	Member	NED	Yes		X	

Source: Annual report 2007

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

EXECUTIVE COMMITTEE OVERVIEW

Table 13: Executive Committee

Name	Age	First Appointment	Position	Function	Board Membership
Mr. Izzet Güvenir	54	2005	Member	White goods	
Mr. Cengiz Ultav	59	1997	Member	Strategic planning and technology	
Mr. Enis Turan Erdogan	54	1997	Member	Global trade and OEM sales	X
Mr. Cem Köksal	42	2002	Member	Finance	
Mr. Ömer Yüngül	54	1997	Chairman	Chairman	X
Mr. Ihsaner Alkim	55	2005	Member	Electronics R&D	
Mr. Necmi Kavusturan	53	2005	Member	Human Resources	
Mr. Levent Hatay	46	1999	Member	Marketing	
Mr. Ozer Ekmekçiler	52	1995	Member	Vestel electronics, Vestelkom, Vestel Digital, Vestel Russia	

Source: Annual report 2007