



RATING REPORT ON

# Vestel Elektronik A.Ş.

BASED UPON

“The Corporate Governance Guidelines of Turkey” issued by  
the Capital Markets Board of Turkey



RATING RELEASE DATE

22 February 2013

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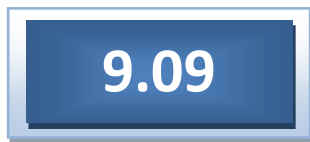
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# INTRODUCTION

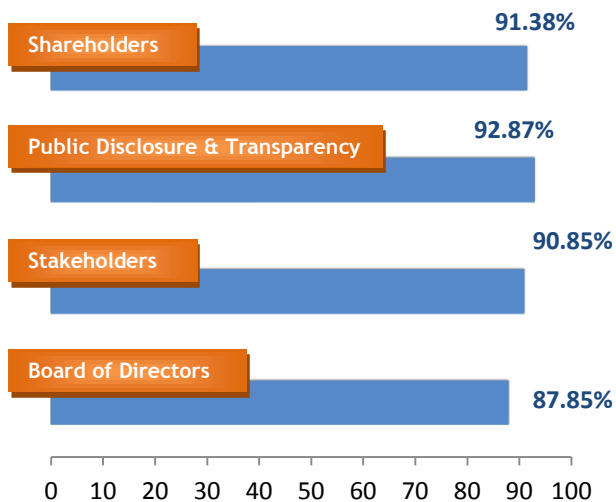
## GROUP



## OVERALL SCORE



## RESULTS BY CATEGORY



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ISS Corporate Services (hereafter, ICS) assigns a rating score of 9.09 to Vestel Elektronik A.Ş. (the "Company" or "Vestel"), which has increased from a score of 8.83. This rating reflects a good overall performance of the Company regarding its corporate governance structures as measured against the Communiqués stipulated by the Capital Markets Board of Turkey (the "CMB Guidelines"). However, the result also signals that there still remains room to improve the Company's governance practices. Please refer to the "Rating Methodology" section for more information.

Vestel continues to make an effort to adopt progressive corporate governance practices 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, the formation of the early detection of risks committee, addition of a female director to the board and an updated articles of association ("AoA").

ICS was first appointed by Vestel in March 2006 to review its corporate governance structures and processes in line with the CMB Guidelines. Vestel then had been rated with a score of 7.59. This rating report represents the seventh rating update after Vestel had been subject to a first rating.

Vestel continues to score particularly well on **Public Disclosure & Transparency** standards and in respect to **Shareholders**. On the other hand, Vestel achieves a lower result for **Board of Directors**.

The rating report is based on information provided to ICS prior to February 2012. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

## COMPANY INFORMATION

	
Trade Name	Vestel Elektronik A.Ş.
Address	Ambarlı Petrol Ofisi Dolum Tesisleri Yolu Zorlu Plaza 34840 Avcılar-İstanbul Turkey
Web	www.vestel.com.tr
Investor Relations	Ms. Figen Çevik Phone: +90 212 422 0107 Fax: +90 212 422 0106 E-Mail: figen.cevik@vestel.com.tr
Chairman	Mr. Ahmet Nazif Zorlu
CEO	Mr. Enis Turan Erdoğan

Vestel 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 percent 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.

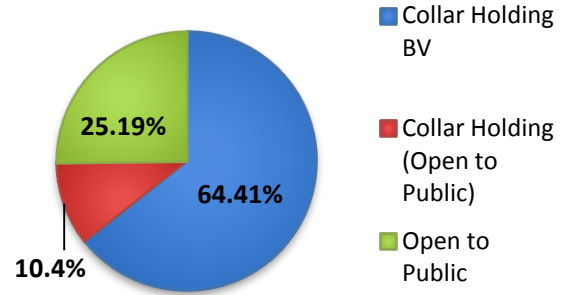
In addition to the production of televisions, Vestel’s original core business, the Company expanded into the production of white goods and digital devices. Vestel is one of the leading provider in the Turkish and global markets. For the year ended 30 December 2011, Vestel reported total revenues from continuing operations of USD 4.2 billion.

In line with rapid growth attained in recent years, Vestel remains one of the top world-wide 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- stable” and Moody’s a “B2 stable” respectively.

The Company's Global Depository Receipts (GDRs) are traded on the London Stock Exchange's Over the Counter (OTC) market. The Company's registered capital is TL 1 billion, divided into 100 billion shares. The registered capital ceiling granted by the CMB is valid between the years 2012-2016 (5 years). The current issued share capital of the Company is TL 335,456,275. As at January 2013, the Company's shareholder structure was as follows:

### Shareholding



Note: Collar Holding is fully-owned by Ahmet Nazif Zorlu

# RATING METHODOLOGY

## UNDERLYING REFERENCE

The corporate governance rating at hand has been conducted by ICS based on the CMB Guidelines. As such, it differs in content and methodology from ISS' standard corporate governance ratings that are based on ISS' own methodology.

The CMB defined its first Corporate Governance Principles in 2003, followed by an amendment in early 2005 and most recently in December 2011, February 2012, June 2012, and September 2012. The new CMB Guidelines (the CMB Communiqué Serial: IV, No: 56) needed to be incorporated into the companies' articles of association by 30 June 2012. In light of the aforementioned changes, ICS updated its rating methodology under CMB's supervision.

It should be noted that with the latest CMB Guidelines, the governance landscape in Turkey has moved away from a "comply or explain" regime to one that is more regulated. One conclusion that may be drawn from this shift is that the CMB has increased its tone with a view to boost the competitiveness of Turkish companies globally.

According to the new CMB Guidelines, all ISE companies, excluding companies listed on Emerging Markets and Watchlist Market, are subject to mandatory implementation of certain CMB Guidelines. The CMB Guidelines continue to be divided into four main sections: (i) Shareholders; (ii) Public Disclosure and Transparency; (iii) Stakeholders; and (iv) Board of Directors.

## THE RATING

Based on the CMB Guidelines, ICS identified close to 500 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.

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.

## THE GROUPS

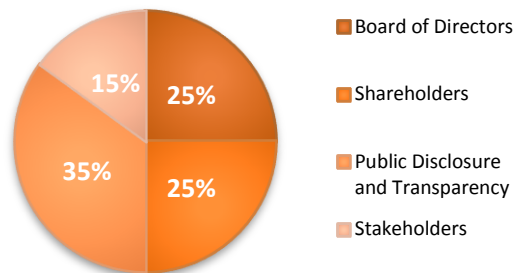
The new CMB Guidelines classify ISE companies in three main groups based on the systematic risk companies pose to Turkish capital markets:

- 1. Group I:** ISE companies with a market value exceeding TL 3 billion and free float exceeding TL 750 million;
- 2. Group II:** ISE Companies with a market value exceeding TL 1 billion and free float exceeding TL 250 million; and
- 3. Group III:** All other ISE companies which do not fall under either Group.

Group I companies are required to comply with all mandatory Principles whereas Group II and III companies benefit from certain exemptions.

## WEIGHTING SCHEME

The weighting scheme applied for the four main sections was pre-determined by the CMB:



Further sub-weightings have been attributed to the sub-criteria according to ICS's own reference. Based on the scoring and adjusted weightings, the overall rating result is calculated. The result reflects the overall compliance of the Company. 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 GOVERNANCE LANDSCAPE IN TURKEY

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, ICS believes that an overview can enable investors to enhance their perspective and evaluation of corporate governance in a more holistic approach.

Turkey is well aware of the structural changes and the need for ongoing development and harmonization of its capital market legislation. Although Turkey is 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 (effective 1 July 2012), the Capital Markets Law, the Decree-law, CMB regulations, and Istanbul Stock Exchange (ISE) listing requirements.

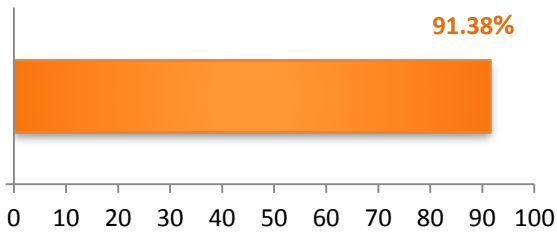
Focusing in particular on corporate governance, the CMB and the ISE can be observed as key players in promoting relevant regulations. They are supported by several other organizations such as the Turkish Industrialists' and Businessmen's Association, Corporate Governance Association of Turkey, Corporate Governance & Sustainability Center and the Corporate Governance Forum of Turkey.

Below we have highlighted the general aspects of the governance landscape in Turkey.

- Within Turkish companies stock ownership is concentrated, very often characterized 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 are rare, thus, weakening the market for corporate control.
- State ownership has declined significantly in line with privatization efforts, 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 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.
- 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 above a 50% threshold.
- 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.
- Companies have adopted IFRS accounting standards.
- Companies have a single tier board structure.
- The current CMB Guidelines outline rules that regulate the independence of board members.

# SECTION I - SHAREHOLDERS

## SHAREHOLDERS



### SUMMARY

Vestel continues to attain a good result of 9.13 in this category, which represents an increase from a score of 8.83 since ICS's 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 (IR)** Unit has been established to enable shareholders to exercise their rights and obtain relevant information. The IR's 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 IR 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 AoA and cumulative voting still does not apply.

The Annual General Meeting's (AGM) invitation, agenda and proxy voting form is uploaded to the main page of the Company's website and announced in two leading newspapers three weeks prior to the meeting. A summary of the voting results and attendance rate (the "Minutes of the AGM") is also

uploaded on the Company website on the same day of the AGM.

The AGM appears to be 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 percent 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.

### 1.1 RIGHTS OF SHAREHOLDERS

GOVERNANCE FOCUS
+ <b>Established dividend policy</b>
+ <b>Clearly defined voting rights</b>
+ <b>No preferred shares issues</b>
+ <b>One Share – One Vote respected</b>
- <b>No cumulative voting procedures</b>
- <b>The board may exclude pre-emptive rights</b>
- <b>Shareholders are not able to appoint a special auditor pursuant to the Company's AoA</b>

#### 1.1.1 Equal Treatment of Shareholders and Their Ability to Obtain and Evaluate Information

According to ICS's analysis, no provisions hindering the equitable treatment of shareholders were identified. No written or verbal complaints reached the Company concerning the exercise of shareholder rights, nor is the Company aware of any legal proceedings initiated against itself in this regard.

The Company has an active IR 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. The IR Unit is also responsible for the website and is closely related to the corporate governance committee. The IR Unit is lead by Figen Çevik. The head of the IR Unit communicates directly with the Chief Financial Officer, the executive committee and the corporate governance committee. A more detailed description of the IR Unit's duties can be found on the Company's website.

A good level of information continues to be provided to shareholders and Vestel has made a strong effort to comply with the CMB rules in this regard. Information that may be of interest to shareholders is provided in an accurate, timely, and diligent manner through the Company's website and the Public Disclosure Platform ("KAP").

Verbal and written requests for information received from shareholders during the year were responded in a timely manner under the supervision of the IR Unit and in compliance with the Capital Markets Law.

### **1.1.2 Dividend and Voting Rights**

#### **Dividend 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. No dividend payments were again made for the past financial year as the Company reported a loss.

A dividend policy is established and accessible through the Company's public documents and website, in English and Turkish. Depending on the financial results of Vestel, a dividend will be paid to investors. The distributable net profit is distributed in four successive steps: first legal reserve of 5 percent must be set aside, first dividend set at a rate and amount determined by the CMB, second dividend or extraordinary reserve determined at the AGM, and secondary reserve of one tenth of the remaining amount. ICS notes, however, a targeted dividend payout ratio has not been communicated by the Company to its shareholders.

The Company does not carry out any interim dividend payments and no such provisions exist in its AoA.

#### **Voting Rights**

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 can be installed that would hinder this right or cause a delay in exercising voting rights, following the share acquisition.

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 Company's AoA, which was last updated in December 2012, voting is exercised by a show of hands, though closed ballots are mandatory if requested by 10 percent of shareholder represented at the AGM.

There are no ceilings on the number of votes a shareholder might exercise during the meeting. The Company's share capital does not involve any cross-shareholdings. Finally, ICS is not aware of any voting agreements aimed at increasing control over the management of the Company.

### **1.1.3 Minority Rights and Transfer of Shares**

#### **Minority Rights**

Minority rights, as stipulated by the AoA, are granted to shareholders owning (collectively) at least 5 percent of the Company's issued share capital. Those rights include requesting to convene an extraordinary meeting or requesting special agenda items. According to the Turkish Commercial Code (the "TCC"), both aspects are up to the discretion of the board, though shareholders can appeal to the court to decide on the General Meeting to convene.

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



However, the Company stated that it may consider granting this right to shareholders in the future.

The ability to appoint a special auditor is considered crucial by ICS, though this is only a recommendation by the CMB and a right protected under the new TCC. The Company did not receive any requests in this sense during the reporting period.

### Transfer of Shares

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

## 1.2 GENERAL MEETINGS

GOVERNANCE FOCUS
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Voting procedures are clear
+ Sufficient disclosure on candidates
+ Minutes of the AGM are disclosed in a clear and timely manner (including in English)

### 1.2.1 Invitation

The Company can convene a General Meeting (GM) ordinarily or extraordinarily. The Annual General Meeting (AGM) should be held at least once a year within the three months following the closing of the financial year.

The announcement of the 2011 AGM, including the necessary information like the date, time, location, agenda items, procedures for attendance, and proxy forms were published 21 days in advance. The announcement was also published in two leading Turkish newspaper 21 days in advance. In addition to the procedures stipulated by legislation, the AGM announcement and all necessary documents (annual reports, etc.) were also made available on the Company's website 21 days prior to the meeting in an attempt to reach the maximum number of shareholders possible.

The agenda for the 2011 AGM was prepared in a solid manner, clearly indicating each agenda item. In line with the CMB rules, the Company allows

shareholders to put forward agenda items to be voted on at the AGM. However, for the AGM held in 2012, the Company received no such request.

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. Ordinary and extraordinary GMs are notified to the Ministry of Commerce (the "Ministry") and the agenda and the documents pertaining to the meeting and the relevant supporting documents are submitted to the foregoing Ministry. The attendance of a Commissar appointed by the Ministry in the GMs is mandatory.

Finally, according to Vestel, GMs are open to related parties and the media but they are not entitled to vote. A clause to this regard can be inserted in the Company's AoA.

### 1.2.2 Functioning

Vestel held its 2011 AGM on 19 June 2012 at its headquarters located in central Istanbul. This location is considered by ICS as easily accessible to shareholders. The Company's AoA does allow for meetings to be held at another location in Istanbul.

Following examination, Vestel's AGMs continue to be held in an appropriate way, led in an unbiased manner by the chair of the AGM and overseen by an official government representative, and thereby ensuring that all shareholders are able to exercise their statutory rights. The chairman of the board presides over the GMs.

The AGM functions as a forum to discuss the Company's annual report and financial results. The chair of the AGM 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, if any. According to Vestel, all questions coming from shareholders are, in principle, responded to in detail.

It is our understanding that the chair 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 of the Company's shareholders.

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. If any Company official who has been invited to a meeting cannot attend the meeting, the reasons of non-attendance are to be announced by the chair of the AGM. The specific right of shareholders to ask questions to the candidates is provided by the Company.

Candidates to be elected to the board are obliged to disclose a wide range of information covering nearly all aspects put forward by the CMB rules. These requests 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 2011 AGM.

The AoA enables 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, no board member made use of this authorization and was involved in business or competitive activities with the Company during the 2011 financial year.

Voting at GMs is carried out by the raising of hands; however, secret ballot system may also be applied upon the request of the shareholders representing 10 percent of the share capital in the GM.

### **1.2.3 After the General Meeting**

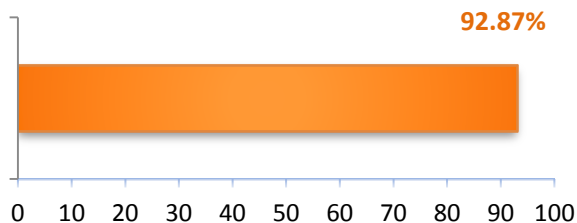
As a follow-up to the meeting, minutes are made available for the examination of shareholders at the Company's headquarters. This information is also disclosed on the Company's website (in English and Turkish) summarizing the meeting in a short but clear manner.

Information pertaining to previous GMs is stored on the Company's website and is easily accessible. The English versions of the invitation, summary of the voting results, etc. have all been uploaded on the Company's website for previous years.

In compliance with the CMB rules, in cases where questions are raised by shareholders that cannot be answered immediately, the IR Unit is responsible for providing a response in a fast manner.

## SECTION II - PUBLIC DISCLOSURE & TRANSPARENCY

### PUBLIC DISCLOSURE & TRANSPARENCY



#### SUMMARY

Vestel attains a score of 9.28 in this category which represents an increase from last year's score of 8.80. This reflects the continued good flow of information between the Company and its investors and an acceptable level of transparency.

A **Public Disclosure Policy** (the "PDP") document has been provided on the Company's website and contains Vestel's policy on how it will approach public disclosure of material events. The IR Unit continues to assume the responsibility of overseeing and monitoring all matters regarding public disclosures.

Vestel also discloses its Code of Ethics and a comprehensive **Insider Trading** document on its website. With respect to the latter, the Insider Trading document was updated in 2012 and made more robust.

With regard to Vestel's 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 with customers, and other stakeholders. Additional safeguards governing the behaviour towards clients, employees and corporate governance principles are also formalized in this document.

During the period under review the Mr. Enis Turan Erdoğan assumed the role of CEO from Ömer Yüngül. Mr. Ömer Yüngül has assumed the role of CEO of Zorlu Holding. There have been no major changes in the operational organization of the Company during the past financial year, nor are any such changes envisioned for the near future. In the case such change does occur, the Company confirms that it will share with the public within the scope of legislative requirements.

A **website** for investors is easily accessible and is continuously improved. The content on the website is well structured and comprehensive. A specific website for investors with a Corporate Governance (CG) section is also easily accessible.

The Company's **annual report**, it is detailed in terms of content and contains a corporate governance section that explains the Company's rationale for opting-out of key governance provisions. The Company's financial statements and their notes are prepared in accordance with existing legislation and international accounting standards.

GOVERNANCE FOCUS
+ <b>Public Disclosure Policy is established and covers material disclosure aspects</b>
+ <b>Disclosure proceedings are clearly defined and assigned to high level personnel</b>
+ <b>A Code of Ethics has been disclosed</b>
+ <b>The Company's website provides a good level of resource for investors</b>
+ <b>A comprehensive annual report has been provided which complies with legislation</b>
+ <b>The list of insiders and a policy to prevent insider trading has been disclosed</b>
- <b>Disclosure on remuneration is limited</b>

### 2.1 DISCLOSURE – PRINCIPLES & MEANS

#### 2.1.1 Information Policy

The PDP, which was last updated in 2010, has been disclosed to the public and is accessible through the

Company's website. The PDP aims at providing shareholders, stakeholders and the public at large with timely, complete, clear, and accurate information in line with the CMB regulations. To underscore its relevance, the board introduces, develops and monitors the PDP, while the IR Unit is responsible for its implementation and follow-up.

The PDP covers scope, forms, frequency and methods of disclosure, informs about the Company's authorized persons regarding public disclosure, 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: (i) all amendments of the disclosure policy should be publicly announced and put on the corporate website within 24 hours; and (ii) special circumstances are prepared by the IR Unit and sent to the ISE and published simultaneously on the Company'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 and prior notification to the IR Unit. Due to the nature of forward looking information and the implied uncertainty, the Company reviews the predictions and assumptions and will disclose revised information about the Company's projections together with the reasons for the changes. The principles applicable to forward looking information are included in the PDP.

### 2.1.2 Disclosure Procedures

After reviewing Vestel's public disclosures, no issues were found that would harm investors' interests. Given Vestel's shares are traded on the Istanbul Stock Exchange (the "ISE"); the Company makes its announcements to the Public Disclosure Platform

("KAP"). For the 2011 financial year, 61 material disclosures were made to the public. Vestel's GDRs are traded also on the OTC market, London. Announcements made to the ISE and CMB are simultaneously translated into English and put on Vestel's website.

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 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 IR Unit is well established and familiar with the responsibility for publicly disclosing all information about the Company. The main activities carried out by the IR Unit during the 2011 financial year have been summarised by the Company as follows: (1) nearly 100 one-on-one meetings were held with investors and analysts; (2) during the reporting period about 200 questions were responded by e-mail and telephone; and (3) participation in six conferences organized by brokerage houses.

During the 2011 financial year, the CMB imposed no sanctions on the Company on account of disclosures.

### 2.1.3 Transparency Issues

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

#### Ethical Behavior

To ensure a high degree of transparency, Vestel discloses its ethical rules to the public. For more information on the Company's Code of Ethics, please refer to the "**Stakeholders**" section of this report.

### Insider Trading

In order to prevent insider trading, Vestel provides a comprehensive list of executives and other third parties who potentially have access to information that can impact the value of the capital market instruments issued by the Company. Vestel has published an Insider Trading document that provides information on the matter like definitions, implementation, and the internal control unit responsibilities.

### External Audit

Since the appointed audit company Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş. (member firm of 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. Upon review, there appears to be no legal conflict between the Company and the external audit firm.

## 2.2 ANNUAL REPORT

GOVERNANCE FOCUS
+ Detailed information on the board of directors
+ Key risks and mitigation efforts are disclosed
+ Detailed information on the Company's operation and strategy
- Future forecasts of sales, efficiency, market shares, etc. are not adequately disclosed

Overall, the annual report continues to be well prepared and houses all of the pertinent information relevant for investors. For example, Vestel's Corporate Governance Compliance Report, risk management, and financial statements can all be found in both tabular and graphic form. Financial information is presented in a manner that is easy to follow and the notes to the financial statements clarify the content. The Company's growth strategy is also clear for shareholders to follow.

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. According to the Company's independent auditor, Grant Thornton, the financial statements truly reflect the current financial status of the Company.

There is a dedicated section on the Company's efforts with regard to corporate social responsibility (CSR) in the annual report. It outlines a thorough and concrete plan regarding employees' social rights and the environment.

Vestel's risk management and internal control systems have been disclosed which is also accompanied by an explanation of the different types of risk the Company must manage (liquidity, interest rate, foreign currency, credit, etc.). For more information on Vestel's risk management and internal control systems, please refer to the "**Board of Directors**" section of this report.

In conclusion, while the Company's annual report provides basic elements, there is still room for improvement to cover more items. Issues that could be elaborated on in the annual report include, but are not limited to, the following: (i) detailed information on the remuneration of executives; (ii) the performance evaluation of the board and its key committees; and (iv) future forecasts (which Vestel states they do not provide such information for competition purposes).

## 2.3 WEBSITE

Vestel has a dedicated website for IR where shareholders may find information on the Company's corporate governance practices, financial statements, annual reports, etc. The Company's letterhead clearly indicates the address of its website. As a means of communication the use of the website is also subject to and incorporated in the Company's PDP.

The website is considered by ICS to be user-friendly and as a satisfying instrument for shareholders to

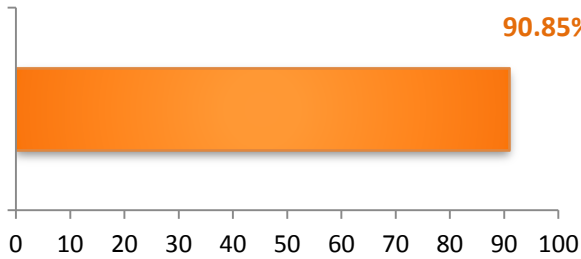
access information on the Company. The Company notes that the website is continuously being improved. For foreign investors an English version of the website is also available, which does not differ in content from the Turkish version.

In reference to the AGM, the website contains relevant information for shareholders. This includes the announcement, agenda, the attendee list, and the Minutes of the AGM.

The Company's website content is structured in a sound manner, where investors find relevant documents suggested by the CMB for inclusion. The website also offers a section that includes information previously disclosed to the public.

# SECTION III - STAKEHOLDERS

## STAKEHOLDERS



### SUMMARY

Vestel has scored 9.08 in this category, which represents a slight increase when compared to its previous rating of 9.04. An area that continues to be not dealt with by the Company is the lack of a formal model to include stakeholders in the Company's management; however, there are mechanisms that address stakeholder issues.

Vestel has provided its **Code of Ethics** on its website. This Code provides the essential framework of rules to be applied in the relationships between the Company and its stakeholders. Stakeholders are continually kept informed within the framework of the Company's PDP. 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.

A **Human Resources (HR) Policy** is in place and disclosed publicly. In accordance with its policy, the Company offers equal opportunity to people with the same qualifications in recruitment and promotions. In addition to these policies, an overview of a robust training policy for employees has been publicly disclosed by the Company. Vestel instituted a performance-based compensation model for its employees in 2007. Finally, the Company adheres to an "open door policy" to keep channels of communication open between management and personnel.

There is a **Corporate Social Responsibility (CSR)** section in the annual report and website outlining Vestel's social and environmental efforts.

GOVERNANCE FOCUS
+ <b>Companywide human resources policy</b>
+ <b>Employee rights are warranted</b>
+ <b>Code of Ethics governing companywide relationships disclosed publicly</b>
+ <b>A section on Corporate Social Responsibility is included in the Company's annual report</b>
- <b>Succession planning for higher-level executives has not been disclosed</b>
- <b>No formal model to include stakeholders in the Company's management, but some actions are in place</b>

### 3.1 RIGHTS & DUTIES OF STAKEHOLDERS

Not much has changed in this regard since ICS's last rating. Vestel recognizes and guarantees the rights of employees in its Code of Ethics. There is also a Corporate Social Responsibility (CSR) section in the annual report where information on Vestel's social initiatives is provided.

Stakeholders are kept informed by the Company through annual reports, material event disclosures, press releases, meetings, and its website.

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. According to the Company, no conflicts have occurred to date. The Company only foresees compensation in case of violation of rights of the customers but not of other stakeholders.

### 3.2 RELATIONS WITH CUSTOMERS & 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.

Customer satisfaction is measured at regular intervals and corrective action is taken to resolve issues and deal with dissatisfaction when it occurs. To this end, periodic "after-sales service and quality meetings" are held with the Company's external customers.

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

### **3.3 PARTICIPATION IN MANAGEMENT**

Stakeholders (inclusive of employees) do not formally take part in the Company's management. However, in order to take into account stakeholders' opinions in the management of the Company, as recommended by the CMB, some actions are in place. More specifically, stakeholders are continuously informed through the IR 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 stated by the CMB.

### **3.4 EMPLOYEES & SOCIAL RESPONSIBILITY**

#### **Employees**

To manage its large workforce, Vestel has a written Human Resources (HR) Policy which is in the Company's public documents. This Policy talks about training employees on the job as well as promotion procedures. Employee relations are conducted by the Company's HR Unit.

The Company ensures that equal opportunities are provided employees with similar qualifications. According to the Company, the HR Policy is based on the rule of "equal opportunity" which denies any sort of discrimination. In recruitments, discrimination is strictly prohibited. To this end, ICS notes that there were no complaints from employees concerning discrimination.

Individual performance rating 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 Company's performance system is built on five criteria. Employee performance is evaluated according to: (1) know-how and qualifications; (2) work contributions and effort; (3) harmony with corporate culture; (4) drive and behavior; and (5) outcomes and results.

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. To date, 200 engineers have benefited from the advanced training opportunities at the Academy.

#### **Social Responsibility and the Environment**

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, services and to protect the environment. 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.

Committed to continuous improvement in its environmental protection efforts, the prevention of pollution, and full compliance with environmental and administrative legislation, Vestel adopted the following measures: (i) considering environmental factors in the assessment of new products and operations; (ii) reducing hazardous materials in product design and production processes in line with national communiqués and relevant EU directives (RoHS, Reach, et al.); (iii) conducting research on materials that generate less pollution; (iv) minimizing the use of the six heavy metals which are hazardous to people and the environment (i.e. lead, mercury, cadmium, Chrome+6, PBB, PBDE); (v) reducing waste, reusing and recycling materials; (vi) increasing productivity through the use of new technologies in order to conserve energy, water and natural resources; (vii) using recycled packaging materials whenever possible; and (v) organizing events to raise environmental awareness.

Within the frame of the policies and targets that are mentioned above, the Company achieved the following results during the 2011 financial year on a year-on-year basis: (1) 17 percent decrease in electricity consumption; (2) 24 percent decrease in water consumption; (3) 26 percent decrease in heating energy consumption; (4) 24 percent decrease in hazardous waste formation; (5) 12 percent decrease in packaging waste formation; (6) 13 percent decrease in waste formation; (7) 36 percent decrease in varnish consumption; (8) 42 percent decrease in plastic raw material consumption; and (9) 3 percent decrease in paint consumption.

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

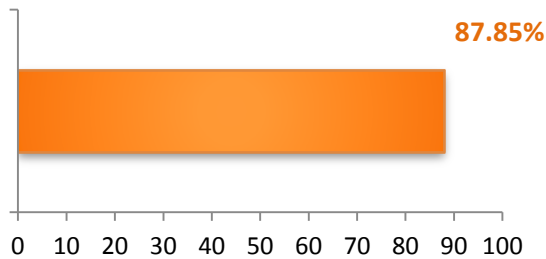
parent Group is a signatory of the U.N. Global Compact Initiative since 2007.

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. During the 2011 financial year, the Company made a total of approximately TL 1.1 million in donations to various foundations and associations working for the public good. The organizations that have received the donations have not been disclosed publicly but are provided at the AGM.

Finally, ICS notes that no lawsuits were lodged against the Company during the period under review on account of environmental damage.

# SECTION III - BOARD OF DIRECTORS

## BOARD OF DIRECTORS



### SUMMARY

Vestel has improved its score to 8.78 in this category when compared to last year's score of 8.74. Vestel's AoA, which was last updated in December 2012, includes a provision that states that the board should consist of a minimum of five and a maximum of ten directors. Currently, there are six board members of which the majority of the members have no function in other executive committees. Looking at the non-executive directors (NEDs), ICS notes that two of them are independent. Such composition is in line with the CMB rules considering Vestel's size. In addition, ICS notes that the compositions of the board's key committees also are in line with the CMB rules.

The suggested separation of the chairman of the board and the CEO is followed. The Company's AoA clearly describes both the duties and working principles of the board. Board members have prepared explicit declarations of compliance with internal and external regulations. This is in accordance with the CMB regulations.

Each board member has one vote without any privileges. Attendance at board meetings is encouraged and all board members need to be present in-person at meetings where important matters concerning the operations of the Company are going to be discussed. Vestel has a rule that imposes resignation on members who do not attend three consecutive board meetings.

### GOVERNANCE FOCUS

+ The board plays an active role in the Company's strategic planning
+ The Company does not lend money to board members or executives
+ Each board member is entitled to one vote
+ A secretariat has been established to support the board
+ CEO and Chairman positions are separately held
+ Efficient risk management and internal control mechanism in place
+ The board has two independent directors
+ The board now has a female director
- Cumulative voting in board elections is not provided
- Board members are not restricted to accept other positions outside the Company
- Disclosure surrounding remuneration is limited

There are risk management and internal control systems in place at Vestel, which has been made more robust over the years.

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 continues relies on market and labour law.

### 4.1 PRINCIPLES OF ACTIVITY, DUTIES, AND RESPONSIBILITIES OF THE BOARD

Vestel's board appears to fulfill its duties with diligence and meets its responsibilities. 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 be supported with reasonable and detailed 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 IR Unit. Regular meetings between the aforementioned parties continue to take place. The mechanism in place provides that the corporate governance committee interacts with the IR Unit on the one side and with the main board on the other. The Head of the IR 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, ICS considers 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 rules, 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 2011. 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.

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.

A performance evaluation of the board and its key Committees has been carried out in 2011 but details have not been provided in the Company's public documents. Vestel does not disclose the details of a formal training/compliance program for new board members. According to the Company, the corporate governance committee conducts an orientation program for the newly-appointed members.

## 4.2 BOARD STRUCTURE

The board of Vestel is composed of six members of whom none are executive directors (EDs). From the non-executive directors (NEDs), two are deemed to be independent. The age limit is 75; any member over such age is imposed to resign. 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.

Name	Role	Independent
Mr. Ahmet Zorlu	Chairman	
Mr. Ali Akın Tari	Vice-Chairman	x
Mr. Mumin Cengiz Ultav	NED	
Mrs. Selen Zorlu Melik	NED	
Mr. Mehmet E. Zorlu	NED	
Mr. Hacı Ahmet Kılıçoğlu	NED	x

The suggested separation of the chairman of the board and the CEO is followed (i.e. the CEO is not on the board). 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 six, which is in line with CMB rules. Individual independence statements by each single independent board member are now provided.

Since ICS's last review, a female director - Mrs. Selen Zorlu Melik - has been appointed to the board which is a positive step taken by the Company to demonstrate its respect for diversity in the boardroom.

Appointed board members at Vestel seem to be highly qualified and show a high level of knowledge and experience, reflected in their 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. All directors have university studies except for the chairman, Mr. Ahmet Zorlu.

The Company takes into consideration the qualifications of its board members. The 2011 annual report states that to date there has been no need for a training or compliance program for its board members, but that if such a program does become necessary, it will be carried out by the corporate governance committee.

No lawsuits were brought against board members with regard to the Company's activities during the period under review.

Finally, in reference to the election of the board members, Vestel does not permit cumulative voting. Cumulative voting is not yet practiced in the Turkish market although it is recommended by the CMB.

## 4.3 BOARD COMMITTEES

### 4.3.1 General

Vestel has established an audit committee and a corporate governance committee. Vestel is also in

the process of establishing a committee for the early detection of risks in line with the CMB rules. The audit and corporate governance committees met in 2011. Upon engagement, the Company confirmed that all meetings were attended in full.

According to the CMB, each committee should be composed of at least two members. This is the case at Vestel. In principle, no board member should serve on more than one committee but we note that Mr. Ali Akın Tarı serves on both committees. Upon engagement, the Company confirmed that Mr. Ali Akın Tarı serves on two committees given the board's size.

### 4.3.2 Audit Committee

The audit committee, reporting directly to the board, oversees the financial and operational activities of the Company. The audit committee scrutinizes the effectiveness and adequacy of the internal control and audit. The audit committee is also responsible for ensuring that measures are taken such that internal controls are transparent. The committee's charter is accessible through the Company's website.

The audit committee's current composition, which is in line with the CMB's requirements, is as follows:

Name	Role	Independent
Mr. Ali Akın Tarı	Chairman	x
Mr. Hacı Ahmet Kılıçoğlu	Member	x

According to the charter disclosed on the Company's website, the audit committee must meet at least four times a year. The audit committee met four times during the 2011 financial year.

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

### 4.3.3 Corporate Governance Committee

A corporate governance committee has been established in 2005. This committee's function is to assist the board in creating and improving the Company's governance structure and practices. The

committee's charter is accessible through the Company's website but only in Turkish.

In June 2012, the board decided that the corporate governance committee also acts as the Company's nomination committee and remuneration committee. The corporate governance committee's composition is as follows:

Name	Role	Independent
Mr. Ali Akın Tarı	Chairman	x
Mr. Mehmet E. Zorlu	Member	

Mr. Ali Akın Tarı is the chairman of the corporate governance committee and is an independent board member, which is in line with the CMB regulations. Finally, the CEO does not take part in this committee.

The corporate governance committee is to meet at a minimum of three times a year according to the charter disclosed on the Company's website. This committee met three times in 2011.

#### 4.4 EXECUTIVES

The day-to-day running of the Company is assigned to the senior management team. Below is the list of the Company's senior management team:

Name	Role
Mr. Enis T. Erdoğan	CEO
Mr. Cem Köksal	Finance
Mr. İhsaner Alkım	Chief Technology Officer
Mr. Necmi Kavuşturan	Human Resources
Mr. Özer Ekmekçiler	Head of Vestel Electronics, Vestelkom, Vestel Digital and Vestel Russia
Mr. Nedim Sezer	Head of White Goods
Mr. Ahmet Süha Erol	Head of Foreign Trade

The duties of the executive committee are not stated in Vestel's public documents. 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.

Previous 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

Within ICS's analysis, no issues have been revealed that would cause doubt about the transparent, reliable and accountable work of the executives. The executive team reports to the board and the Company's results are scrutinized in comparison to the budget.

Penalties to be applied in cases of losses arising from the failure or underperformance of managers serving in the technical and administrative organization have not been specified in the Company's public documents. However, upon engagement, the Company confirmed that there are a number of actions that can take place which include termination of employment (depending on the severity of the situation).

From previous engagement, the Company confirmed that it has Directors & Officers liability insurance.

#### 4.5 FUNCTIONING OF THE BOARD

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.

Board meetings are held whenever deemed necessary and in any case, at least once a month at the Company's headquarters in Istanbul, Turkey. Board meetings are called by the chairman and in his/her absence by the vice-chairman.

Vestel pays special attention to the functioning of the board of directors. For instance, the board met

36 times during 2011 and the overall rate of attendance at board meetings was 87 percent. 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."

Although all board members are required to attend meetings in person, the Company provides the provision to attend the meetings by using any technological methods that would provide remote access. The opinions of the members, who are not able to attend the meeting but present their opinions in writing, shall be submitted for the information of the other members. According to the Company, travel and meeting expenses of the board are paid out of the Company's general budget.

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 unanimously. In case of parity of votes, the subject is re-discussed in the next meeting. If no change occurs in parity in this meeting, then the proposal is assumed to have been rejected. It is necessary to publicize the grounds of negative vote casted by the independent members.

Each board member is entitled to one vote without any preferential voting or veto rights. Executives have to attend meetings of the board whenever necessary and requested.

Overall, 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.

#### **4.6 INTERNAL CONTROL & RISK MANAGEMENT**

Vestel 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. The Company's website features a section related to risk management and internal control.

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.

During the 2011 financial year, Vestel revised the structure and fields of duty of internal audit function within the framework of compliance to TCC and TAS. In this scope, Vestel's Internal Audit function is divided into two main groups as Internal Audit, and Financial Audit and Tax Audit. Being long on service, Internal Audit department shall henceforth be responsible for only audit of business processes. On the other hand, Financial Audit and Tax Audit Department shall audit the authenticity of all financial statements (external reports and management reports) prepared by Vestel's Companies and give assurance to the boards on this subject. In addition, Vestel started auditing its Information Technologies (IT) in 2012 in the scope of Internal Audit organization.

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.

#### **4.7 REMUNERATION**

The Company disclosed its Remuneration Policy on its website, in English and Turkish. Whilst the current disclosure surrounding this Policy remains limited when compared to western standards, we note that not much guidance has yet been provided on remuneration disclosure in this market. At the Company's 2011 AGM, shareholders approved a yearly fee of TL 85,000 (2010: TL 77,000) for each board member.

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

##### **Board Members**

For board members, fees are determined based on the time required for the board meetings, experience of the board members, pre-meeting and post-meeting preparations and the performance of duties. According to the Company's Remuneration Policy document, remuneration is commensurate with the practices of the peer companies in the sector.

Board members' expenses in relation to their duties are compensated by the Company. No performance-based payment is made to the independent board members.

##### **Executive Directors**

The Company's remuneration packages for its executive officers consist of the following: (i) basic salary; (ii) annual bonus; and (iii) benefits. The salary levels are reviewed annually by the board in order to be able to reflect market trends and the individual's qualifications and performance. A bonus is paid at the end of the financial year taking into consideration of the Company's financial

performance of the Company and the contribution of the executive to such performance.

While developing the Company's remuneration policy, criteria such as size of the production and sales activities carried out, area of coverage, international operations, the number of employees, structure of the affiliates and their weight in the total, the level of knowledge to ensure sustainability of the operations, the structure of the sector the Company operates in and the wage levels in similar companies are taken into account.

A stock option plan for senior managers and other employees at every level is not available. Through engagement, the Company stated that it may consider implementing one in the future.

The Company states in its Policy document that all aspects of the wage are private and confidential. It is only within the knowledge of the employee, his/her executive and HR Department.