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In 2017, the global economy was shaped by the central banks' decisions and geopolitical developments. Pro-growth monetary policies pursued by the world's major central banks, especially the Federal Reserve Bank (Fed) and the European Central Bank (ECB), yielded positive results and led to an acceleration in the growth rates of the developed countries. Likewise, developing countries also saw a pick up in their growth performance. Consequently, 2017 was a year of global economic growth which went beyond expectations.

It is noteworthy that this synchronized growth was achieved in the presence of geopolitical and political issues in various parts of the world, such as the rising concerns for the protectionist policies of the US President, Donald Trump, Brexit vote in the UK, unfavorable developments in the Middle East and the growing tension between North Korea and the US.

Parallel to the steady improvement in economic growth and employment rates in the US, the Fed has implemented three scheduled rate hikes throughout the year and raised the policy interest rate to the 1.25%-1.50% range as of the end of 2017. The Fed also initiated the process for balance sheet normalization in October. On the other hand, the US Dollar depreciated in international markets due to inflation failing to yield the desired momentum and the failure of the Trump administration to implement its growth plans as fast as expected.

In Europe, however, the Euro has started appreciating, especially from 2Q17, on expectations that the ECB would take steps to tighten liquidity. In 2017, the Eurozone displayed its strongest growth performance since the global crisis in 2008. In parallel to these developments, the ECB decided to reduce the size of its monthly asset purchases and took the initial steps towards monetary policy normalization in 2017. Going through a rebalancing process, the Chinese economy also exhibited signs of returning to a stable growth trajectory in 2017, though not as high as before.

The commodity prices maintained their uptrend in 2017, while developing countries continued to attract capital flows thanks to the supportive liquidity policies on a global basis and investors' quest for high returns.

### **With its strong performance, the Turkish economy once again demonstrated its resilience and dynamism.**

The Credit Guarantee Fund launched in 2017, the government's employment campaign and the industry-specific temporary tax cuts boosted domestic consumption and economic growth in Turkey.

Thanks to these incentives and a low base in 2016, the Turkish economy displayed a strong performance in 2017 and recorded a 7.4% growth for the full-year following its record-breaking 11.3% growth in 3Q17.

**IN 2017, THE GLOBAL ECONOMY WAS SHAPED BY THE CENTRAL BANKS' DECISIONS AND GEOPOLITICAL DEVELOPMENTS WHILE THE GLOBAL ECONOMIC GROWTH EXCEEDED EXPECTATIONS.**

# VESTEL CONTINUED TO PURSUE ITS SUSTAINABLE AND PROFITABLE GROWTH PLANS IN 2017 WHILE ALSO RECORDING NOTABLE ACHIEVEMENTS.

In return, with the increase in food and energy prices, inflation hit double digits by the end of 2017 while foreign trade deficit and current account deficit continued to remain among the main issues of the Turkish economy.

While economic matters such as inflation, current account deficit, employment and foreign debt will continue to be among the most pressing agenda items in 2018, the geopolitical risks, the reform program and stimulus measures to be implemented by the Turkish government, the Fed's interest rate decisions and the Brexit process will also have an important impact on the markets and the economy.

Based on the projections that the government would continue with its pro-growth policies and exports would be supported by the recovery in global economy, the Turkish economy is expected to grow at a more moderate 4-5% in 2018, following its strong performance in 2017.

While the ongoing recovery in export and tourism revenues is expected to have a positive impact on the current account deficit, inflation is also projected to recede to single digits towards the end of 2018 thanks to a favorable base effect.

**In 2017, Vestel continued to pursue its sustainable and profitable growth plans while also registering notable achievements.**

While the SCT exemption on white goods, which was in effect during February - September, spurred a strong growth in our domestic sales volumes, the economic recovery in Europe, our main export market, had a positive impact on our white goods exports.

In the TV segment, Vestel started the production and sales of Toshiba branded TVs for the European market in 2017 under the brand licensing agreement signed with the Toshiba Visual Solutions Corporation. The Toshiba branded TV sales accelerated in the second half of the year following the completion of the new product line-up for the brand in June 2017.

Another important development of 2017 was the groundbreaking for our new washing machine and dryer production plant in July 2017. Planned to become operational in the second half of 2018 with an investment of EUR 70 million, our new plant is designed in line with the Industry 4.0 principles and will have a production capacity of 750,000 washing machines and 750,000 dryers per year.

Previously crowned with the "TPM Excellence" and "Excellence In Consistent TPM Commitment" Awards for its successful TPM (Total Productive Maintenance) practices implemented since 2010, Vestel once again sealed its success with the receipt of the "Special Award for TPM Achievement" in 2017. The fact that Vestel is the first TV manufacturer in the world to be awarded with the TPM Special Award demonstrates our strength in manufacturing.

Meanwhile, Vestel Beyaz Eşya, which received the "TPM Excellence Award" in 2014, took its operations a step further and was deemed worthy of the "Award for Excellence in Consistent TPM Commitment" in 2017. This achievement made Vestel Beyaz Eşya the first and only household appliances company in the world to simultaneously receive this award for its six production facilities.

### **We have the upper hand in adapting to Industry 4.0.**

The implementation of TPM activities for years provides Vestel with an advantage in adapting to Industry 4.0.

What we ultimately want to achieve with our digital transformation named as VESTEL 4.0 is a "Smart Factory" where all processes are carried out by artificial intelligence software.

Our competency in software is one of our major strengths in transition to Industry 4.0.

We foresee that this transition will also change the profile of our human resources with workers doing manual work being replaced with employees who are capable of designing, developing and controlling manufacturing processes.

In addition to bringing increased levels of productivity and significant cost savings in manufacturing, the Industry 4.0 transformation will also serve towards our goal of maximizing customer satisfaction.

With this transformation, Vestel will be able to offer higher value added products to the market faster than before, thus improving its global competitiveness.

We are working incessantly to deliver on our promise of making Vestel City the first manufacturing facility in Turkey to complete this transformation.

### **360-degree corporate sustainability**

As part of our 360-degree corporate sustainability vision, we use our advantages in R&D and innovation to expand our sustainable product portfolio.

The levels of efficiency we have reached in energy and water consumption can be seen clearly in our manufacturing processes and record-breaking products. Continuing our efforts to improve energy efficiency further, we contribute towards building a sustainable future.

The fact that Vestel Beyaz Eşya has recently received the Water Footprint Verification, a first in its industry in Turkey, represents a great example of our achievements.

As one of our numerous international certificates, this document indicates the standard we have reached in water consumption and highlights the importance we attach to the efficient use of natural resources.

We are also taking important steps in other fields which constitute the main pillars of our sustainability approach, such as customer services and training and development of human resources. While we provide support to our R&D activities through the training programs at Vestel Technology Academy, we also improve the quality of our customer services and strengthen our human resources under our continuous improvement approach by offering training courses at various platforms, mainly at Vestel Retail Academy and Vestel Service Academy.

The “Customer-Friendly Brand” and “Customer-Friendly Organization” Certificates, which we have received in 2017, marking a first in our industry, indicate Vestel’s perfectionist service approach and the level it has reached in customer services.

### **A striking example of the integration of technology into social responsibility**

We believe that a happy future can be built in a world where women, men, children and the disabled, are actively and collectively engaged to create value without any discrimination. To this end, we consider our Accessibility Project as one of the striking examples of integrating technology into the area of social responsibility.

Our Accessibility Project is designed to allow people with disabilities to access the world of Vestel without any obstacles throughout all processes from the production plant to the end-user, from the Company website to customer services.

Employment of the disabled and other social responsibility projects for individuals with disabilities constitute the complementary aspects of this project.

We were very proud to see our project represent Turkey at the 2017 UN Conference of Parties.

Vestel was recognized as the “Enterprise with the Highest Off-Quota Employment of Disabled People” and increased the total number of its disabled employees to 440 in 2017.

### **Proud steps to the future...**

As a global manufacturing giant which designs the future ahead, Vestel makes a name in new areas as well. Our smartphone Venus, which stands out with its high standards and performance and which we believe, will secure a stronger position in the future with its constantly improving new models, is one of the elements which demonstrates Vestel’s innovative vision. Developing and expanding its smart home and smart city platforms, Vestel is also set to make a name in these areas in the future. Our achievements in innovation and competencies in R&D foster our belief that Vestel will be one of the companies to shape the future.

Our Company’s fundamental purpose of existence is to devotedly work for a more livable world and a wealthier Turkey. I would like to extend my gratitude to each member of the great Vestel family and to all of our stakeholders, who have shared our dreams and achievements and accompanied our journey to the top.

Kind regards,



**Ahmet Nazif ZORLU**  
Chairman

## BOARD OF DIRECTORS



**Ahmet Nazif Zorlu**  
Chairman



**Ali Akın Tari**  
Vice Chairman



**Selen Zorlu Melik**  
Board Member

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family owned textiles business in Denizli, Babadağ. In 1970, Mr. Zorlu moved the company's headquarters to Istanbul and laid the foundations of Zorlu Holding together with his brother, Zeki Zorlu. Ahmet Zorlu set up his first company, Korteks in 1976 and gathered all the companies under the roof of Zorlu Holding in 1990. Acquiring Vestel in 1994, Ahmet Zorlu opened the door to new lines of business for Zorlu Holding. Mr. Zorlu's entrepreneurialism, which began with the textile industry, went on to manifest itself in more companies operating in a wide range of industries such as household appliances, electronics, energy, property development, metallurgy and defense. Ahmet Zorlu serves as the Chairman or Deputy Chairman of the Board in numerous Zorlu Group companies operating in different industries including Vestel Elektronik and Vestel Beyaz Eşya.

With a keen interest in non-governmental organizations, Ahmet Zorlu sits on the Boards of DEİK (Foreign Economic Relations Board), TÜSİAD (Turkish Industry and Business Association), DENSİR (Education and Culture Foundation of People of Denizli), BASİAD (Babadağ Industry and Business Association) and TETSİAD (Turkish Home Textile Industrialists' Association).

(1943 - Koruköy) After his graduation from the Istanbul Law Faculty, Ali Akın Tari served as Tax Inspector and Chief Tax Inspector at the Ministry of Finance between 1972 -1986. He was appointed as the Vice President of the Tax Inspectors Board in 1986 and Group Head of the Istanbul Tax Inspectors Board in 1989 and continued to serve in this position until he was appointed as a Board Member to the Banking Regulation and Supervision Agency in 2001. Ali Akın Tari was also elected as a Board Member to the Savings Deposit Insurance Fund in addition to being a Board Member of the Banking Regulation and Supervision Agency in the same year. He left his position at the Banking Regulation and Supervision Agency when his period of duty expired in 2004 and was appointed as a Consultant for the Ministry of Finance. Mr. Tari served in this position until 2007, when he voluntarily left his position in the public sector to work in different areas in the private sector. Mr. Tari became a member of the Board of Directors and the Audit Committee of Dilerbank in 2008; in addition to this position, he was also appointed as a member to the Board of Directors of Diler Holding in 2011. Besides his board membership at Vestel Elektronik Sanayi ve Ticaret AŞ, Akın Tari also serves as a Board Member at Vestel Beyaz Eşya Sanayi ve Ticaret AŞ and Zorlu Enerji Elektrik Üretim AŞ, which are Zorlu Group companies.

(1975 - Trabzon) Selen Zorlu Melik graduated from the Department of Business Administration at Uludağ University. She began her professional career at Denizbank in 1998. Following her internship at Denizbank's Bursa branch, she joined the Management Trainee Program of the bank in 1999. After working in a number of positions at the Denizbank head office, Mrs. Zorlu Melik attended a Marketing Certificate Program at the University of California, Berkeley, USA in 2001. She subsequently started to work at the Korteks Yarn Plant in 2002 and became a Board Member of the same company in 2004. Selen Zorlu Melik currently serves as a Board Member in numerous companies within Zorlu Group in addition to being a Board Member at Vestel Elektronik.



**Mehmet Emre Zorlu**  
Board Member

(1984 - Istanbul) Mehmet Emre Zorlu graduated from the Department of Electrical and Electronics Engineering at Koç University in 2006. He obtained a Master's degree in Innovation and Technology Management from the University of Essex in the UK in 2008 and began working at Vestel Group companies in 2009. In addition to serving as a Board Member at Vestel Elektronik, Mehmet Emre Zorlu also sits on the Boards of Zorlu Holding and other Zorlu Group companies. Mr. Zorlu is a member of the Young Businessmen Association of Turkey (TÜGİAD) and Endeavor Turkey.



**Olgun Zorlu**  
Board Member

(1965 - Trabzon) After graduating from university in the United Kingdom with degrees in Textiles and Business Administration, Mr. Olgun Zorlu began his professional career in 1986. He has started to serve in managerial positions at various Zorlu Group companies in 1988 and managed their foreign market research and business development operations. Mr. Zorlu started serving as a Board Member at Zorlu Holding in 1998. In addition to his board membership at Vestel Elektronik Sanayi ve Ticaret AŞ, Mr. Zorlu also serves as a Board Member at Zorlu Holding and other Zorlu Group companies.



**Hacı Ahmet Kılıçoğlu**  
Board Member

(1956 - Giresun) Ahmet Kılıçoğlu graduated from the University of Essex with a Bachelor's degree in Economics in 1977 and a Master's degree in Economics in 1978. He began his professional career at the Ministry of Industry and Technology in 1979 and continued his career as an Assistant Specialist at Türkiye İş Bankası in 1980. After completing his military service, Mr. Kılıçoğlu worked in the private sector for a couple of years. Mr. Kılıçoğlu then held administrative positions at the United Nations Development Program (UNDP) and the F-16 project, before going on to take office at Türk Eximbank in 1987, where he worked in various positions. He later served as the CEO of the bank and as Board Member between 1998 and 2010. Mr. Kılıçoğlu served as a Board Member at the Turkish Banks Association between 1998 and 2010 and was also elected as the President of the World EximBanks Union (The Berne Union) in 2001. He also served as a Consultant to the President at the Islamic Development Bank between 2008 and 2009 and as Vice Chairman at Denizbank in 2010. In addition to being a Board Member at Vestel Elektronik Sanayi ve Ticaret AŞ, Mr. Kılıçoğlu also seats on the Boards of two other Zorlu Group companies - Vestel Beyaz Eşya Sanayi ve Ticaret AŞ and Zorlu Enerji Elektrik Üretim AŞ. He is also a Board Member at Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd, Doğan Gazetecilik AŞ and Doğan Holding AŞ.

THE TURKISH WHITE GOODS MARKET HAD A BUOYANT YEAR IN 2017 WITH DOMESTIC SALES GROWING BY 14% TO A RECORD HIGH 8.5 MILLION UNITS BOOSTED BY THE SPECIAL CONSUMPTION TAX RELIEF.



**Enis Turan Erdoğan**  
CEO

### CONSOLIDATED REVENUES

**TL 12.1 bn**

Consolidated revenues increased by 27% to TL 12.1 bn in 2017 with exports comprising 66% of total revenues.

### TECHNOLOGY SHOW

**790 products**

We have exhibited 790 products and put on a real technology show at our 3,000 m<sup>2</sup> stand at the IFA Fair in Berlin in 2017.

### NEW MANUFACTURING PLANT

**1,500,000 units/year**

We expect to create new employment for 1,100 people with our new production facility, which is planned to come onstream in the second half of 2018 and have a production capacity of 750,000 washing machines and 750,000 dryers per year.

### R&D TEAM

**1,600 employees**

R&D will always remain as our most distinct competitive advantage. Our well-versed R&D team of over 1,600 people and our R&D organization abroad will propel Vestel further.

### Could you talk about the developments in the TV and white goods markets in 2017?

The Turkish white goods market had a very strong year in 2017 with domestic sales increasing by 14% and hitting a record high 8.5 million units thanks to the special consumption tax (SCT) relief which was in effect between February 3 - September 30.

In contrast, domestic TV market contracted by 6% due to lack of a major sporting event during the year and the negative impact of TL depreciation on demand.

As for international sales, Turkey's white goods exports grew by 6% to 20.6 million units, also representing a historic high. This was driven by the recovery in Western Europe, our main export market, led by France, Spain and Italy, and the strong growth in the Eastern European market.

Turkey's TV exports contracted by 19% in the first six months of the year due to the high base effect created by the UEFA European Football League in June 2016. Exports, however recovered in the second half and registered a 28% growth as the base effect has ended. As a result, Turkey's TV exports increased by 4% for the full-year in 2017.

### How did Vestel perform against this backdrop?

The surge in domestic white goods sales on the back of the SCT exemption, increase in smartphone sales and the positive effect of a weaker TL on export revenues led to a 27% growth in our consolidated revenues to TL 12.1 billion in 2017. Exports constituted 66% of our total revenues.

Against a double digit contraction in the Western European TV market, our main export market, our TV exports registered a slight growth in 2017, thanks to the contribution from the sales of Toshiba branded TVs, which commenced for the first time this year under the brand licensing agreement signed in September 2016 and which gathered momentum especially in the second half of the year. We increased our white goods exports by double digits in 2017 thanks to new projects and strong growth in non-European markets.

Despite the contraction in the domestic TV market, of which we had been the leader since 2014, we maintained our sales volumes and sustained our leadership position by further increasing our market share in 2017. The Turkish white goods market had a very buoyant year in 2017, during which we outgrew the market and increased our market share further.

The depreciation of TL exerted pressure on our domestic margins, which coupled with the increase in raw material costs especially in the household appliances segment, had a negative impact on our profitability in 2017.

**CONSOLIDATED REVENUES  
INCREASED BY 27% YOY TO  
TL 12.1 BN IN 2017. EXPORTS  
COMPRISED 66% OF TOTAL  
REVENUES.**

# WE ARE ELEVATING OUR LEVEL OF MANUFACTURING EXCELLENCE BY COMPLETING THE PHASES OF TPM MANAGEMENT SYSTEM AND CROWNING OUR ACHIEVEMENTS WITH AWARDS.

While consolidated EBITDA amounted to TL 867 million, remaining flat with 2016, EBITDA margin receded to 7.2%. Vestel Elektronik closed 2017 with a consolidated net income of TL 71 million.

### **What are the highlights for 2017 regarding your manufacturing operations?**

We broke ground for our new washing machine and dryer production plant in July 2017, for which we initiated the investment in late 2016.

The new plant, which will have an indoor area of 63,000 m<sup>2</sup> and realized with an approximately EUR 70 million of investment, is designed in accordance with the Industry 4.0 principles. The plant will have a production capacity of 750,000 washing machines and 750,000 dryers per year and is expected to create employment for 1,100 people once it begins operations in the second half of 2018.

The new plant is a strategic investment for increasing our sales and expanding our product range.

We are elevating our level of manufacturing excellence by completing the phases of TPM Management System and crowning our achievements with awards.

Following on the “Award for TPM Excellence” and the “Award For Excellence In Consistent TPM Commitment” conferred by the JIPM (Japan Institute of Plant Maintenance) in 2013 and 2014, Vestel Elektronik received the “Special Award for TPM Achievement” for TV production in February 2017 to become the first TV manufacturer to receive this accolade. Vestel began preparations for the “Advanced Special Award for TPM Achievement” in 2017 and submitted its application for this award, which is to be granted in 2018.

After receiving the “TPM Excellence Award” in 2014, Vestel Beyaz Eşya won the “Award for Excellence in Consistent TPM Commitment” in 2017. Vestel Beyaz Eşya is the first and only household appliances company in the world to receive this award simultaneously for its six production plants.

Our successful work in TPM practices provides us with a significant advantage in Industry 4.0 transformation, where machines communicate with each other to produce data, which is then used to manage the manufacturing processes.

Under the vision of achieving digital transformation and full connectivity in all processes from the suppliers to the customers, Vestel’s engineer teams undertake and implement studies in the areas of horizontal/vertical supply chain integration, artificial intelligence software, cloud technology, IoT (Internet of Things), lights-out factory practices and automation (autonomous and robotic solutions).

“Lights-out manufacturing” represents the most advanced level of factory automation in the world. In the lights-out factories of the future, there will be no need for lighting or heating because all processes including manufacturing, storage and transportation will be entirely undertaken by the robotic systems without requiring any human intervention. Vestel moved towards this concept in some sections of its plastic injection plant in 2016 and continued to expand this application to other areas in 2017. In this concept, all processes, from the arrival of the raw materials to the shipping of the finished products, are automated and can be controlled remotely.

**We know that R&D is one of the main competitive advantages of Vestel. How do your R&D activities shape Vestel's present and future?**

Vestel proves its upper hand in R&D through the patents it obtains and commercializes, the projects it develops and its partnership ecosystem. The “Best R&D Center Award” in the electronics sector, which we have been receiving for the last five years confirms our accomplishments in this field.

As a global player, one of the R&D priorities of Vestel, is to increase the Company's competitive power in domestic and foreign markets. To be one step ahead of our competitors, we are working to develop products which offer an optimum mix of price, quality and innovation. Vestel distinguishes itself with its new generation display technologies and smart and energy efficient products. While making innovative changes in our existing products is crucial for consumer demand, discovering new and growing areas and identifying which areas to focus based on our R&D competencies are critical for ensuring the sustainability of our competitive advantages.

With Industry 4.0, we are shifting to a new working model where humans and robots work together and machines directly communicate with each other. One of our R&D missions is to effectively utilize our competencies in software and connectivity in the transition to this new era of automation. Therefore, we are constantly investing in and developing our human resources to support our R&D activities. We are actively using the Vestel Technology Academy for the improvement of our R&D work and tailor the training programs of the Academy to contribute to our Industry 4.0 transformation.

For the last five years, we have been conducting research and development on smart homes-smart cities, and I am confident that we are one of the most advanced players in the world in this field. We are currently working on systems to carry smart platforms, which offer an opportunity for unlimited expansion, from homes to the street, and from there to the city. Effective use of time and resources will require a smarter life. A smart life will come our way from several directions, from the management and storage of energy to smart charging units for electric vehicles. As Vestel, we aim to take an active role in building a smart world and a smart life. We will create synergies with and benefit from Zorlu Group's experiences in energy and mining sectors in building a smart world.

Automotive electronics is a new area of focus for us. Electric vehicles and devices that get smarter every passing day thanks to digitization offer us golden opportunities in this field. We are also interested in entering into the medical devices and equipment sector. Our aim is to become a key player in these markets in the future.



**Your Accessibility Project was a great success and at the 10<sup>th</sup> Conference of States Parties to the UN Convention on the Rights of Persons with Disabilities, Vestel shared its innovative accessibility solutions with the world. What would you like to say on this?**

At Vestel, we think that access to information and technology is a human right. Building on this idea, we consider developing technology which would facilitate the lives of people with disabilities as part of our social responsibility. Reaching consumers in many parts of the world, we contribute not only to our country but to the entire world.

### VESTEL, WHICH FOCUSES ON ENERGY AND WATER EFFICIENCY, EXHIBITED ITS NEW AND RECORD BREAKING PRODUCTS, WHICH INCLUDE THE MOST ENERGY EFFICIENT, WATER CONSERVING AND QUIETEST PRODUCTS, AT THE IFA FAIR.

Our Accessibility Project aimed at people with disabilities presents a great example for the world. Representing Turkey at the UN's Conference of States Parties, which was organized under the heading of "Technology for a Better Life" to discuss innovative solutions to facilitate the lives of people with disabilities, Vestel's Accessibility Project was very well received by the participants.

I believe that our project will help raise awareness for the disabled individuals not only in Turkey but also in other countries and will be a great example for granting equality and more opportunities to people with disabilities. In this respect, I believe that this project is also a source of pride for Turkey.

This umbrella project, which has three main goals, includes accessible products, employment of the disabled and Vestel's other social responsibility projects for people with disabilities. Within this framework, we are working to make our products, services and technologies more accessible for the disabled individuals.

**You strengthen your reputation in the international arena each passing year by participating in various trade fairs and launching your new products in these platforms. What were the highlights for 2017 regarding the fairs attended and the new products introduced?**

Our stands at IFA-Berlin, CES-Las Vegas, Living Kitchen-Cologne, MWC-Barcelona and Smart Cities Conference-Qatar attracted a great deal of interest in 2017. At these fairs, Vestel introduced its smart products, which can be controlled by mobile devices and interact with each other, to consumers and its business partners with the "Smart Home" platform set up at its booth.



We have exhibited 790 products and put on a real technology show at our 3,000 m<sup>2</sup> stand at Europe's largest and longest-running consumer electronics fair, the IFA, in which we have participated for the 27<sup>th</sup> time in 2017. These are the fruits of our investments in R&D and innovation.

Vestel attaches great importance to energy and water efficiency together with design and technology. Vestel exhibited its new and record breaking products at the IFA, which include the most energy efficient, water conserving and quietest products approved by the German independent testing agency, the VDE. Our products which make the lives of consumers easier, such as the washing machines that provide medical level hygiene and UV technology, ovens with the "hot air shield" feature, fridges with the vacuum sealing technology that keeps food fresh for a longer period and fridges with the voice command function that requires no internet connection drew a lot of interest at the IFA fair.

Additionally, our Sharp and Toshiba branded products were displayed at separate booths at the IFA. The expanded white goods product range of Sharp and the new TV line-up we developed for Toshiba will help us to grow our market share in Europe.

As part of our collaboration with the e-commerce giant Amazon, which we announced at the IFA, the Amazon Dash Replenishment service has been integrated into the smart washing machines produced by Vestel Beyaz Eşya. This new system enables automatic ordering of laundry detergent and fabric softeners via Amazon when their supply is at low levels.

CURRENTLY, ALL OF OUR PRODUCTS, FROM WHITE GOODS TO TELEVISIONS, HAVE BECOME SMART. IN THE NEXT PHASE, WE ARE PLANNING TO PROVIDE COMPLEMENTARY SERVICES ALONG WITH OUR PRODUCTS IN ORDER TO FACILITATE CONSUMERS' LIVES AND SUPPORT TRANSITION TO A SMART LIFE.

As part of another collaboration with Amazon, TVs manufactured by Vestel were integrated into the ecosystem of Alexa, Amazon's voice assistant, enabling consumers to control their TVs with voice command.

Also unveiled at the IFA Fair was Venus Z10, the next-generation high-end model of the Venus smartphone family. This model was introduced with superior design and technical features.

During the fair, we also showcased the "Vestel Smart Mirror", a personalized visual assistant brought to life by Vestel – Vitra collaboration. This product, which is Turkey's first smart mirror, provides users with access to weather reports, calendar, traffic information, synchronized social media networks, newsflow and music.

As is the case each year, Vestel drew great interest at the IFA Fair with its hundreds of new products as well as announcements of new partnerships in 2017.

At the biennial Living Kitchen Fair-Cologne, where built-in home appliances are exhibited, we have displayed Vestel and Sharp products at separate stands, with 750 m<sup>2</sup> and 400 m<sup>2</sup> of areas, respectively, and acquired new local and international business partners.

Moreover, Vestel attended the Smart Cities Conference, which was organized in Qatar for the first time, as a golden sponsor and exhibited its most innovative and luxurious products at its 450 m<sup>2</sup> stand.

#### **What would you like to say about the upcoming period?**

R&D will always remain as our most distinct competitive advantage. Our well-versed R&D team of over 1,600 people and our R&D organization abroad will propel Vestel further. We are strengthening our competencies in industrial design, innovative product development and software with our efforts and investments for transition to Industry 4.0. The Industry 4.0 transformation is of vital importance for us to increase our competitiveness in the global arena and be ahead of our competitors. Therefore, we are using our best efforts to make Vestel City the first manufacturing facility in Turkey to complete this transformation.

Currently, all of our products, from white goods to TVs, have become smart. In the next phase, we are planning to provide complementary services along with our products in order to make the lives of consumers easier and facilitate transition to a smart life. Our collaboration in white goods with Amazon, which is announced at the IFA, is the first concrete step towards this goal.

In the upcoming period, besides growing in our existing businesses, we are looking to enter new fields related with the electronics sector such as automotive electronics, medical devices and equipment and energy storage systems.

As for white goods, in addition to growing in our existing markets, we are looking to explore acquisition/partnership opportunities especially in the Asia Pacific Region in line with our strategy to expand into new and growing markets. As in 2017, we will continue to explore such opportunities in 2018 as well.

## EXECUTIVE COMMITTEE



**Enis Turan Erdoğan**

Chairman of the Executive Committee



**Bekir Cem Köksal**

Executive Committee Member



**İhsaner Alkım**

Executive Committee Member

(1955 - Mersin) Enis Turan Erdoğan obtained his bachelor's degree in mechanical engineering from Istanbul Technical University in 1976 and his MBA from Brunel University in the UK in 1979. Following his return to Turkey, he served in managerial positions in various companies in the private sector before joining Vestel in 1988. Having held several managerial positions at Vestel since 1988, Mr. Erdoğan served as the Chairman of Vestel Foreign Trade and as an Executive Committee Member at Vestel Elektronik until 2013. Since January 1, 2013, Mr. Turan has been serving as the CEO of Vestel Group of Companies. Mr. Erdoğan served as the President of TURKTRADE (Turkish Foreign Trade Association) for two periods between 2002 and 2006. He also served as a Board Member of Europe's largest ICT Confederation, DIGITALEUROPE, between 2010 and 2014 as the first Turkish citizen to be elected.

(1967 - Ankara) Cem Köksal graduated from the Mechanical Engineering Department of Boğaziçi University in 1988 and obtained a master's degree at Bilkent University in 1990. Having served in the banking industry between 1990 and 2001, Mr. Köksal was appointed as Deputy General Manager at Denizbank in 1997. Mr. Köksal joined Vestel as Chief Financial Officer in 2002. He currently serves as an Executive Committee Member at Vestel Group of Companies and as the Head of Financial Affairs Group at Zorlu Holding.

(1954 - Kırklareli) İhsaner Alkım graduated from the Department of Electronics and Communications Engineering at Istanbul Technical University in 1977. After assuming various positions in the communications and electronics sectors, he joined Vestel in 1988. Mr. Alkım has served in various R&D related positions at Vestel, except for a break which he took between 1998 and 2002. In 2005, Mr. Alkım became a Member of the Executive Committee and continued to serve as the Committee Member in charge of Electronic Operations at Vestel Group of Companies until his retirement on January 1, 2018.



**Necmi Kavuşturan**

Executive Committee Member



**Ahmet Süha Erol**

Executive Committee Member



**Nedim Sezer**

Executive Committee Member

(1956 - Gaziantep) Necmi Kavuşturan graduated from the Faculty of Political Sciences at Ankara University in 1979. He began his banking career at Isbank in 1979. He has held various managerial positions at Interbank between 1985 and 1997. Mr. Kavuşturan joined Denizbank in 1997 as the Deputy General Manager in charge of Management Services. He became the Head of Human Resources Group at Zorlu Holding in 2003. He has been serving as the Executive Committee Member in charge of Human Resources at Vestel Group of Companies since 2005.

(1957 - Izmir) Ahmet Süha Erol graduated from the Department of Electrical Engineering at Middle East Technical University in 1979. He worked as a Foreign Trade Executive in various companies in Algeria, the UK and Turkey before joining Vestel in 1998. Mr. Erol began his career at Vestel as Procurement Manager between 1998 and 2000. He then served as the Deputy General Manager in charge of Foreign Trade between 2000 and 2006 and as the General Manager of Vestel Dış Ticaret AŞ between 2006 and 2013. He was appointed as the Executive Committee Member in charge of Foreign Trade Operations at Vestel Group of Companies on January 1, 2013, a position which he has held until his retirement on January 1, 2018.

(1958 - Tekirdağ) Nedim Sezer obtained his Bachelor's degree in Mechanical Engineering from Istanbul Technical University in 1982. He obtained a master's degree in the Institute of Business and Economics at Istanbul University in 1990. After serving in various Turkish companies, he was appointed as the Plant Manager at Vestel Beyaz Eşya's Washing Machine Plant in 1998. Mr. Sezer, who also assumed duty as the General Manager of Vestel Beyaz Eşya Sanayi ve Ticaret AŞ until April 1, 2015; has served as the Executive Committee Member in charge of Household Appliances at Vestel Group of Companies from 2012 until his retirement on January 1, 2018.

WITH ITS MANUFACTURING CAPABILITIES, QUALITY STANDARDS, AND STRONG CAPACITY IN R&D AND INNOVATION, VESTEL IS A MARKET SHAPER NOT ONLY IN TURKEY BUT ALSO IN GLOBAL MARKETS.



## ONE OF THE WORLD'S LEADING ODM PROVIDERS IN CONSUMER ELECTRONICS AND HOUSEHOLD APPLIANCES, VESTEL IS ONE OF THE THREE LARGEST TV PRODUCERS AND AMONG THE TOP FIVE WHITE GOODS MANUFACTURERS IN EUROPE.

With its production capabilities, quality standards, and strong R&D and innovation capacity, Vestel is a market shaper not only in Turkey but also in global markets as well as Turkey's image and pride with its technology exports to the world.

Vestel operates in the areas listed below:

- electronics,
- household appliances,
- digital and mobile products.

Vestel is a global group of companies comprised of 26 companies in total, 18 of which are located abroad. With its nearly 16,000 employees, production capacity built on advanced technology, and contribution to country's exports, Vestel represents an important source of power for the Turkish economy.

Vestel, which is one of the world's leading ODM (Original Design Manufacturer) providers in consumer electronics and household appliances, is one of the three largest TV producers and among the top five white goods manufacturers in Europe. A strong and well-known brand domestically, Vestel is also the leader of the Turkish TV market and one of the top three players in the Turkish white goods market. Moreover, Vestel is among the ten most recognized brands in Turkey.

Vestel's manufacturing facilities are located in Manisa. Established over a 1.1 million m<sup>2</sup> area in Manisa, Vestel City is one of Europe's largest industrial manufacturing complexes operating in a single location. In 2017, the foundation was laid for the new washing machine and dryer plant which is planned to become operational in Vestel City in 2018. Expected to have an indoor area of 63,000 m<sup>2</sup>, the new plant will boast a production capacity of 750,000 washing machines and 750,000 dryers per year.

Vestel, a prominent technology powerhouse in Turkey and globally, strives in full pace to complete its Industry 4.0 transformation and switch to fully automated smart factories.

Apart from operating as an ODM provider in international markets, Vestel also carries out branded product sales through the well-known regional brands acquired and the global brands held under the brand licensing agreements. Vestel's partnerships with Sharp in white goods and Toshiba in TVs under brand licensing agreements will further strengthen its position in the European market.

Vestel reaches a wide consumer base through the "multi-brand and multi-channel strategy" which it pursues in the domestic market and boasts one of Turkey's most extensive sales and after-sales service networks.

Vestel appeals to different consumer tastes in 155 countries with its wide range of products, which reflects its competencies in technology development, design and product customization. Accounting for approximately 90% of Turkey's exports in TVs and 30% in white goods, Vestel has been an unwavering export leader in the Turkish electronics sector for the past 20 years.

## VESTEL'S COMPETITIVE ADVANTAGES



VESTEL APPEALS TO DIFFERENT CONSUMER TASTES ON A GLOBAL BASIS WITH ITS WIDE RANGE OF PRODUCTS, WHICH REFLECTS ITS COMPETENCIES IN TECHNOLOGY DEVELOPMENT, DESIGN AND PRODUCT CUSTOMIZATION.

- Low Cost Base
- Proximity to Main Markets
- Flexibility in Manufacturing
- Strengths in R&D, Innovation and Design
- Extensive Sales and After-Sales Service Network in Turkey
- Industry 4.0 Transformation
- An Outstanding After-Sales Customer Experience

### SHARE IN TURKEY'S TV EXPORTS

~90%

Vestel undertakes approximately 90% of Turkey's TV exports.

### SHARE IN TURKEY'S WHITE GOODS EXPORTS

~30%

Vestel accounts for approximately 30% of Turkey's white goods exports.

### EXPORT CHAMPION

20 years

Vestel is the indisputable export champion of the Turkish electronics sector.

## VESTEL'S MAIN STRENGTHS

# VESTEL INVESTS IN NEW TECHNOLOGIES BY BUILDING ON ITS EXTENSIVE TECHNOLOGICAL KNOW-HOW IN WHITE GOODS, TVs AND MOBILE DEVICES.

### Innovation

- Creating innovation by combining strengths in R&D and industrial design with manufacturing competency,
- Transforming new technologies into products rapidly and in a cost-efficient manner.

### Economies of Scale in Manufacturing, Flexible Production Model and Product Customization

- Product development and diversification according to varying customer needs, being able to differentiate mass production on an order basis thanks to flexible manufacturing capability,
- Product customization according to customer demand and/or geographical and socio-cultural characteristics,
- Ability to develop a wide range of models for various brands.

### Customer Commitment

- Offering an impeccable ODM service which covers everything from original design and manufacturing to point distribution,
- Not directly competing with the customers' brands in Europe,
- Prompt production and delivery and ability to handle small batch orders.

### Cost Advantages

- Benefiting from economies of scale in procurements, particularly in component purchases, by virtue of its purchasing power as a large-scale manufacturer,
- Efficiency, effectiveness and cost advantages from manufacturing under a single roof at Vestel City, one of Europe's largest industrial manufacturing complexes operating in a single location,

- The logistical advantage for exports arising from the proximity of the Company's production plants to the European market when compared to Far Eastern competitors,
- The presence of a well-developed supplier base in Manisa, especially for household appliances, and cost advantages in terms of distribution and logistics, facilitated by Vestel City's proximity to the Izmir port and its suppliers,
- Relatively lower unit labor costs when compared to European manufacturers,
- Newer and modern production facilities when compared to European manufacturers,
- The import tax advantage in exporting to countries with which Turkey has a Free Trade Agreement over the manufacturers of other countries that are not parties to such agreements.

### Pioneer in Digital Transformation

- Integrating technology and innovation into its corporate culture since its inauguration in line with the innovative character in Vestel's genes,
- Achievements in efficiency and production quality thanks to digital transformation across all processes from the supply chain to the end-user,
- Leading the digital transformation in Turkey, as it did in the country's technological transformation,
- Being at the center of digital transformation with its solutions, innovations and products as a Company that exports its products worldwide.

### An Extensive Technology Acumen and Vision

- Investments in new technologies and extensive technological know-how in white goods, TVs and mobile devices.

## VESTEL'S MAIN STRENGTHS



TEAMS COMPOSED OF SPECIALIST ENGINEERS AT VESTEL ENDEAVOR TO SUCCESSFULLY APPLY THE DIGITAL TRANSFORMATION VISION IN ALL PROCESSES FROM SUPPLIERS TO THE CUSTOMERS.

### Industry 4.0 Transformation

One of the most important agenda items for industrial giants around the world is the adaptation to Industry 4.0. This transformation is essential for all companies operating in the manufacturing sector to maintain their competitive power. Firms that fail to complete this transformation will lose their competitiveness in global markets, which renders the Industry 4.0 transformation a must for companies that would like to sustain their competitive advantages, profitability and continuity.

### Industry 4.0 Work at Vestel Elektronik

Vestel Elektronik has been working on Industry 4.0 transformation for more than three years. Teams composed of specialist in-house engineers endeavor to successfully apply the digital transformation vision in all processes from suppliers to the customers. These teams undertake studies in the areas of vertical/horizontal value chain integration, artificial intelligence software, IoT technologies, lights-out factory applications, automation (robot, Cobot (collaborative robot)), 3D printing (additive manufacturing), AGV (Automated Guided Vehicle) and SDV (Self-Driving Vehicle) applications.

This transformation, which will require a significant investment, will accelerate Vestel Elektronik's innovation process and technological adaptation. When factories become smarter, all processes will be connected to each other from the beginning to the end, losses will be reduced considerably and production lines will operate in a more agile and coordinated manner.

Increasing the level of automation in manufacturing is one of the key elements of the Industry 4.0. Vestel Elektronik continues its efforts in this regard with a strong motivation. As an example, the Company's smartphones are manufactured on production lines that employ the state-of-the-art robots and softwares. Quality control systems are in place at every stage of these production lines in order to ensure high quality products. Some of these lines include test equipment with an advanced image processing technology. With this equipment, product quality can be monitored by taking photographs of the product in milliseconds. Efforts also continue for designing and manufacturing advanced level smart test machines and softwares. Production KPIs (Key Performance Indicators) can be monitored remotely with apps that can be downloaded to Vestel Venus smartphones. There are also ongoing efforts to integrate artificial intelligence applications.



“Lights-out manufacturing” represents the most advanced level of factory automation in the world. In the lights-out factories of the future, there will be no need for lighting or heating because all processes including production, storage and transportation will be entirely automated. Vestel moved towards this concept in some sections of its plastic injection plant during 2016 and continued to expand this application to other areas in 2017. Under this concept, the process is entirely automated and can be only remotely controlled.

During the Industry 4.0 transformation, the machine to machine connectivity technology, which has been used at the Company’s electronic card factory for years, is further strengthened with artificial intelligence softwares. By analyzing big data using its own software, Vestel is focused on preventing potential losses in processes before they occur. The Company implements smart and predictive maintenance through sensors placed at the critical points of the machinery. Machine maintenance is carried out with a minimum of stoppages and in the most optimal time by running highly advanced predictive algorithms. Having implemented TPM (Total Productive Maintenance) activities for years, Vestel has a great advantage in adapting to Industry 4.0. 3D printing, also known as additive manufacturing technology, was integrated into the Company’s prototyping processes in the beginning of the 2000s. The prototype of a design created in line with the customer specifications can be produced in less than 24 hours and put through testing processes. This speeds up Vestel’s order fulfillment process to a great extent.



Among Industry 4.0 technologies, Vestel places great emphasis on collaborative robot technology and applications. Cobots (Collaborative Robots) working in cooperation with the operators in manufacturing speed up the production processes as well as increase efficiency and reduce costs. In addition to robotic automation in production lines, automated guided vehicles are used in the transportation of most materials. Efforts are underway to extend the use of such vehicles to all transportation processes. All of these technologies, which are deployed in the manufacturing of TVs, ensure that the production lines, which yield 850 different models per month with a high degree of flexibility, work at a minimum cost and with high efficiency. The performance of robots used in production can be monitored through remote access. Being one of the first companies to adopt SAP ERP (Enterprise Resource Planning) in Turkey and to use it on a wide scale, Vestel has long employed monitoring and control systems in its production processes. The Horizontal/Vertical Integration, an advanced version of these systems, is among the technologies of the Industry 4.0. Efforts continue to digitize all processes from placing an order with the suppliers to the dispatch of materials, conversion of materials into products, and delivery of products to customers. The Manufacturing Execution System (MES) is an important part of the horizontal integration in terms of production management. Vestel is the first company to use the ME module of SAP’s MES system (SAP Manufacturing Execution System) in Turkey. This module has allowed for instantaneous monitoring of all manufacturing operations in digital environment and has considerably shortened the decision-making process.

## VESTEL'S MAIN STRENGTHS



With the digital transformation which we call Vestel 4.0, we aim for having a “Smart Factory”. In a smart factory, all processes will be managed by artificial intelligence software. With Industry 4.0 transformation, the profile of the Company’s human resources will also go through a transformation, where workers doing manual work will be replaced by employees who are capable of designing, developing and controlling manufacturing processes.

In addition to achieving increased levels of productivity and substantial cost savings in manufacturing, the Industry 4.0 transformation also aims at maximizing customer satisfaction. These will enable Vestel to offer higher value-added products to the market and further advance its competitive power on a global scale. Vestel is determined to make Vestel City the first production facility to realize this transformation in Turkey.

### Industry 4.0 Work at Vestel Beyaz Eşya

Vestel Beyaz Eşya is able to manage all automation and Industry 4.0 activities singlehandedly with a special unit created within its body, follow current technologies closely, and perform all activities for software, design and electrical hardware design through this unit. Process analyses, all mechanical designs, manufacturing of parts, PLC (Programmable Logic Controller), robotics software and simulation analyses can be carried out within Vestel Beyaz Eşya. Thus, the company can act rapidly and with low cost in its projects. Vestel Beyaz Eşya has evolved into a company, which can build its own production machinery and apply for patents for this machinery thanks to its skilled engineers and technicians.

Thanks to the production lines, dyehouses and mechanical lines established with the Industry 4.0 infrastructure, Vestel Beyaz Eşya is able to deploy the world’s latest technologies in its production processes.

One of the most important Industry 4.0 tools for flexible manufacturing is autonomous robots which can be positioned at different points along the production line. In 2016, Vestel Beyaz Eşya became the leader in terms of the number of robots and robot cells commissioned in a year in both the white goods sector and across all sectors. Constantly expanding its robot-machine-human trinity the company performs its production activities with impeccable manufacturing techniques.

To achieve unmanned and remotely controlled in-plant transportation, Vestel Beyaz Eşya is switching from the methods of line, metal or magnetic tracking on the ground to systems that can be entirely managed by special navigation and mobile systems.

All automatically guided vehicles used at Vestel Beyaz Eşya’s six production facilities can be controlled simultaneously with a single traffic software. This is a first for the white goods sector as well for other sectors in Turkey in terms of both number and functionality. Extra health and safety precautions are taken while implementing this as the vehicles are powered with gel cell batteries despite their shorter service life. This allows for a faster and safer in-plant transportation which is free of human error. In the next stage the aim is to carry out all manufacturing processes with unmanned vehicles, unlike the modular and standard manufacturing lines.



With a view to adapting to rapid change in the industry, Vestel Beyaz Eşya leverages its unmanned vehicles and robots to increase the number of its automated warehouses while enabling robots, unmanned vehicles and automated warehouses to communicate with each other. The company thus develops its own smart systems. In addition to decreasing storage and transportation costs with the automated warehouse systems, Vestel Beyaz Eşya also achieves online controlled consumption and minimizes human errors in manufacturing.

As part of the Industry 4.0, Vestel Beyaz Eşya provides a quick and easy training for its operators with its work in virtual reality and augmented reality and improves the quality of production. While the company aims for technical and financial accuracy via virtual reality programs and special simulations carried out before all investment decisions (robot-machine-equipment-automated warehouse, etc.), the technical measurements conducted at the outset of projects ensure the flawless operation of systems. Moreover, these programs enable accurate analysis of project costs, thus saving additional costs in the future. The use of augmented reality programs, which became popular with the Industry 4.0, in personnel training will make significant contribution to the quality of production and education. The purpose is to eliminate human errors and improve quality with proper training.

As part of the Industry 4.0 applications, Vestel Beyaz Eşya intensively employs the additive manufacturing (3D Printing) technology. Test production for robot holders, machine parts and molds are carried out using 3D printers. This speeds up the process for trial production and commissioning while production halts due to a failure/error can also be resolved quickly. As a result, molds and machines produced can work impeccably.

Firm steps have been taken for the online monitoring of machine generated data and tracking of data stored in the cloud through special screens and mobile devices and development of systems guided by artificial intelligence while various applications are implemented for managing machinery at different plants. Vestel Beyaz Eşya intends to complete its horizontal-vertical integration in the next few years by developing an infrastructure where machines and robots can communicate with each other which will be followed by the integration of the company's entire internal ecosystem with its suppliers.



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SINGLE TRAFFIC SOFTWARE.**

ESTABLISHED OVER A 1.1  
MILLION M<sup>2</sup> OF AREA IN MANISA,  
VESTEL'S MANUFACTURING  
BASE, VESTEL CITY IS ONE OF  
EUROPE'S LARGEST INDUSTRIAL  
MANUFACTURING COMPLEXES  
OPERATING IN A SINGLE  
LOCATION.



## VESTEL'S MANUFACTURING POWER: VESTEL CITY

### Vestel City:

Officially opened in 2003, Vestel City, established over a 1.1 million m<sup>2</sup> of area, is one of the largest manufacturing complexes in Europe operating in a single location.

Vestel's mega factory - Vestel City - was featured in the "Mega Factories" documentary series on the National Geographic Channel. Vestel was the world's first electronics and household appliances company and Turkey's first brand and industrial facility to appear in the documentary series, which features some of the world's most famous brands. In 2016, Vestel was featured in the popular "How Do They Do It?" program on the Discovery Channel, a documentary channel, with its expertise in production of LED TVs. The show covered all aspects of the LED TV production process at Vestel City.

### Excellence Awards and facilities with high energy efficiency

Within the scope of the annual Excellence Awards, which are given by the Japan Institute of Plant Maintenance ("JIPM") to companies which implement the best Total Productive Maintenance (TPM) practices in the world;

Vestel Elektronik won the "Award for TPM Excellence" in 2013 for its TPM practices in 2012 and the "Award for Excellence in Consistent TPM Commitment" in 2014. Having passed the preliminary evaluations successfully, the Company also became the first TV

producer to receive the "Special Award for TPM Achievement" in TV manufacturing in 2017. Initiating studies for the "Advanced Special Award for TPM Achievement" in 2017, Vestel Elektronik applied for this award, which is due to be granted at the end of 2018.

Upon receiving the "TPM Excellence Award" in 2014, Vestel Beyaz Eşya won the "Award for Excellence in Consistent TPM Commitment" in 2017. With this accomplishment, Vestel Beyaz Eşya became the first and only household appliances company in the world to receive this award simultaneously for its six production plants.

Vestel Beyaz Eşya was also the winner of the Industrial Excellence Awards in the Turkish and European Industrial Excellence Award competitions in 2016.

As a holder of the ISO 50001 Energy Management System Certificate, Vestel attaches great importance to the efficient use of energy in its production processes in addition to manufacturing products with high levels of energy efficiency.

Besides energy efficiency, water conservation is also of great importance for Vestel. In the last 10 years, Vestel Beyaz Eşya has managed to cut its water consumption by 40% per unit of production despite a 79% increase in its production volume.



# EXPORTS TO 155 COUNTRIES

VESTEL REACHES A LARGE CONSUMER BASE IN THE DOMESTIC MARKET THROUGH ITS “MULTI-BRAND AND MULTI-CHANNEL STRATEGY” AND BOASTS ONE OF THE MOST EXTENSIVE SALES AND AFTER-SALES SERVICE NETWORKS IN TURKEY.

## Vestel in Turkey

Within the scope of its multi-channel strategy, Vestel reaches consumers through technology retailers, hypermarkets, household stores and e-commerce websites, in addition to its exclusive dealer network. This strategy enables the Company to reach a wider customer base and increase its effectiveness and market share in Turkey.

### DOMESTIC SALES NETWORK

- 1,136 Vestel stores
- 10 Vs Outlet stores
- 1,028 Regal stores (251 of which are Exclusive Regal Dealers)
- emagaza.vestel.com.tr
- vsoutlet.com.tr
- regal-tr.com

### AFTER-SALES SERVICES

- 360 Authorized Service Providers
- 12 Central Services
- Call Center
- 5 güVENÜSsü (Trust Base) centers and 5 mini güVENÜSsü centers



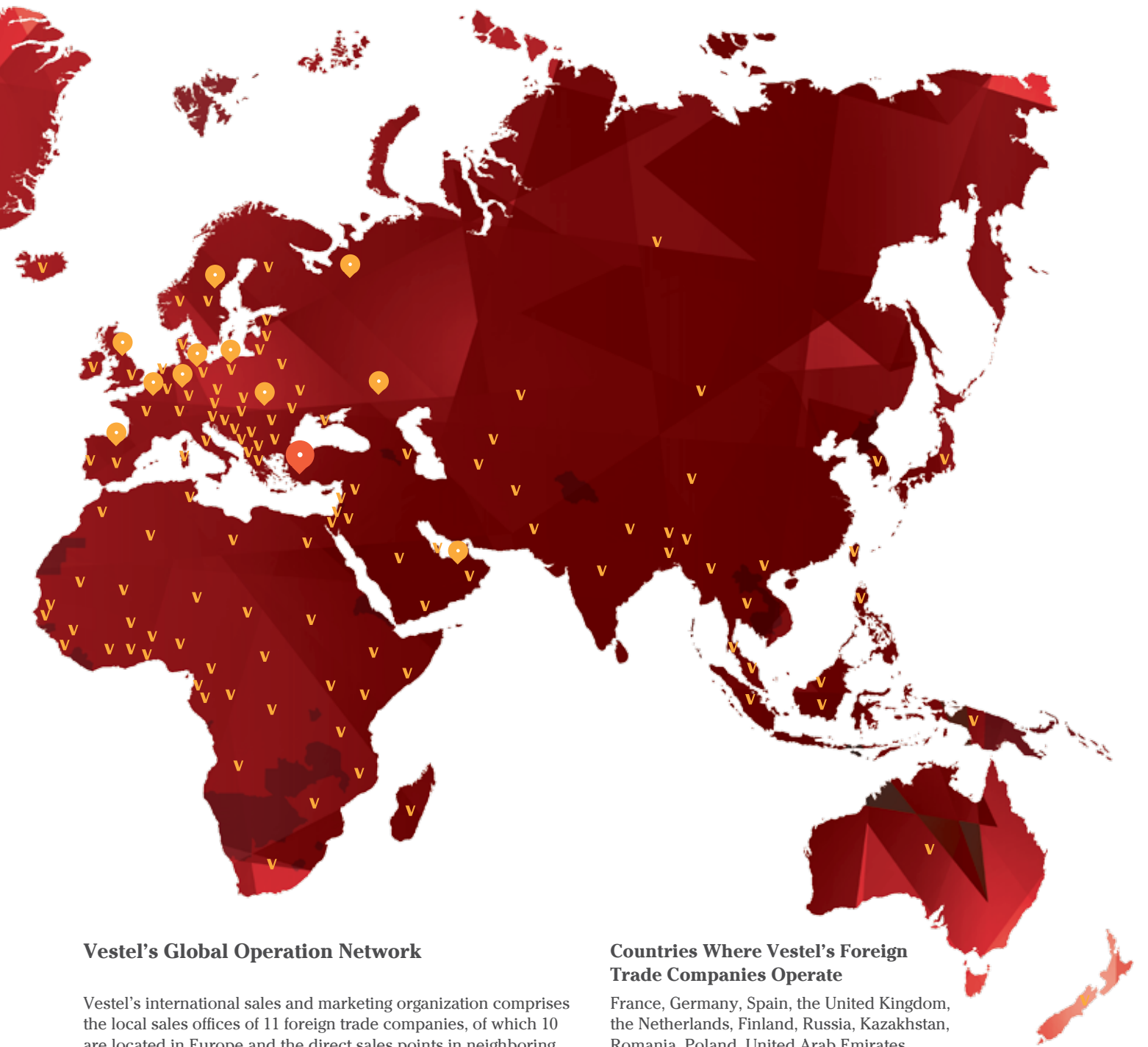
Vestel's Foreign Trade Companies



Vestel City Manisa



Vestel's Export Markets



#### NUMBER OF STORES ABROAD

**2,750**

Number of stores and sales points abroad

#### COMPANIES IN EUROPE

**10**

In Europe, Vestel carries out its sales activities through the foreign trade companies operating in 10 countries.

#### NUMBER OF VESTEL'S EXPORT MARKETS

**155**

Exporting to 155 countries, Vestel recorded TL 8.65 billion (USD 2.4 billion) of international revenues in 2017.

## MAIN STRATEGY

TO ACHIEVE PROFITABLE GROWTH BY INVESTING IN CORE BUSINESSES AS WELL AS IN NEW BUSINESS AREAS WHICH OFFER HIGH GROWTH POTENTIAL

### STRATEGIES

### REALIZATIONS

#### INCREASING MARKET DIVERSITY

To grow in markets other than Europe, which is Vestel's main export market

To evaluate different market entry strategies for these markets such as greenfield investments, acquisitions, partnerships and contract manufacturing



Increasing the total number of export destinations to 155 countries through the addition of new markets

Establishing a new sales and marketing company in Dubai in accordance with its goal to increase sales in the Middle East and Africa regions

Positive developments in exports, especially to North Africa, Eastern Europe and the Sub-Saharan region

#### INCREASING CUSTOMER AND PRODUCT DIVERSITY

To increase the share of mid-segment and high-end products in total sales mix

To increase the number of A-brand clients, for which ODM service is provided

##### To expand market share by increasing product diversity:

To increase the sales of the higher margin premium and larger-screen TVs, which feature the latest display technologies, in the consumer electronics segment, to broaden and enrich existing product line and increase the sales of built-in products by further penetrating into the kitchen manufacturers' channel in the household appliances segment

To obtain a higher share from the rising "outsourcing" trend especially among the A-brand customers

To maximize customer satisfaction by constantly undertaking work in the areas of energy efficiency, water saving and the Internet of Things and meeting market expectations in the best possible way with existing products



Increasing share of larger screen and upper segment TVs in total production and sales, steady growth in average screen size, introduction of new TVs featuring Quantum Color Palette Technology, HDR (High Dynamic Range) and High Brightness technologies, launch of OLED TV and 190 cm 4K TV (offering Quantum Color Palette technology on large screen)

Gaining new A-brand customers in the household appliances segment in line with increasing competitive power in the European market

Initiating investment for a new manufacturing plant to add dryers to the white goods product range

**Next generation household appliances:** Developing record-breaking products in terms of energy and water efficiency and noise level

- Washing machines which are 60% more energy efficient than A+++ products with 7 kg and 10 kg of loading capacities,
- Remotely controlled smart product family including dishwashers, washing machines, refrigerators, ovens and air conditioners,
- A combi fridge having the highest energy efficiency, which consumes 35% less energy than A+++ products,
- The world's quietest fridge with a 33 dBA (decibels) noise level thanks to Pro-Drive Technology,
- The world's least energy-consuming French Door refrigerator with A+++ energy performance,
- Fridge with the Vacuum Bag Technology that keeps food fresh in food storage bags up to five times longer with vacuum sealing,
- Record breaking dishwashers that produce only 36 dBA of noise with their extra silent feature,
- 45 cm entry level dishwasher with a record breaking energy performance (A++),
- Record-breaking washing machines with 39 dBA of noise level,
- Super quiet air conditioner.

## MAIN STRATEGIC GOAL

### TO CREATE VALUE FOR THE SHAREHOLDERS BY INCREASING REVENUES AND PROFITABILITY THROUGH SUSTAINABLE GROWTH

#### STRATEGIES

#### REALIZATIONS

##### BRANDED GROWTH

To increase market share in the domestic market with own brands by strengthening the brand image and distribution and sales network and by improving the quality of after-sales services

To strengthen its position in the European market and to increase branded product sales through the well-known regional brands in the portfolio and with the support of the global brands held under the brand licensing agreements

To accelerate branded growth by capitalizing on brand licensing partnerships for Europe and other markets

To strengthen market position in the surrounding region by developing operations in those countries

Building on the successful sales and marketing initiative launched with the “Turkey is Vestelized” campaign with the “Proudly Domestic” campaign; strengthening of the dealer network; furthering the promise of creating a distinguished customer experience by going beyond standard services in customer and after-sales services, strong growth in the sales of the Regal brand following the restructuring of brand

Reinforcing Vestel’s leading position in the Turkish TV market with additional market share gains

As part of the strategy to increase branded sales abroad, commencing the sales of Toshiba branded TVs in 2017 under the brand licensing agreement signed with the Toshiba Visual Solutions Corporation for the European market in 2016, continued growth in the sales of Sharp branded white goods undertaken within the framework of the brand licensing agreement signed with the Sharp Corporation in 2014

##### CAPTURING MARKET SHARE IN GROWING NEW AREAS

To develop new products in the electronics, digital and IT segments that employ similar technology with Vestel’s existing products but are intended for different uses

Developing and launching new series of Venus (V5, E and Z series), Turkey’s first smartphone, commencing pre-sales of electric vehicle charging units, development of the smart walking stick, WeWalk, which is ready for mass production, development of the Smart City Technology Platform

Vestel Ventures AR-Ge AŞ, established to invest in and support innovative ideas and projects such as the Internet of Things, mobile projects and electronic devices, made investments in the areas of energy, healthcare, bioplastics, mobile app, AR/VR technology, smart city and customer services

#### NEXT STEP

Generating and analyzing big data via Vestel Cloud and utilization of artificial intelligence to uncover useful information from this data (application of artificial intelligence techniques on data sets generated by products and services), the Internet of Things, smart products, smart homes, smart cities, autonomous and robotic solutions based on augmented reality and 5G technologies, commercializing wearable technologies, medical electronics, automotive electronics and energy storage systems.



## TEXTILES

### Korteks Zorluteks

- Turkey's largest integrated polyester yarn manufacturer and exporter
- Europe's leading home textiles company

## ENERGY

### Zorlu Energy Group

- A rising player in Turkey with 744 MW of installed capacity
- 56.4 MW of installed capacity in Pakistan and 290 MW of installed capacity in Israel (through 25% stake in 840 MW Dorad Natural Gas Combined-Cycle Power Plant and 42.15% stakes in 64.54 MW Ashdod and 126.4 MW Ramat Negev Natural Gas Co-generation Power Plants)
- Competency in providing integrated services, which comprise generation and sales of electricity and steam, electricity distribution and trade, "turnkey" construction of power plants, including project development, long-term operation, maintenance and repair services for power plants and natural gas distribution and trade

## CONSUMER ELECTRONICS, HOUSEHOLD APPLIANCES AND DIGITAL PRODUCTS

### Vestel

- One of the leading ODM providers of TVs, household appliances and digital products for the European market
- One of the leading players in the European TV market
- One of the largest producers of TVs and household appliances in Turkey

WITH ITS LEADING COMPANIES IN DIFFERENT SECTORS, ZORLU GROUP IS FOCUSED ON CREATING HIGHER AND SUSTAINABLE VALUE FOR TURKEY.



## REAL ESTATE

### Zorlu Real Estate Development and Investment

- Established in 2006 to develop, sell, lease and/or operate quality housing, offices, business centers, shopping malls, hospitals, hotels and mixed-use real estate projects at prime locations both in Turkey and abroad.
- Realized as Turkey's first mixed-use project with five functions, Zorlu Center consists of a Performing Arts Center, a shopping mall, a hotel (Raffles Istanbul Zorlu Center), offices and residential areas. Zorlu Center assumed full operation with all of its functions with the opening of the Raffles Hotel in 2014.
- Levent 199 office project on Büyükdere Avenue was completed in the third quarter of 2014. Developed entirely as A+ office space, the project has a gross leasable area of 40,000 m<sup>2</sup>.

## MINING - METALLURGY

### Meta Nikel Kobalt Madencilik (Nickel Cobalt Mining)

- Specialized in the development of nickel cobalt resources
- Aiming to become a regional supplier of nickel and cobalt
- Additional investments in the Gördes Nickel Cobalt Plant, planned development and investment projects for the nickel cobalt reserves in Eskişehir and Uşak under existing permits

#### Gördes Nickel Cobalt Plant:

- 300,000 tons of proven reserves with nickel content
- The first phase of the project is a hydro-metallurgy plant with an annual production capacity of 10,000 tons of nickel content, which was realized with an investment of USD 400 million.
- The plant, which began test production in 2015, exported approximately 10,400 tons of nickel concentrates in 2016 and 23,130 tons of nickel concentrates in 2017 with nearly 4,000 tons of nickel content and 220 tons of cobalt content. Future plans involve increasing the concentrated nickel production capacity and efficiency of the existing plant and undertaking R&D studies for manufacturing high value-added end-products.

## FACTORING

### Zorlu Faktoring

- Established in 2012 to provide factoring services in Turkey and abroad.
- Operating with the objective of extending its factoring products and services throughout Turkey by focusing on companies, which are leaders in their sectors and have an extensive supplier and dealer network, in addition to medium and large-scale companies.

VESTEL'S R&D UNITS  
FOLLOW TECHNOLOGICAL  
DEVELOPMENTS CLOSELY  
WHILE ALSO MAKING A  
DIRECT CONTRIBUTION TO  
THE DEVELOPMENT OF NEW  
TECHNOLOGIES.



VESTEL ALLOCATES APPROXIMATELY 2% OF ITS SALES REVENUES TO R&D INVESTMENTS EACH YEAR, AND IT IS ONE OF THE THREE TURKISH COMPANIES TO RANK AMONG THE WORLD'S TOP 1,000 COMPANIES BY R&D SPENDING.



### Vestel R&D Center

Vestel formulates its long-term strategies with the awareness that having the ability to transform scientific and technological findings into economic and social benefits is essential for maintaining its position in today's competitive global environment. Vestel is determined to sustain its corporate growth and increase its share in the world markets through intensive R&D efforts.

Vestel invests in knowledge and technology at its R&D centers in different locations in order to offer value added and innovative products to world markets, and differentiates itself with its design and test infrastructure which rapidly adapt to changing technology. Technological developments are closely followed at Vestel's R&D units while the Company also directly contributes to the development of new technologies.

Vestel is one of the first companies in Turkey to have been accredited by the Republic of Turkey Ministry of Science, Industry and Technology as an "R&D Centre" within the framework of Law No. 5746.

Vestel allocates approximately 2% of its sales revenues to R&D investments each year, and it is one of the three Turkish companies to rank among the world's top 1,000 companies by R&D spending.

Vestel expands its R&D units in line with its growth targets and has more than 1,600 R&D staff as of the end of 2017.

Vestel's R&D units have established strong collaborations with numerous national and international institutions and organizations and in particular with the universities.

## VESTEL: TECHNOLOGY OF THE FUTURE, FUTURE OF THE TECHNOLOGY



Deriving its manufacturing power from its R&D activities, Vestel reflects the technologies which can be productized to its products by utilizing smart and advanced technologies, which support the automation of production together with the Industry 4.0 applications.

Latest trends in display technologies include high brightness, high contrast, high resolution, high color gamut, ultra-slim structure, bezel-less design, 8K, Local Dimming, Quantum Dot, OLED, 50 Hz MEMC (Motion Estimation-Motion Compensation), LED Display and HDR (High Dynamic Range) technology. Vestel Elektronik actively conducts studies in these areas.

Smart solutions gain importance with the development of the internet and wireless communication systems. Thus, different uses of smart applications such as Smartphone, Smart Home, Smart Factories and Smart Cities draw attention. Home appliance products manufactured by Vestel Elektronik have been successfully integrated with the Smart Home concept. In this regard, Vestel has created smart home systems including air conditioners, ovens, refrigerators, dishwashers and washing machines which can be controlled by Vestel's Smart TVs, tablets and smartphones. Such solutions are ready to be offered as a kit to end-users or available for B2B sales in partnership with the construction companies.

The Company has integrated its product portfolio of smart devices based on a Smart TV infrastructure with Vestel Cloud and has taken its current smart platform one step further with the Internet of Things applications. Sensor technologies, wearable technologies, automation practices and control systems within the smart factory concept are among the areas of focus for the Company. In an environment where the concept of Smart Connected World is promoted, smart factories and their components are of importance for Vestel Elektronik which draws its strength from manufacturing.

As a result of two years of R&D efforts, Venus was launched in 2014 as a locally-designed and manufactured smartphone and attracted great interest in the market. The 33 design awards which Venus models have so far won at the national and international competitions confirm Vestel Elektronik's achievements in this area. Given the rapid change in mobile technologies, Vestel directs its R&D efforts towards developing Vestel-branded tablets and smartphones with new features as early as possible. Producing Turkey's first domestic smartphone and capturing a notable market share in two years' time, Vestel Elektronik has recently introduced its high-end Venus Z10 smartphone to the market. Venus Z10, categorized as a premium product due to its features, was granted the 2017 Plus X Award, known as one of the most prestigious awards in the smartphone market.

The domestic design of the electronic cards, power cards, control cards used in consumer electronics products and household appliances manufactured at Vestel Elektronik as well as the cards and software for the integration thereof into smart home network continued in 2017 and dependency on external sources of supply for these was eliminated. In addition, R&D studies are underway for the development of automation and quality-enhancing systems.

The Company's knowledge and experience in power electronics form the basis of the R&D activities for the design of electric vehicle charging units. Moreover, pioneering R&D work is underway in the areas of photovoltaic cells, energy transformation and storage systems, 5G, automotive electronics, wearable technologies and telecommunications.

Vestel EMC (Electro Magnetic Compatibility) Laboratories, the first manufacturer laboratory accredited by the Turkish Accreditation Agency (TÜRKAK), stands out among its European counterparts

## THE COMPANY'S KNOWLEDGE AND EXPERIENCE IN POWER ELECTRONICS FORM THE BASIS OF THE R&D ACTIVITIES FOR DESIGNING ELECTRIC VEHICLE CHARGING UNITS.

with its 30,000 tests and 350 scenarios. The Vestel R&D center has the authority to issue approvals for Electromagnetic Compatibility. EMC tests for the Company's consumer electronics and information technology products, comprising primarily of TVs, visual solutions, satellite receivers, lighting products and household appliances, are carried out in the Vestel EMC laboratory. Following the laboratory and test infrastructure investments undertaken in 2016, Vestel became one of the few EMC centers in the world to have reached an accreditation level to issue accreditation reports for the wireless communication tests which will be required in the near future for the communication of consumer electronics and IT products with each other under the Smart Home concept.

In addition, the Vestel Product Safety Laboratory has received the highest level authorisation from the world's most respected independent approval bodies, such as Verband der Elektrotechnik ("VDE") and Technischer Überwachungsverein ("TÜV"), and was accredited for the first time in Turkey by TÜRKAK. The laboratory has the ability and infrastructure to test all the product groups either produced by Vestel or procured from outside sources for resale by Vestel.

The laboratory issues approvals for approximately 4,000 models per year for different product groups such as televisions, satellite receivers, household appliances, lighting products, IT products, small household appliances and electric vehicle charging units. The laboratory can also issue the required reports and certifications with its own means.

Vestel Calibration Laboratories became the first private laboratory to gain TÜRKAK accreditation by including the widest range of special calibration applications such as EMC laboratory device calibrations, and in particular, the calibration of RF (Radio Frequency) devices, in its scope.

Vestel R&D Test Laboratories were accredited by TÜRKAK for the UK based D-Book tests in accordance with the TS EN ISO / IEC 17025 Standard. With this accreditation, FreeviewHD and FreeviewPlay certification tests can be carried out at Vestel laboratories.

### Vestel's R&D Centers

At Vestel City, Manisa; there are a total of four R&D centers, three for the electronic products and one for the household appliances, which are accredited in accordance with the Law No. 5746.

- R&D Center 1: Electronics High-End
- R&D Center 2: Electronics Center
- R&D Center 3: Electronics Digital Devices
- R&D Center 4: Household Appliances

Other Vestel Elektronik R&D Centers located in Turkey and abroad include:

- Istanbul İTÜ Teknokent Vestek, where development studies for Smart TV, Hotel TV, Digital Signage and smartphone camera applications and related image processing algorithms are carried out, along with application and server software development studies for TV interaction,
- Bristol (the UK) Cabot Communications Ltd., which develops middleware applications for digital broadcasts (DVB-T/T2, C, S/S2) and interactive software designs for Smart TVs and Connected TVs,
- The Shenzhen R&D office, which mainly undertakes component approvals,
- Technopark R&D Office at Manisa Celal Bayar University which hosts IoT activities.

### R&D CENTERS AT VESTEL CITY

4

3 R&D Centers for electronics products and 1 R&D Center for Household Appliances at Vestel City

### OTHER R&D CENTERS

4

4 R&D Centers in Turkey and abroad for undertaking R&D activities in various areas

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## Project Based R&D Activities

Vestel conducts its R&D activities on a project basis in seven main groups, in addition to numerous supplementary subgroups:

- Hardware Design
- Software Development
- Industrial and Mechanical Design
- Power Card Design
- Testing and Approval
- Certification of Compliance to International Directives and Standards
- Optical Design

In addition to the seven core R&D groups, Vestel Elektronik established a separate Research Group comprising PhD researchers in 2016 to increase its research intensive activities and engage in advanced research. The number of researchers in this group was increased in 2017. The newly formed Research Group works on advanced research topics, supports the development of Vestel's medium and long-term technology strategy and undertakes initial

studies for new projects in areas with commercial potential. In line with Vestel's R&D strategy, researchers at Vestel carry out project-based research studies together with distinguished universities. These studies are concluded with academic publications and patents, contributing to Turkey's scientific activities.

Vestel's R&D center was awarded the First Prize in the electronics sector at the R&D Awards held at the 6<sup>th</sup> Private Sector R&D Centers Summit organized by the Republic of Turkey Ministry of Science, Industry and Technology.

## Intellectual Property Rights and Patents

Vestel demonstrates its strengths in R&D and innovation through its claim on intellectual property and patents.

In 2017, Vestel Elektronik applied to the European Patent Office for 408 patents which meet the criteria and submitted more than 1,000 applications to the Turkish Patent and Trademark Office. The number of the Company's registered patented inventions has reached 108 as of the end of 2017. Based on the statistics of the European Patent Office (EPO) for 2017, Vestel ranks the 49<sup>th</sup> among the companies which filed the highest number of patent applications to the EPO.

## Sustainable R&D

Vestel's R&D mission is based on the development of technologies which will provide Vestel with advantages over its rivals in a highly competitive environment, while also being a pioneer of technology in areas which will help sustain the Company's competitive position and carry the Company to the future.

Sustainability stands out as a business model which takes into account ecological balance together with economic growth, ensures the efficient use of natural resources and fulfills current needs without endangering the needs of the future generations.

Applying sustainability in its entire business model from the use of technology to its management strategies, Vestel Elektronik entered the BIST Sustainability Index, which consists of the shares of listed companies on Borsa Istanbul with a high corporate sustainability performance as of November 2015. Vestel Elektronik, which continued to be a part of the index in 2017, was also deemed eligible for inclusion in the index for the November 2017 - October 2018 period thanks to its sustained compliance with the index criteria.

Vestel Elektronik's sustainable product portfolio includes LED lighting products, the Smart Home kit, televisions with A+ and A++ energy ratings and electric vehicle charging units. The R&D designs of this product portfolio are undertaken in accordance with the sustainability criteria. All processes, from the product design to the recycling of waste generated, are managed with due care.



## DEVELOPMENT AREAS FOR ELECTRONICS R&D

<b>DISPLAY TECHNOLOGIES</b>	OLED TV, 8K, LED Screen Technology, Backlight Unit, Wide Color Gamut, HDR - High Dynamic Range, Local Dimming, Quantum Dot Technology, High Brightness, High Resolution, High Contrast
<b>INNOVATIVE SOFTWARE SOLUTIONS</b>	Privacy menu, Youtube kids, Novatek, STR (Suspend to RAM), HDR10 Netflix, Dolby Vision, Train Portal, FVP, Youtube, BBC, Netflix 2017 Certifications, Android TV, Dual Tuner TV, multiprocessor and operating system support, HTML, Java, collaborations with content providers (Netflix Worldwide, Freeview Play, Freeview Plus, Maxdome), Video on Demand (VoD), 50 Hz MEMC (Motion Estimation/Motion Compensation)
<b>INTERNET OF THINGS - IoT SMART HOME</b>	With improved connectivity, the internet is everywhere in our lives: Smartphones, Smart Cities (Smart LED Lighting), Smart Factories, Smart Home (TV, Household Appliances, Mirror, Lighting, Sensors, Cameras, Home Electric Vehicle Charging Unit, Smart Home Kit), Health Technologies, Smart Education (Smart Board, Tablet)
<b>AUTOMOTIVE ELECTRONICS</b>	Electric vehicle charging units, in-vehicle digital information/entertainment displays, lighting systems
<b>TELECOMMUNICATION</b>	Product Groups in Communication Technologies
<b>DESIGN FOR PRODUCTION</b>	Reflecting technologies which can be productized on product designs Smart and advanced technology which supports the automation of production: Industry 4.0, robotic systems
<b>SUSTAINABLE PRODUCTS</b>	LED lighting, Local Dimming, products with high energy efficiency and low carbon emissions

### R&D AT VESTEL BEYAZ EŞYA

R&D is one of Vestel Beyaz Eşya's main competitive advantages and differentiating factors.

The development of new and leading technologies and creation of designs and products which cater to the needs and tastes of consumers around the globe are the result of the competencies and efforts of Vestel Beyaz Eşya's R&D team.

Within the framework of the Law No. 5746 on Supporting Research and Development Activities, Vestel Beyaz Eşya received an R&D Center Certificate on October 17, 2008.

In 2017, Vestel Beyaz Eşya's R&D expenditures amounted to 1.4% of its sales revenues.

Vestel Beyaz Eşya's R&D Department carries out separate R&D activities based on the area of production. In addition to the R&D units, which are specific for each plant and carry out R&D activities on a product basis, there are also Central R&D units, which undertake studies in industrial design, intellectual property rights, innovation and Industry 4.0 for all the products manufactured by the company. The Central R&D units that operate under the Head Office and cooperate with the R&D units of the production plants, consist of the Technology Development Office, Design Office, and the Automation and Project Development Office. Activities for industrial design and intellectual property rights for all products are carried out by the Design Office and innovation work by the Technology Development Office. The Automation and Project Development Office works in the areas of Industry 4.0 applications, automation, process analyses and related investments to be undertaken by the company's own resources. The number of Vestel Beyaz Eşya's R&D staff increased from 469 in 2016 to 526 in 2017.

# VESTEL: TECHNOLOGY OF THE FUTURE, FUTURE OF THE TECHNOLOGY

With respect to R&D, Vestel Beyaz Eşya aims to develop technologies and products that are environmentally friendly, use resources efficiently by maximizing energy and water conservation, have functional and aesthetic designs, prolong the life and freshness of food, provide extra hygiene, deliver maximum performance thanks to use of smart sensors and can be remotely controlled via Internet access.

The R&D strategy adopted in this direction can be summarized as follows;

- To develop new platforms which will adapt to the changing product trends in the market and offer products which provide user comfort,
- To maintain strong relations with national and international companies and institutions based on continuous collaboration,
- To directly contribute to technological development, in addition to closely following up on the technological developments,
- To protect the intellectual property rights for the designs developed by the company and to gain a competitive advantage over rivals,
- To develop products which cater to the preferences and habits of different markets,
- To reflect the design trends evolving on the axes of functionality and ease of use to its products.

The teams in the R&D Department work in the following areas:

- Development and implementation of new technologies,
- New product designs,
- Eco-friendly manufacturing,
- Product development,
- Increasing efficiency and cost reduction.

Vestel Beyaz Eşya has more than 150 registered and patented inventions as of the end of 2017. With the help of patent searching, technological trends are being analyzed to launch new projects; and emerging technologies are protected by patents in order to avoid counterfeiting. The patent portfolio is subject to regular maintenance, thus, patents pertaining to outdated technologies which are replaced by new technologies are abandoned. The company has nearly 370 inventions which it made publicly available.

## VESTEL R&D'S COLLABORATION ECOSYSTEM

Vestel Elektronik's R&D units have established strong collaborations with numerous national and international institutions and organizations, especially with the universities. Collaborating with the relevant departments of the respected national and international universities in the generation of knowledge and the transformation of this knowledge into technologies and products at the Company's R&D units constitute one of the key components of Vestel's sustainable development.

### Industry-University Collaboration

Vestel's industry-university collaboration projects are shaped on the basis of supporting and promoting research activities. Successful work is placed in the national patent pool by means of obtaining patents, creating added value for our country.

Vestel's R&D personnel, who are graduates of Turkey's leading universities and possess high qualifications, carry out project-based collaborations with the academics at Turkey's most distinguished universities. Academic publications produced jointly with the universities, organization of career days and providing support for student clubs and projects are also important components of Vestel's sustainable development.

The projects carried out jointly by the Vestel R&D Centre and universities provide an important contribution to the synergy between industry and universities. Within this scope, Vestel cooperated with around thirty universities in 2016 and 2017. The knowledge generated at the universities is transformed into technology at Vestel's R&D units and the software and hardware developed as a result are used in new designs. This cooperation covers the latest topics such as the Industry 4.0 and IoT as well as RF (Radio Frequency), smartphone software, TV and STB (set-top box) designs.

Vestel contributes to industry-university collaboration by taking an active role in the External Advisory Boards of the universities with which it cooperates. Vestel also lends support to the "Industry-Oriented Dissertation" studies of the universities. Vestel collaborates with the Technology Transfer Offices in Turkey, especially with the successful Technology Transfer Offices in the Aegean region. Technology Transfer Offices offer the academic studies and new technologies developed in the universities for the use of the industry in order to meet the industry's needs and to contribute to the development of our country.

### Non-Governmental Organizations

In order to improve the global competitive power of the Turkish IT, electronics and white goods sectors and stimulate their potential for innovation, Vestel provides various contributions to non-governmental organizations such as the Turkish Industry and Business Association (TÜSİAD), the Association of Satellite & Electronic Communication Business People (TÜYAD), the Technology Development Foundation of Turkey (TTGV), the Electronic Devices Manufacturers' Association (ECID), the Turkish Electronics Industrialists' Association (TESİD), the White Goods Manufacturers' Association of Turkey (TÜRKBEŞD), Association of Automotive Parts and Components Manufacturers (TAYSAD) and R&D Centers Platforms.

Vestel also contributes to the development of these sectors by actively participating in platforms where sectoral issues are discussed and proposal for solutions are developed by the stakeholders.

### International Technology Platforms

As the largest ODM (Original Design Manufacturer) provider of TVs in Europe, Vestel Elektronik also continues to work jointly with its international partners on R&D projects carried out through the European Technology Platforms such as Horizon 2020, EUREKA, ITEA, Celtic and Catrene. Involved in a total of 36 projects with European partners since 2006, Vestel Elektronik actively takes part in international activities through four Horizon 2020 and six Eureka projects for which it has applied for in 2017 and positions itself as a pioneer of Turkey in this area. Two Horizon 2020 projects evaluated in 2017 were awarded the "Above Threshold Award" by TÜBİTAK (The Scientific and Technological Research Council of Turkey).

### Industrial Partners

Vestel establishes professional collaborations with leading companies throughout the world in technological areas.

Vestel has formed a network of important collaborations with more than 70 industrial business partners, including Google, Qualcomm, Netflix, Telefonica, Digiturk, Viaccess, Mstar, Novatek and Nagra.

### R&D Support through Vestel Ventures

Vestel also contributes to the efforts in the areas of the Internet of Things, mobile projects and electronic devices through Vestel Ventures Ar-Ge AŞ, which it has established to support entrepreneurs undertaking R&D activities to develop new technologies.

Within this scope, the know-how and facilities of Vestel are provided to entrepreneurs in all stages of the product development process such as product design, industrial design, multi-screen interface design, prototyping, testing, certification and production.

### Collaborations with Zorlu Group

Vestel Elektronik also partners with Zorlu Group companies operating in textiles, energy, real estate and mining sectors. With the growing popularity of the wearable technologies, textile integrated sensors and information technologies in particular come to the forefront.

Vestel undertakes joint activities with the Mining Group to develop materials for use in lithium ion batteries for mobile phones and tablets and with the Energy Group to develop energy storage systems and solar panels. Such cooperation is expected to increase further in the upcoming years.

### R&D COLLABORATIONS OF VESTEL BEYAZ EŞYA

In 2017, Vestel Beyaz Eşya's R&D Center applied for eleven TÜBİTAK TEYDEB (Technology and Innovation Grant Programs Directorate) projects. Five TÜBİTAK projects were brought to a successful conclusion while seven projects are underway. Most of the projects have been realized in partnership with the universities, in particular with İzmir Dokuz Eylül University, Ege University, Yeditepe University, Istanbul Technical University, İzmir Yüksek Teknoloji University and Katip Çelebi University.

As for international cooperation, the company actively works with testing and certification bodies such as VDE (Verband der Elektrotechnik Elektronik Informationstechnik e.V.), Intertek and TÜV (Technischer Überwachungs Verein).

Vestel Beyaz Eşya is part of a community which influences the household appliances sector through its membership of CECEC (European Committee of Domestic Equipment Manufacturers) and shapes the technology of the future through its competency in R&D and innovation.

**VESTEL HAS FORMED A NETWORK OF IMPORTANT COLLABORATIONS WITH MORE THAN 70 INDUSTRIAL BUSINESS PARTNERS, INCLUDING GOOGLE, QUALCOMM, NETFLIX, TELEFONICA, DIGITURK, VIACCESS, MSTAR, NOVATEK AND NAGRA.**

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VESTEL ELEKTRONİK'S PRODUCT GROUPS AND INNOVATIONS		
PRODUCT GROUP	PRODUCTS	SPECIFICATIONS/DESCRIPTION
TV	<b>OLED TV</b>	As Turkey's first domestically produced slimmest OLED TV, the Vestel OLED TV offers a unique picture quality with its self-illuminating organic LED technology.
	<b>78" Curved LED TV</b>	A curved TV which offers the same image quality from all viewing angles
	<b>Ultra HD TV</b>	Vestel 4K Ultra HD TV brings more lifelike colors and images to the screen with its "absolute black" and "infinite contrast" features offered by the High Dynamic Range (HDR) and V-UHD Wide Colour Gamut technologies. Other features: 50 Hz MEMC, DTS-HD, Wide Colour Gamut, Quantum Dot Technology (QDOT), High Bright and Ultra High Bright TV, Borderless (Bezel-less) TV, Glass LGP, HDR, Netflix Worldwide, Freeview Play, ISDB-T HTML 5, HBB 2.0, CI+ Local Dimming, Slim ELED, DLED UNB, Dual Tuner, Dolby Vision
	<b>8K TV</b>	TVs which offer 7680x4320 resolution, which is 4 times higher than the resolution of 4K UHD TVs, which are growing in popularity
	<b>Android TV</b> <b>CAS TV</b> <b>Borderless TV</b>	The development of Multicore ARM Android applications
	<b>Set-Top Boxes (STB)</b> <b>Security Oriented DVB</b> <b>IP &amp; Hybrid Oriented</b> <b>Android STB</b> <b>Smart Home, Smart Network</b>	Set-top boxes over which satellite and cable broadcast operators reach consumers through standard internet infrastructure, IP&TV set-top boxes which support the applications of other devices that are used with Viaccess, Irdeto and television at the same time, FTA (Free to Air), Dealers TV, Android based set-top boxes supported by Marvell and AMlogic platforms offering advanced features, Verimatrix, SmartHub and Smart Home Kits
Visual Solutions	<b>4K Satellite Receiver</b>	Set-top boxes that support the Smart Home concept
	<b>FIDS</b>	49" and 55" Flight Information Screens to be used at Istanbul's New Airport
	<b>IP51 Casing</b>	Class IP51 casing for 49" and 55" outdoor information displays, OPS (Open Pluggable System), Videowall, Strected DS
	<b>IR Technology Overlay Touch</b>	Infrared 10 point touch screen overlay kit mountable on a product for sizes of 43", 49", 55", 65" and 75"
	<b>VS Motherboards</b>	MB120DS motherboard with built-in UI (Linux OS), MB150DS motherboard with built-in Android 7.0 OS

# VESTEL ELEKTRONİK'S PRODUCT GROUPS AND INNOVATIONS

PRODUCT GROUP	PRODUCTS	SPECIFICATIONS/DESCRIPTION
Mobile Devices	Smartphone - Tablet	<p>Domestic design and manufacture of smartphones</p> <p>Turkey's first smartphone to use the Android 7.1.1 Nougat operating system</p> <p>Turkey's first and only Google Certified tablet and smartphone entitled to use GooglePlay</p> <p>Double Camera, 3 x CA RF solutions</p> <p>Customized News Portal</p> <p>Quantum Dot Film</p> <p>Front flash LED design, Speaker Protection</p> <p>Secure Operating System</p> <p>Battery technologies, studies for domestic production of cameras and antennas, alternative RF (Radio Frequency) design, full metal NMT (Nano Molding Technology) design, improved user interface design</p>
LED Lighting	LED Lighting Fixtures	Highly energy efficient lighting products, designed and produced at Vestel City, comprising power source products which are suitable for different purposes and outdoor and indoor lighting products including street lighting, road lighting, park and garden lighting, office lighting, architectural lighting and industrial lighting fixtures
	LED Power Sources, Smart Lighting Solutions	Smart city lighting solutions (street lighting with a wireless automation system implemented at Izmir Institute of High Technology, Mexico and Saudi Arabia Street Lighting Projects), IoT platform for lighting products
Innovative Areas	<p>Sensors / Piezo</p> <p>Automotive Electronics</p> <p>5G</p> <p>Telecommunication Products</p> <p>Wearable Technologies</p> <p>Virtual and Augmented Reality and Artificial Intelligence</p> <p>Touch Screen Technologies</p> <p>Advanced Material Technologies</p> <p>Micro LED</p> <p>Energy Conversion and Storage Solutions</p> <p>Smart Home Assistant</p> <p>3D Printing</p>	Products developed for different uses with Vestel's technological infrastructure shaped by its unrivalled electronics R&D and know-how built over the years, which have similar technology with Vestel's existing product range
IoT	<p>Smart Home</p> <p>Smart Cane</p> <p>Smart Mirror</p> <p>Smart Home Integrated TV, Set-Top Boxes (STB)</p> <p>Smart Test Platform</p>	

## VESTEL: TECHNOLOGY OF THE FUTURE, FUTURE OF THE TECHNOLOGY

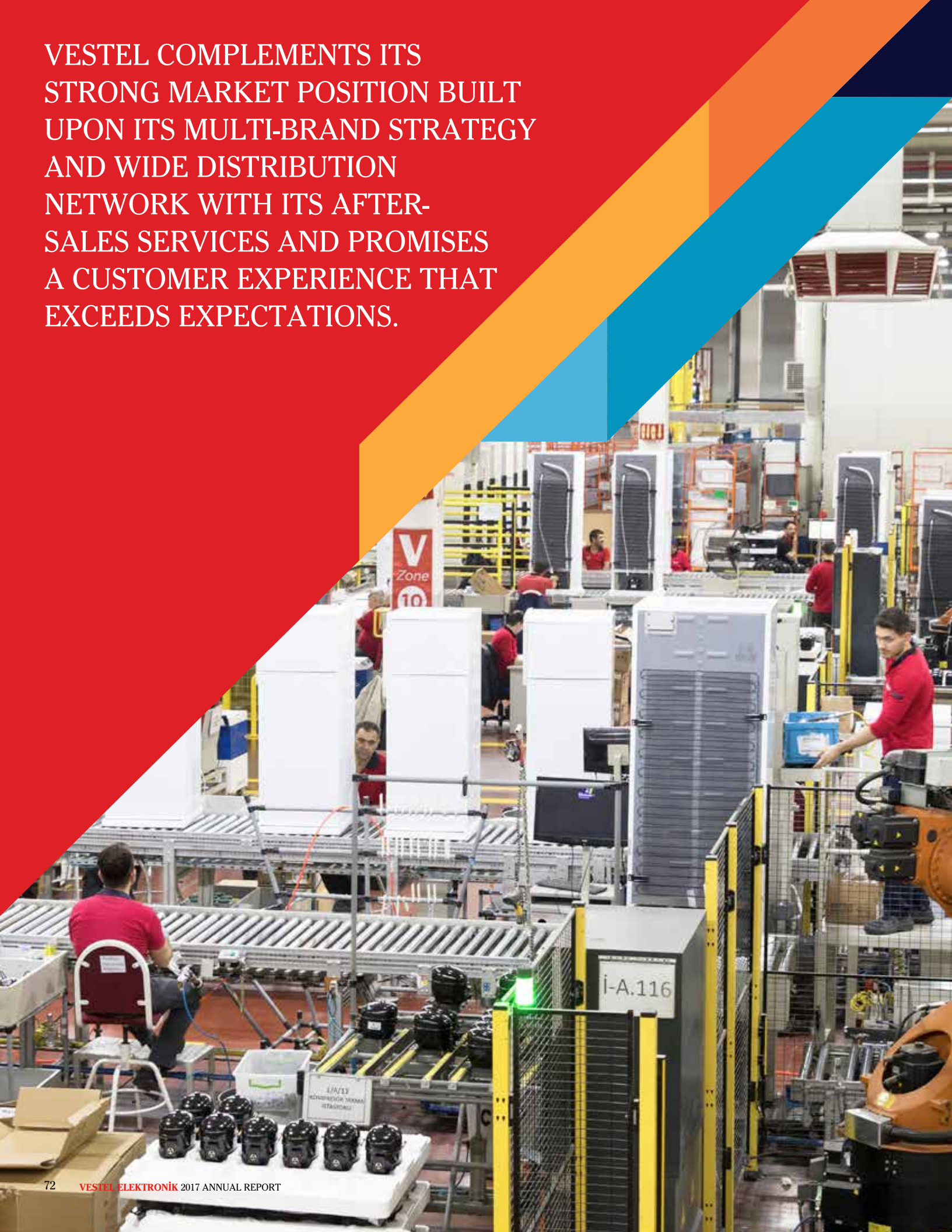
### VESTEL BEYAZ EŞYA'S PRODUCT GROUPS AND INNOVATIONS

PRODUCT GROUP	PRODUCTS	SPECIFICATIONS/DESCRIPTION
Refrigerators	<b>84 cm Combi Refrigerator with Next Generation No-Frost Multi Cooling Technology</b>	An 84 cm wide bottom-freezer (combi) refrigerator. The Multi Cooling system not only isolates odors but also keeps food fresh for a longer period by creating two independent air circles in the freezer and cooler compartments. With an energy rating of A+++, the product offers ease of use thanks to diffuser LED lighting, adjustable door shelves, chiller, humidity controlled crisper and zero overflow system. This product, an extension of the next generation design concept of Vestel Beyaz Eşya, also offers optional features such as Glass Illuminated Design, Maxi Fresh Preserver, and Active Ion Technology.
	<b>84 cm Top-Freezer Refrigerator with Next Generation No-Frost Multi Cooling Technology</b>	An 84 cm wide top-freezer refrigerator. The Multi Cooling system not only isolates the odors but also keeps food fresh for a longer period by creating two independent air circles in the freezer and cooler compartments. With an energy rating of A+++, the product offers ease of use thanks to diffuser LED lighting, adjustable door shelves, chiller, humidity controlled crisper and zero overflow system. This product, an extension of the next generation design concept of Vestel Beyaz Eşya, also offers optional features such as Glass Illuminated Design, Freezer Lights, Maxi Fresh Preserver, and Active Ion Technology.
	<b>54 cm Table Top Deep Freezer</b>	The new 54 cm wide freezer by Vestel Beyaz Eşya, which features the largest interior space in the market and is quite competitive with its new appealing design. The product is not only energy efficient but also offers high performance thanks to the evaporator tube cooling technology.
	<b>60x185 cm Freezer with No-Frost Cooling Technology</b>	The new 60x185 cm vertical No-Frost Deep Freezer and No-Frost Cooler of Vestel Beyaz Eşya. The product offers newly added optional features such as LED lighting, chiller compartment, humidity controlled crisper, Active Ion Technology, adjustable door shelves, foldable glass shelf as well as a large interior space.
	<b>Refrigerator with Voice Control Technology</b>	A unique mechanism design which allows the refrigerator door to be opened with voice command, a first both in Turkey and the world. Vestel Beyaz Eşya will offer the new version of the 84 cm combi refrigerator featuring voice control initially in the domestic market.
	<b>New Practical Handle triggered with surface contact</b>	A new, easy-to-use handle with a moving arm mechanism, which requires less force by eliminating the vacuum effect which results from the difference between the inner pressure of the product and the ambient pressure, which is higher, especially for freezers.
	<b>Vacuum Bag Technology</b>	For the first time in Turkey, Vestel refrigerators feature the Vacuum Bag Technology, which keeps packaged food fresh up to five times longer thanks to vacuum packaging. Food goes bad with the chemical effect of oxygen which exists in the atmospheric environment and the growth of aerobic microorganism. With vacuum technology which prevents the contact with air, food will have a longer shelf-life.
Washing Machines	<b>39 dBA Silent Washing Machine</b>	This record breaking washing machine produces only 39 dBA (decibels) of noise with its silent inverter motor technology, specially designed silent washing algorithm, and the use of soundproofing systems with advanced technology. This is even lower than the ambient noise inside a library, which is 40 dBA.
	<b>Vestel Sterilizone® Washing Machine featuring UV-C Technology</b>	Vestel Sterilizone Washing Machine provides extra hygiene with its unique technologies. The fact that it reduces bacteria by 99.99999% with its special integrated UV-C lamps and custom-engineered washing programs is certified by the German VDE Testing and Certification Institute.
	<b>TwinJet® Washing Machine with a 12 kg load capacity</b>	The highest product capacity in the current platform has been increased from 11 kg to 12 kg following comprehensive design and analysis work. With a capacity to wash 76 t-shirts at the same time, this machine is ideal for big families particularly.
	<b>Washing Machine featuring Steam Technology</b>	Enabling a more thorough and hygienic wash thanks to the steam technology, this washing machine not only reduces wrinkles effectively but also eliminates unpleasant smell on clothes while still keeping them dry.
	<b>The Smartest Washing Machine - Vestel Intellicare</b>	Vestel Intellicare, which features smart sensors to detect the type and the size of the laundry to automatically select the appropriate washing program and settings as well as identify the amount of detergent and softener to use based on the specified values. All you need to do is to put the clothes in the washing machine and press the button.

# VESTEL BEYAZ EŞYA'S PRODUCT GROUPS AND INNOVATIONS

PRODUCT GROUP	PRODUCTS	SPECIFICATIONS/DESCRIPTION
Cooking Appliances	<b>Built-in Oven with Steam-Assist Function</b>	Having the most advanced technology within the built-in oven product range, the Smart Built-in Oven with colored TFT display offers steam-assist function, which helps cook delicious meat and vegetable dishes by preserving the nutrients while making perfect bakeries which are crispy outside and soft inside. Automatic programming and manual use options are available for the product which also features steam cleaning function.
	<b>Silent Built-in Oven</b>	Vestel Beyaz Eşya has developed the quietest built-in oven ever, working at sound levels of just 35 dBA when cooking, thanks to its unique structural design. This is even lower than the ambient noise inside a library, which is 40 dBA.
	<b>Mechanically Controlled Free-standing and Built-in Ovens with A+ Energy Efficiency Class</b>	Vestel Beyaz Eşya has developed the first mechanically controlled ovens with A+ energy rating in the world. With the new heat insulation system and custom-engineered heater and fan operation algorithms, an A+ energy efficiency rating has been achieved in 65 L free-standing ovens and 75 L built-in ovens.
	<b>'Hot Air Shield' Technology for Built-in Ovens</b>	A first in the world for built-in ovens, the 'Hot Air Shield' function, which traps inside the hot air and steam which rush out upon opening the door of a heated oven, has been developed to prevent discomfort to users.
	<b>75 L Pyrolytic Built-in Oven</b>	The '75 L built-in oven' product family now features the pyrolytic self-cleaning function. Thanks to the unique cooling system, the surface temperature will be 40% lower than the maximum value specified in safety standards when the self-cleaning function is on despite the fact that the inner oven temperature may increase up to 450° C and no higher than the ambient temperature when the oven is on.
Dishwashers	<b>36 dBA Quiet Dishwasher</b>	A record-holder, the super quiet dishwasher which generates only 36 dBA of noise thanks to the use of high-tech noise insulation materials, unique washing algorithms and the quiet inverter motor technology.
	<b>Direct &amp; Triple Wash Technologies</b>	The Direct Wash Technology offers a thorough wash particularly for deep cups and narrow mouth feeding bottles and allows for easy selection and activation with the touch of a button while the Triple Wash Technology enables a high-pressure, thorough wash for the persistent stains on cooking pots and frying pans especially.
	<b>45 cm Entry Level Energy Champion (A++) Dishwasher</b>	Developed by Vestel Beyaz Eşya, the record-holder dishwashers in the 45 cm entry level product range offer an A++ energy rating and low water consumption thanks to the efficient washing technology.
	<b>Smart Dishwasher with color TFT Display</b>	Thanks to its remote connectivity feature, the smart dishwasher with color TFT display can be controlled remotely via smartphones or tablets. Eco Time function informs consumers to turn on their dishwashers when the electricity tariff is lower. The users can also create their favorite programs and select a program of their choice with the touch of a button.
Air Conditioners	<b>Super Inverter A/C</b>	The most efficient inverter air conditioner designed and manufactured by Vestel Beyaz Eşya. The product consumes 7% less electricity than A+++ energy level with BLDC (Brushless Direct Current) compressor, BLDC indoor and outdoor unit fan motors and electronic expansion control.
	<b>Super Quiet A/C</b>	The quietest air conditioner designed by Vestel Beyaz Eşya. Raindrop air conditioners with 9,000 and 12,000 btu/h of capacities operate at a 19 dBA sound level in sleep mode.

VESTEL COMPLEMENTS ITS  
STRONG MARKET POSITION BUILT  
UPON ITS MULTI-BRAND STRATEGY  
AND WIDE DISTRIBUTION  
NETWORK WITH ITS AFTER-  
SALES SERVICES AND PROMISES  
A CUSTOMER EXPERIENCE THAT  
EXCEEDS EXPECTATIONS.



## AS THE LEADING EXPORTER OF TURKEY'S ELECTRONICS SECTOR, VESTEL EXPORTS ITS PRODUCTS TO 155 COUNTRIES.

### International Sales

Vestel's international sales strategy is implemented on two pillars: Sales on an ODM basis to A-brand manufacturers, distributors and retail chains, and branded sales through regional brands acquired and global brands licensed by the Vestel Group.

In addition to expanding its ODM business, Vestel also aims to increase its brand penetration and market share in international markets through sales under the well-known regional brands acquired in Europe and via the global brands licensed under the brand licensing agreements.

In line with its profitable growth strategy, Vestel is increasing the share of mid and high-end products in its sales mix.

As the leading exporter of Turkey's electronics sector, Vestel exports its products to 155 countries.

Vestel carries out its marketing and sales activities in the European market through the local sales and distribution network of the 10 foreign trade companies owned by Vestel Ticaret AŞ ("Vestel Ticaret"), which is a wholly-owned subsidiary of Vestel Elektronik. The Company's sales and distribution network in Europe is comprised of the foreign trade companies located in France, Germany, Spain, the United Kingdom, the Netherlands, Finland, Russia, Kazakhstan, Romania and Poland. Sales and marketing activities in other foreign markets are carried out directly by Vestel Ticaret.

In line with the target to increase sales in the Middle East and Africa regions, Vestel Electronics Gulf DMCC, a wholly-owned subsidiary of Vestel Ticaret, was founded in the Dubai Multi Commodities Centre Free Trade Zone in August 2017 to engage in sales and marketing activities.



Vestel Ticaret acquired the rights for the development, manufacturing, sales and marketing of Sharp-branded household appliances throughout Europe under a brand licensing agreement signed in September 2014 and became the exclusive distributor of Sharp products in Europe which are manufactured at Vestel Beyaz Eşya's plants and at Sharp Corporation's facilities in Asia as of January 1, 2015. Expanding the product range of Sharp for the European market with the washing machines, dishwashers and ovens exclusively developed for Sharp, Vestel has strengthened its position as well as increased its sales of premium and branded white goods products in the European market through this agreement.

Another important step towards further consolidating Vestel's position in international markets and strengthening its strategic partnerships with global brands was the brand licensing agreement signed with the Toshiba Visual Solutions Corporation in 2016. Vestel Ticaret has assumed the production, sales, marketing and supply chain activities of Toshiba branded televisions in the European market under the brand licensing agreement signed on September 1, 2016. Based on the agreement, which came into effect in December 2016, Vestel started the manufacturing and sales of Toshiba branded TVs from January 2017 and completed the new product lineup for the brand in June. Toshiba TV sales gained momentum following the completion of the new product line. The deal is expected to improve Vestel's competitiveness and market share in the European market through increased sales of high-end products under the Toshiba brand, which is known for its technological superiority.

Vestel also maintains a rapid growth trend in the Eastern European market and exports to other regions such as Australia, India, Africa, the Middle East, Oceania and South America, besides its main market, Europe. The Company continues its efforts to expand its export destinations by capitalizing on the expected growth potential, especially in the sub-Saharan region.

### Domestic Sales

Vestel's marketing and sales activities in Turkey are carried out by Vestel Ticaret. The superiority of Vestel's product portfolio in terms of quality and diversity, along with Vestel's experience in the multi-brand concept are complemented with Vestel Ticaret's strong distribution network, which provides an important competitive advantage.

In the domestic market, Vestel reaches a wide customer base through its 1,136 exclusive dealer stores, 10 Vs Outlets, 1,028 Regal sales points (of which 251 are exclusive Regal stores), and its online stores (emagaza.vestel.com.tr, vsoutlet.com.tr and regal-tr.com) as well as through the technology retailers, hypermarkets, household stores and other e-commerce sites.

In addition to the physical distribution network, Vestel, as the first consumer durables brand to sell products over the Internet, also reaches consumers via its e-store, emagaza.vestel.com.tr. The

## VESTEL RETAIL ACADEMY WON THE GOLD STEVIE AWARD IN "SALES TRAINING" AND BRONZE STEVIES IN THE "TALENT DEVELOPMENT" AND "EXECUTIVE TRAINING" CATEGORIES AT THE STEVIE AWARDS.

website, where all Vestel products are available for sale, attracts attention with its user-friendly design. Periodical campaigns and promotions are regularly held at the e-store. The Company also sells its products through vsoutlet.com.tr and Regal branded products through regal-tr.com.

As of the end of 2017, vestel.com.tr and vsoutlet.com.tr have 402,543 and 10,121 subscribers, respectively while regal-tr.com has 9,029 subscribers.

### Vestel stores have been renovated from the inside out with a holistic approach.

Under its new store concept, Vestel renovated the exterior frontage and the interior of the majority of its 1,136 dealer stores. Vestel applies the integrated approach, which it pursues at all points where it reaches consumers, from the window displays to in-store activities. Consumers can personally experience the products and make comparisons within product groups at Vestel stores. Vestel aims to offer the most unforgettable customer experience by improving the customer's journey from the first moment he/she meets Vestel in a store to making payment and until after-sales.

### Kafe Vesto: A new era in retail with the cafe concept

With the vision of directing the consumer electronics and household appliances sectors and realizing firsts in Turkey, Vestel brought the café and store together with the concept of "Kafe Vesto". Vestel has been one of the few such examples in the world and the first brand in its sector in Turkey to introduce this concept.

The new Vestel stores in Beşiktaş and Kavacık in Istanbul, and Bahçelievler in Ankara were designed in line with this concept. Kafe Vesto also became operational at the Zorlu Center store in Istanbul. Vestel introduced a new experience to retail with its café concept which has been developed to provide customers with a different, richer and higher quality service and to enable customers to relax while shopping for Vestel products.

The Kafe Vesto offers a diverse menu with an emphasis on domestic zest, reflecting Vestel's "Proudly Domestic" theme.

Vestel aims to bring a breath of fresh air to the sector by spreading the concept of café -based retail, currently implemented at four sales points, to locations throughout Turkey - especially to bazaars - in the near future.

### Vestel Retail Academy

As in previous years, Vestel Retail Academy (VRA) continued to provide training for the Head Office and dealer channel and delivered a total of 20,000 hours of training for 1,200 people in 80 classes under 21 different training topics in 2017.

Having gained recognition on national and global scale, VRA was granted a Gold Award in the category of "Best Sales Development Program" by TEGEP, the Learning and Development Platform Association, one of the leading institutions in the Turkish education sector.

In addition, VRA won Bronze Awards in the categories of "Best Program for Sales Training and Performance" and "Best Results of a Learning Program" at the Brandon Hall Awards while garnering a Gold Stevie Award in "Sales Training" and Bronze Stevies in the "Talent Development" and "Executive Training" categories at the Stevie Awards, another prominent event.

Established under the management's vision of "R&D in Retail", START (Strategic Analysis and Retail Training Unit) team brings together the departments which gather, analyze and distribute data and is comprised of the Market Research, Retail Metrics Measurement and Analysis Departments and the Vestel Retail Academy. START plays a key role in improving the content of the training programs by nurturing the spirit of R&D through interfunctional collaboration and synergy.

### After-sales services which promise a unique customer experience

The after-sales services of Vestel are carried out by the Vestel Customer Services Directorate ("Vestel Customer Services"). With 360 authorized service points providing services throughout the country, 12 Central Services in 11 different provinces, call center at Vestel City, five güVENÜSsü (Trust Base) centers in Izmir, Istanbul, Ankara, Trabzon and Gaziantep and five mini güVENÜSsü centers to provide services for the Venus smartphones and Vestel tablets, technical and training units and field operations managed through four Regional Directorates, Vestel Customer Services promises a unique customer experience with the mission of delivering reliable services and transforming expectations into pleasure and pleasure into appreciation.

Vestel Customer Services continues to make a difference in the sector with its pioneering projects in after-sales services.

## VESTEL CENTRAL SERVICES IN TURKEY



## DELIVERING CUSTOMER EXPERIENCE BEYOND EXPECTATIONS



Gaining worldwide recognition as well as setting an example in its sector in Turkey, the 7/24 available Vestel Call Center aims to provide solution at the first call with its specialist customer representatives. In addition to phone calls, customers can also access Vestel Customer Services anytime through the CapCanlı (Live) Support line, mobile assistant application, Vestel website, WhatsApp or Venus support line. While the rate of digitization gears up in parallel with the technological developments, the basic principle is not to robotize communication.

Vestel Customer Services established 12 Central Service organizations in 11 different provinces to serve as a role model for the authorized service points which provide services to customers in the field. Central Services support the field organization in training, inspection and rapid supply of spare parts. Central Services also take part in new product tests in coordination with the central technical units.

In order to ensure a better coordination between the authorized service centers, production plants and dealers, four Regional Offices were set up in the field where service operation specialists work.

Five güVENÜSsü centers established in Izmir, Istanbul, Ankara, Trabzon and Gaziantep provide exclusive services for the Venus smartphones and Vestel tablets under a new service approach. These services include special practices such as addressing software and accessory breakdowns within 20 minutes, as well as offering customers temporary devices and the opportunity to follow up the repair process through the [venusdestek.vestel.com.tr](http://venusdestek.vestel.com.tr) website.

In addition to five mega güVENÜSsü centers, there are also five mini güVENÜSsü centers at the busiest dealers and sales points.

Each of the 360 Vestel authorized service points providing services throughout the country, also serves as güVENÜSsü Repair Point.

### Pioneering Projects by Vestel Customer Services

**Buena Vista:** A world champion in the category of Best Technology Innovation, “Buena Vista” is a system and process design project for call centers. Under the project, systems and processes are renewed from end to end and a smart system and process design experience

is offered through decision-making mechanisms which do not require system training and through algorithms developed to guide the customer representatives.

**Smart Diagnostic:** Ranked second for the Best use of Self-Service Technology, the “Smart Diagnostic” project can remotely solve non-technical problems by tracking the error in Vestel Puzzle refrigerators. It also informs the authorized service point about the defective parts and the spare part codes in case of a failure which requires servicing in order to minimize the service time.

**Joker:** Ranked number one twice in the Most Innovative Project category in different platforms, the “Joker Project” is an application which provides instant assistance to customer representatives when they are handling a call. Customer representatives can consult the Joker team if they encounter a request which they cannot answer immediately during the call, without keeping the customer on hold for a long time. Customer representatives receive the necessary support by writing to their ‘Joker’ while they continue their calls. In this way, customers are quickly offered the most accurate information.

### Vestel Service Academy

In line with the target to offer a unique after-sales experience, Vestel Service Academy has been providing training to all service teams including the technicians and managers of the authorized service points and customer representatives on a regular basis since 2012 within Vestel Customer Services. The Academy holds 18,000 person days of training sessions with several training modules every year.

### Long-Term Technician Specialization Program

Service technicians, who are in direct contact with the customers, are trained as service specialists through the Long-Term Technician Specialization Program. The four-week program is held at Vestel Service Academy in Manisa with different curricula for five product groups. So far, over 1,500 service technicians have received training and become service specialists through this program. In 2016, a second Specialization Program was launched to cover different product groups.

The aim is to train 750 customer representatives through the specialization program which was launched in 2015 for the customers representatives who are in constant contact with the customers.

To date, a total of 230 customers representatives in 15 groups have completed the program successfully, with seven groups in 2017.

### Empathy and Communication Workshop in Vestel's Service Chain

With the “Empathy and Communication Workshop in Vestel's Service Chain” Project, another unprecedented practice in the sector, a good teamwork environment was created by bringing dealers, authorized service providers, Call Center employees and Assist Team together to ensure customer satisfaction and loyalty, with the cooperation of

VRA. The training courses, which are built around various customer scenarios, develop empathy among all the stakeholders.

Launched in 2015, the project was completed with a total of 194 participants in 25 groups in 2017.

### **Product Training for Sales Teams**

The “Product Training to Sales Teams Project“ was launched in collaboration with the Vestel Service Academy and Vestel Retail Academy in 2015 for the sales teams in Vestel’s sales channels in order to increase their technical knowledge of the products in the product portfolio and help them transfer their knowledge to authorized dealers. As part of the project, classroom training had been provided to 105 participants in seven groups from the Assist Teams, 20 participants from the Merch Teams, and 138 participants in six groups from the sales teams in 2017. In addition to classroom training, a total of six distant live broadcasts were made from the Service Academy studio to all the sales teams, including the authorized dealers.

### **Authorized Service Center Business Management Certificate Program**

In line with the “Perfect Service” concept, the Authorized Service Center Business Management Certificate Program, developed in collaboration with Yaşar University specifically for the authorized service owners and managers, produced its first graduates in April 2014. A total of 328 service owners and managers have completed 80 hours of training over four years and received their diplomas. The program continues in its 5<sup>th</sup> year in the 2017/2018 training period.

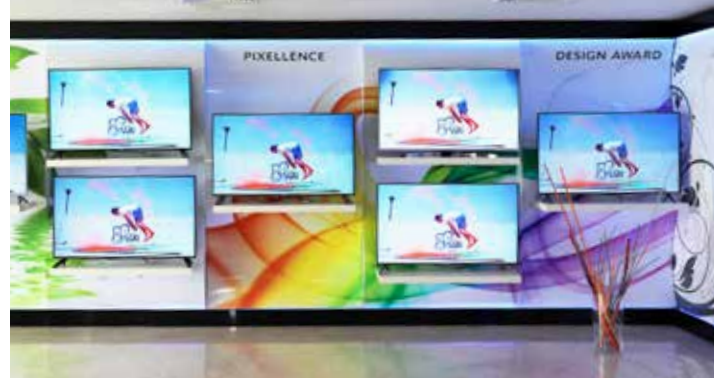
The Certificate Program aims to improve authorized service centers in terms of efficient and profitable business management, increase the quality of their services, improve the management of their human resources, ensure the fulfillment of their legal obligations and achieve maximum customer satisfaction. In 2015, this project won the KalDer’s Grand Award of Team Excellence and was given considerable coverage in the press and set an example for other companies in the sector.

### **Online and Distance Learning**

Regular online training provided from the live broadcast studio allows the authorized service staff to rapidly access up-to-date technical information. A total of 133 live broadcast training sessions were held in 2017 for the sales teams and dealers as well as for the authorized service points in Turkey and abroad. The live broadcasts reach a large audience via applications such as the “Information Contest” and “Monthly Agenda” where managers also participate while the interest in the live broadcasts has been increasing over the years.

### **Training Field for Solar Energy Systems (SES)**

As part of Zorlu Holding’s decision to enter Solar Energy Systems (SES), an 8-day training session was provided with the cooperation of the Vestel Service Academy and Zorlu Solar Enerji Tedarik ve



Ticaret AŞ. Accordingly, a hands-on training was held in Izmir and technical trips were organized to two facilities. A rooftop solar system was also installed to serve as a training area for the Vestel Service Academy. In addition, Vestel Service Academy prepared training curricula and documents for the training of technicians who will perform system installation and maintenance work.

### **Management Quality Systems**

Within the framework of the quality improvement activities initiated in 2013, Vestel Customer Services Directorate completed the formulation of its mission, vision, values and strategies and obtained the TSE ISO 9000 Quality Management System Certificate and ISO 10002 Customer Satisfaction Management System Certificate in 2014. Vestel Customer Services has embraced the EFQM (European Quality Foundation Management) Excellence Model, a strategic management model, for all of its activities. As part of this management model, which aims to improve business results by taking into account the expectations of all stakeholders, Vestel Customer Services has been conducting stakeholder perception surveys (for customers, employees, dealers, authorized service points, suppliers and the community) for the past four years. The company performs continuous improvement activities based on the results of these surveys. Vestel Customer Services also reviews its strategies once in every two years and monitors the performance systematically in line with its targets and the management philosophy.

### **“Customer-Friendly Organization/ Customer-Friendly Brand” Certification**

In 2017, Vestel Customer Services was granted the Customer-Friendly Organization and Customer-Friendly Brand Certification by TSE, which is a first in the sector, with its 120 authorized service points throughout Turkey.

Each of these authorized service points was audited in terms of meeting the service quality standards and in managing customer satisfaction in particular and was certified as a “Customer-Friendly Organization”.

2017 WAS ANOTHER YEAR BRINGING  
NUMEROUS DOMESTIC AND INTERNATIONAL  
AWARDS TO CONFIRM THE DIFFERENCE MADE  
BY VESTEL CUSTOMER SERVICES.

2017 ECCCSA European Contact Centre & Customer Service Awards	Gold Medal for Innovation in Customer Services
2017 CCWA Contact Center World Awards	1 <sup>st</sup> in the EMEA and 2 <sup>nd</sup> in the World for Best use of Self-Service Technology
	1 <sup>st</sup> in the EMEA and 2 <sup>nd</sup> in the World for Best Technology Innovation - Internal Solution
2017 Stevie Awards (International Business Awards)	Bronze Stevie for Customer Services / Department of the Year
2017 A.C.E. Awards	1 <sup>st</sup> Prize in the Category of Household Appliances
	1 <sup>st</sup> Prize in TV Category
	1 <sup>st</sup> Prize in Smartphone Category
2017 KalDer Team Excellence Awards	Silver Award for Successful Team of the Year
2017 Turkish Standards Institution (TSE)	Customer-Friendly Brand / Customer-Friendly Organization
2017 Çetin Ceviz (Hard nut to crack)	1 <sup>st</sup> Prize for Best Project Team Member
2017 Call Centers Association (ÇMD) Golden Headset Awards	1 <sup>st</sup> Prize for Best Customer Experience
	1 <sup>st</sup> Prize for Most Effective Social Responsibility Project
	1 <sup>st</sup> Prize in the category of I Love My Job Because ...
2017 Dragon Festival / Rowing Races	Federation Cup Winner
Ministry of Environment and Urban Planning	2 <sup>nd</sup> Prize for Manufacturer Contributing to Waste Collection by ELDAY (Association for Electrical and Electronics Recycling and Waste Management)

### Vestel's Corporate Brand and Communication Strategy

The communication strategy which describes the goals, vision and mission of the Vestel world is centered around the concept of "Turkey is Vestelized".

As a local brand which produces high technology to global standards, this concept rests upon Vestel's aim of facilitating and improving the lives of people with its products and in this vein, for every household to own at least one Vestel product.

At the heart of the creative strategy lies the concept of "Turkey is Vestelized". This approach is being strengthened with the "Proudly Domestic" campaign. All processes from the product strategy to the communication approach and from the sales campaign to digital projects are derived from these two concepts. The biggest source of support for this entire construct is Vestel City, which is Vestel's manufacturing complex where it proudly produces domestic technologies in Turkey.

The purpose of the communication campaign is to introduce the latest technology to all four corners of Turkey by achieving the firsts and to be an inspiring brand for Turkey.

Launched four years ago, both the "Turkey is Vestelized" and "Proudly Domestic" campaigns have achieved a great success. While the product categories have been further improved, the success of the communication campaign has been bolstered by the holistic communication.

Vestel, aware of the fact that women play a key role in its accomplishments in production, sales and after-sales services as well as in the high customer satisfaction achieved, has put women, who contributed to its success, at the heart of its communication in 2017 as a sign of gratitude for them.



# VESTEL HAS EXPANDED ITS PRODUCT GROUPS IN INDUSTRIAL AND STREET LIGHTING WITH THE INTEGRATION OF SMART LIGHTING SYSTEMS.



Vestel has extended its leadership in energy efficiency from electronics and home appliance product groups to LED lighting with the energy efficiency solutions offered in street, industrial, office, retail and home lighting categories.

LED lighting products, which provide energy savings of up to 80% and are environmentally friendly as they do not contain mercury and reduce waste generation with an operating life of more than 50,000 hours, contribute to lower carbon emissions by consuming less energy than standard lighting fixtures.

In 2017, the LED lighting product range was expanded with the development of new products:

- In the industrial lighting product groups, new high-ceiling products were developed, and the existing product range was expanded in line with the market needs.
- The energy efficiency of the street lighting and industrial lighting product groups was raised up to 150 LM/W thus, allowing business partners to recoup their investments in a shorter period of time.
- In office lighting, smart systems using the “Step-Dim Technology” were designed offering both user-friendliness and energy savings.

Vestel closely monitors the LED Conversion Project to be run by TEDAŞ (the state owned Turkish Electricity Distribution Corp.) and the General Directorate of Renewable Energy of the Ministry of Energy and Natural Resources for replacing the 6.5 million lighting fixtures used in road, street and public lighting with LED lights. The project is expected to be initiated in 2018 and the existing 6.5 million fixtures are expected to be replaced within the next five years.

In 2017, Vestel LED lighting products were used at Konya Organized Industrial Zone, Renault Factories, Kocaeli Stadium and THY Technical Service in the domestic market, and at Volvo Factory, Parc Asterix, Booker Shops and Petit Jean in international markets.

In addition to domestic sales, Vestel LED lighting products were exported to Germany, France, England, the Netherlands, Israel, Romania and Vietnam in 2017.

### VESTEL VENTURES IS VESTEL'S CORPORATE INVESTMENT ARM, WHICH ADDS NEW BUSINESS LINES TO THE GROUP.

Vestel Ventures Ar-Ge AŞ ("Vestel Ventures") is a corporate investment company founded in 2015 by Vestel Elektronik to support new ventures and add new areas of business to the Group.

Believing that ventures help facilitate people's lives, improve efficiency and make a difference with their innovations, Vestel Ventures has adopted the following vision: "In Vestel Group's global journey, we target the future, aim for growth and focus on being a global leader...". The mission of Vestel Ventures is to "Foster ventures and provide them with the support they need to achieve commercial success".

Vestel Ventures offers strategic support to entrepreneurs by providing Vestel's resources in R&D, design, production, marketing, distribution and sales and the Company's business network and managerial experience to entrepreneurs so that they can channel their energy into their projects through its formula of V3® Formula = Cash + Support + Fund. Entrepreneurs may receive cash support from the grant funds which they can access via Vestel's intermediation thanks to Vestel's experience in grant funds in Turkey and Europe. Vestel also helps entrepreneurs with their problems and provides support for their marketing and branding activities in international fairs and exhibitions. In addition to being a major player in the domestic market, Vestel is also a significant player in international markets with its exports to 155 countries and wide marketing and sales network in foreign markets. As such, it provides significant assistance to entrepreneurs in opening to international markets. To help successful ideas extend beyond Turkey's borders, Vestel also provides know-how support to entrepreneurs through the academics, industrial experts and international consultants, who are the best in their respective fields, with whom it works in every region of the world.



#### Supported Projects

Aiming to deploy Vestel's leverage to transform technologies which bring efficiency and comfort to people's lives into products, Vestel Ventures provides support for the entrepreneurial investments in the areas of the Internet of Things, mobile technologies and innovative devices.

Vestel Ventures supports initiatives which will make a difference and create significant value for Vestel or its users.

#### The Internet of Things

Projects which enable devices to communicate with each other over the Internet and involve the development of a communication ecosystem

#### Mobile Projects

Initiatives with regard to mobile devices and mobile applications and innovations

#### Electronic Devices

All innovative ideas which make a difference either for the end-users or on an industrial scale by bringing ease of use, reducing costs and increasing efficiency

#### Innovative Ideas and Projects

Projects which will bring new breakthroughs in technology, facilitate people's lives and involve significant innovation in new areas

As an arena of ideas where entrepreneurial technologies come together, Vestel Ventures aims to contribute to enhancing Vestel's global competitive power through the companies it invests in, by expanding the technological potential in its ecosystem. From its establishment till the end of 2017, Vestel Ventures has invested in a total of 11 ventures in the areas of energy, health, bioplastics, mobile apps, AR/VR (Virtual & Augmented Reality) technologies, smart city, and customer services in Turkey and abroad. Vestel Ventures works together with the startup teams following the investment to help them reach commercial success.



## PROJECTS FOR UNMANNED AERIAL VEHICLE (UAV) SYSTEMS

### Development of KARAYEL UAV System

KARAYEL UAV System proved that it is one of the best as well as one of the most reliable Unmanned Aerial Vehicle Systems of its class with its performance during its over 3,000 hours of flying performed as part of the TAF's (Turkish Armed Forces) Service Procurements.



### KARAYEL Product Family

Different models were developed based on the KARAYEL UAV platform and a product family was created.

KARAYEL, KARAYEL-S, KARAYEL-U and finally KARAYEL-SU models were developed and presented to both domestic and international customers through various marketing activities and flight demonstrations. KARAYEL-SU, the most advanced model of its family, with a 13 m. wingspan and 120 kg of ammunition payload capacity, is the best UAV in its segment.

### Technical Specifications of the KARAYEL UAV Family

KARAYEL UAV Family	KARAYEL	KARAYEL-S	KARAYEL-U	KARAYEL-SU
Maximum Take-off Weight	560 kg	560 kg	630 kg	630 kg
Wingspan	10.5 m	10.5 m	13 m	13 m
Fuselage Length	6.5 m			
Useful Load, Fuselage	70 kg			
Useful Load, Wings	60 kg	120 kg		
Endurance	18 hours	13 hours	20 hours	8 hours

**Outstanding Features:** Unique Avionic System Architecture, Authentic Structural and Aerodynamic Design, Flight Ability in Unfavorable Weather Conditions, Defrosting System, Lightning-Strike Protection.

# KARAYEL, KARAYEL-S, KARAYEL-U AND FINALLY KARAYEL-SU MODELS WERE DEVELOPED AND PRESENTED TO BOTH DOMESTIC AND INTERNATIONAL CUSTOMERS.

## Expanding the Areas of Use for the KARAYEL UAV System

With the expectation that there will be an increasing demand for the UAVs in the future, the areas of use for the KARAYEL UAV System were expanded with the integration of new technologies and useful payloads.

In 2017, the KARAYEL UAV platform was modified to perform new tasks like fire detection and topographic mapping.

## International Marketing and Sales Activities for the KARAYEL UAV System

The international sales and marketing activities initiated in the Middle East were extended to four continents with intensive feasibility studies in 2017.

These works included successful flight demonstrations of UAV systems which were received with admiration by the potential customers.

In November 2017, Vestel Savunma participated in Dubai Airshow, one of the biggest aviation expos of the United Arab Emirates and the Middle East, and introduced the Karayel UAV product family to the international market. Vestel Savunma signed Memorandums of Understanding (MoU) with the leading aeronautical companies of the region to cooperate in various areas for the UAV Systems. Also, in 2017, a memorandum of understanding was concluded with a European country for the sales and co-manufacturing of the existing UAV Systems.

## Vestel's 5<sup>th</sup> Research and Development Center – Vestel Savunma

In the second half of 2017, Vestel Savunma applied to the Ministry of Science, Industry and Technology for a Research and Development Center license in accordance with the Law No. 5746, which was prepared in just two months, and received authorization and founded the 5<sup>th</sup> Research and Development Center of Vestel Group. Vestel Savunma Research and Development Center is Vestel Group's first Research and Development Center located outside of Vestel City.

## R&D Strategies of Vestel Savunma

Vestel formulates its long-term strategies with the awareness that having the ability to transform scientific and technological findings into economic and social benefits (i.e. innovation), is the basis for maintaining its presence in today's competitive global environment. Vestel Group is determined to sustain its corporate growth and increase its share in the world markets through its intensive R&D efforts. With this vision and its extensive technological know-how, Vestel Savunma steadily increases its R&D efforts for improving its competitive power and for catering to the changing needs of the users. Vestel Savunma also conducts studies towards its goal of introducing innovative and leading products.

## Intellectual Property Rights and Patents

Vestel Savunma has submitted 12 patent applications to this day and holds nine registered patents as of the end of 2017.

## HYDROGEN AND FUEL CELL TECHNOLOGIES

Vestel Savunma has been conducting studies for more than ten years concerning the energy technologies of the future and has been undertaking R&D activities especially in the fields of hydrogen and fuel cell technologies. The company conducts studies in PEM (Proton Exchange Membrane) and Solid Oxide Fuel Cells, especially for original design, and boasts a solid global position in this sector in terms of both design and manufacture. The utilization of fuel cells in UAVs will significantly increase their flight endurance, one of the main criteria for their success. Combining its experience and know-how in UAV and fuel cells, Vestel Savunma commenced developing fuel cell systems for the UAVs in 2017. It also continues its R&D studies for the development of high capacity fuel cell systems, which are required for underwater platforms in the defense industry. The development of a Solid Oxide Fuel Cell system for the armored vehicles, the first and only R&D project in the sector, is completed. The membrane and the intermediate products used in cell production, which were developed as part of this project, were included in the company's product portfolio. Additionally, based on the experience and know-how accumulated through this project, efforts were initiated for manufacturing a prototype 1.5 kW fuel cell system for home use.

Studies continue on various locally and internationally supported projects on fuel cells and hydrogen technologies to name a few, the Development of a Low Temperature Solid Oxide Fuel Cell/ New Indigo (1001-TÜBİTAK Project), Development of Autothermal Reforming Reactor (Priority Area ATR 1003-TÜBİTAK Project), Micro-CHP (Micro Combined Heat and Power System) (Priority Area 1003-TÜBİTAK Project).

VESTEL TEKNOLOJİ ÇÖZÜMLERİ PROVIDES TECHNOLOGICAL SOLUTIONS WITH ITS PRODUCTS WHICH INCLUDE INTERACTIVE LED SMART BOARDS, VIDEO WALLS, INFORMATION DISPLAYS, LED WALLS, TOTEMS AND OFFICE BOARDS.



Established in 2012, Vestel Teknoloji Çözümleri (Vestel Technology Solutions) provides specialized digital display solutions for the retail, food, transportation, finance, education, healthcare and tourism sectors.

The company offers technological solutions to its customers with its products such as the Interactive LED Smart Board, Video Wall, Information Displays, Led Wall, Totem and Office Boards.

Vestel Teknoloji Çözümleri's services consist of training solutions and corporate solutions.

Vestel Teknoloji Çözümleri first participated in the digital transformation process in the education sector with the Vestel Interactive LED Smart Board products. The Vestel Interactive LED Smart Boards, which provide an interactive and a fast learning

environment for all educational institutions from elementary school to university, and run the full gamut of educational needs from language courses to preparatory courses, are the leading products in the education sector.

While mainly serving Turkey's large and distinguished private schools and universities, the company's product penetration is also expanding rapidly with the increasing number of classrooms in private schools located all around Turkey. The partnership with major schools also continued in 2017 and a number of special classrooms at the three campuses of a private school were equipped with the Venus smartphones and Vestel smart boards.

The transformation which has started in the restaurants with the Vestel Information Displays, which were developed by taking into account the corporate needs, has continued with the Video Wall, which serves different sectors. The displays can be managed from a single point and can display documents in various formats. The products, which serve various needs in different models and sizes, enable the users to carry out advertising, promotion and informative activities at any location of choice.

Vestel Teknoloji Çözümleri also provides digital display products for the large food and fast-food chains. Product sales in this area have gained momentum with the expansion in customers' businesses.

In addition to the food industry, significant deals are made for the sale of digital display products to other industries. Within the scope of these deals, digital displays started to be used in the stores of a technology retail chain for campaigning and advertising purposes.

Digital screens were placed at the platforms in Marmaray Railway for advertising and promotion. Also in 2017, an agreement was signed to supply the flight information screens of the Istanbul third airport, which is set to be one of the largest airports in the world.

### VESTEL AIMS TO MITIGATE THE ENVIRONMENTAL IMPACTS OF ITS OPERATIONS THROUGH MEASURES SUCH AS ENERGY SAVING, REDUCTION, REUSE AND RECYCLING OF WASTE AND LIMITING OR ELIMINATING THE USE OF HAZARDOUS CHEMICALS.

**Vestel's approach to sustainability has been shaped by the goal of a better future on the basis of economic, humanitarian, environmental and social contribution.**

As a global manufacturer, which manages its processes with sustainability vision, Vestel considers the environmental impacts of its products, from the design to final product and from the entire production cycle to the procedures carried out after the end of the product's life cycle. Expanding its range of products which break world records with their energy and water conservation, Vestel mitigates the environmental impacts of its operations through environmentally friendly and human-focused manufacturing while minimizing production costs and risks.

Paying attention to the use of recyclable materials in production and reducing the diversity and quantity of materials used, Vestel aims to mitigate the environmental impacts of its operations through measures such as energy saving, reduction, re-use and recycling of waste, and limiting or eliminating the use of hazardous chemicals.

Vestel considers its own development to be equivalent to the development of society. With this awareness, Vestel is determined to support social responsibility projects with ample funds, initiate new projects in this regard and increase its efforts and support for a better future in addition to its contributions to economic and environmental sustainability.

**As of November 1, 2017; Vestel Elektronik was included in the Sustainability Index of Borsa Istanbul (BIST) for the third time while Vestel Beyaz Eşya will be voluntarily listed in the index during November 2017 - October 2018 period.**

Applying sustainability in its entire business model from the use of technology to its management strategies, Vestel Elektronik was included in the BIST Sustainability Index, which consists of the shares of the listed companies on Borsa Istanbul with a high corporate sustainability performance, for the first time on November 2, 2015.

The Company, which was listed in the index during November 2016 - October 2017, qualified to be included in the index for the third time for the November 2017 - October 2018 period thanks to its continued compliance with the index criteria.

Vestel Beyaz Eşya, a subsidiary of Vestel Elektronik, voluntarily applied for inclusion in the BIST Sustainability Index in 2015. Vestel Beyaz Eşya qualified for inclusion in the Index for the November 2016 - October 2017 period by fulfilling the required criteria, and was included in the Index as of November 1, 2016. Thanks to its continued compliance with the index criteria, Vestel Beyaz Eşya will be voluntarily included in the BIST Sustainability Index during November 2017 - October 2018 as well.



### HUMAN RESOURCES AT VESTEL

Human resource activities at Vestel are carried out by the Vestel Human Resources Directorate which reports to the Zorlu Holding Human Resources Group. The Directorate is structured under four main organizations, namely, the Industrial Relations Office, Recruitment and Talent Management Office, Education and Development Office and Administrative Affairs Office. The Head of Zorlu Holding's Human Resources Group also sits on the Executive Board of the Vestel Group of Companies, ensuring continuity in the delivery of information to top management in all matters concerning employees.

#### Vestel's HR approach: Being where the talent is

Vestel is aware that the underlying factors for sustainable success are not the giant factories or the state-of-the-art computers or electronic devices, but rather the highly motivated and happy employees who have the skills to utilize and manage these in pursuit of a common goal. Vestel continually reinforces its existing workforce by investing in qualified human resources and thereby contributing to Turkey's employment.

Vestel formulates its change and development strategies based on the idea of "Being where the talent is". Vestel began the journey towards becoming a preferred employer with the "Campuses are Vestelized" project in 2013 in order to attract young talented individuals required by the Company due to its rapid growth. The aim of this project is to create new resources outside the existing means in reaching qualified individuals and to discover high calibre candidates in the campuses before they graduate. In view of the importance Vestel attaches to employing new graduates and young talents, the Company identified university students as potential candidates. Within this context, various activities are carried out in the university campuses to further enhance the perception

of Vestel as an "Attractive Employer". These activities include university career activities, engineering competitions, graduation projects, sponsorships, workshops and case studies which require the establishment of close relations with the university career centers and student clubs, and projects which support the industry-university collaboration.

Vestel cares about the ideas of young people, which is a driving force for the Company. To this end, since 2015, Vestel has been implementing the "V-Inception" Project for talent acquisition and for shaping the Employer Branding Strategy to be followed by the Vestel Human Resources at the beginning of each academic year. Under this project, student club representatives from several universities come to Vestel City to experience Vestel and create a project of their own in line with the mission assigned to them. These young people build a "Vestel Dream" and integrate the strengths of Vestel into this dream as part of their project. Carrying this dream into campuses and Vestelizing the campuses just as students wish it to be constitute one of the Employer Branding activities.

Another project launched for talent acquisition is the VesTELLer Project. Since 2015, 21 students from the leading universities in Turkey have been serving as a VesTELLer (Vestel's Brand Representative in Campuses). As part of the project, the selected students conduct activities to support Vestel in becoming a well-known, popular and preferred employer at the campuses.

One of the most important objectives of Vestel Human Resources Policy is for Vestel to become a company which talented individuals dream working for, and to ensure their loyalty to the Company by providing them with a suitable career path. In line with this goal, projects are being developed not only to easily reach these talents but also to retain them and ensure their loyalty to the Company.

One of these projects was the “Onboarding Project”, which was launched in 2017 as part of the recruitment process. Worldwide studies indicate that employee loyalty is closely linked to the first employment process.

After seeing the need for a bridging practice, the onboarding process was designed in order to meet the expectations of the Millennials and create employee loyalty. The Onboarding Program was intended to smooth out the candidate’s experience following the job offer, make the recruitment process more transparent and introduce the Vestel culture to the new employee prior to his/her first day at work.

This program features a range of entertaining tasks from a fun video which provides the information needed by the new recruit during his/her adaptation period to the National Geographic Mega Factories documentary, to Vestel’s jargon game and office exercises.

Through these projects, Vestel

- facilitates the adaption process for its employees,
- takes into consideration the needs of its employees so that they could be successful,
- ensures fairness and equal opportunities among employees by balancing the employees’ expectations with those of the Company,
- supports and promotes the development of its employees through continuous training programs,

- follows up and evaluates the performance of employees, while encouraging and rewarding them for their achievements,
- performs career planning with vertical and horizontal promotions and maintains long-term cooperation with the employees.

Vestel is aware that a qualified workforce is the most important factor for providing quality customer services in addition to maintaining and improving its technological superiority and leadership in design. Accordingly, Vestel manages its human resources through detailed procedures, which include all the legal and regulatory requirements, training needs and processes and training programs for meeting these needs, performance evaluation, reflection of performance evaluation results to remuneration, career planning, promotion, dismissal and compensation.

New developments are monitored, evaluated and implemented for improving the management of human resources at Vestel. Internal duty backups for sustainability are conducted periodically and mainly in-house human resources are utilized to meet the needs.

Human resource practices are shaped by the principles of fostering the employees’ sense of belonging, internalization of the corporate culture, employee engagement, and ensuring long-term employee loyalty and cooperation. The Human Resources is represented at the Executive Committee level in the Company in order to set the foundation for the Human Resources Policy and to implement it effectively.

#### VESTEL’S BASIC HR INDICATORS (AS OF THE END OF 2017)

Personnel	Number	%
<b>Total</b>	<b>15,856</b>	-
Female	5,567	35
Male	10,289	65
Average Seniority	4 years	
<b>Breakdown of Senior Management Based on Gender</b>	<b>Female</b>	<b>Male</b>
General Manager	1	20
Deputy General Manager	6	40
Mid-Level Management	37	220
<b>Total</b>	<b>44</b>	<b>280</b>
<b>Breakdown of Personnel Based on Education Level</b>	<b>Female</b>	<b>Male</b>
PhD	7	15
Master’s Degree	157	431
Bachelor’s Degree	886	1,710
Vocational high school graduate	630	1,027
High school graduate	3,920	7,073
<b>Total</b>	<b>5,600</b>	<b>10,256</b>

#### NUMBER OF EMPLOYEES BY CATEGORY

Senior Management	Other Employees (Excluding Administrative Personnel)
324	15,532



### **Sustainable and quality training activities to sustain creative, entrepreneurial and productive human resources**

At Vestel, where each employee is considered as a value, a regular training model is adopted to develop the existing skills of employees and further facilitate their adaptation to innovation and change. Within this framework, quality and sustainable training activities are carried out to sustain the creative, inquisitive, reflective, entrepreneurial and productive human resources. Accordingly, soft skills and technical training programs were provided while trainings continued in the fields of computer, electrical-electronics, industry and mechanical engineering at Vestel Technology Academy in 2017.

Within the scope of the Vocational Qualifications Authority Law, 244 employees were certified for machinery maintenance while 234 employees received steel welding certificates. Through the operator training, 30 employees were qualified as a Forklift Operator and 43 employees as a Manlift Operator. As of October 2017, all commercial vehicle drivers who engage in the transport of people and goods must hold the Driver Certificate of Professional Competence (Driver CPC). In line with this legal requirement, 96 employees obtained CPC 2 and 8 employees CPC 8 driver licenses. Also, in order to meet the legal requirement, a first aid training was provided in 2017 through which 250 employees completed the basic first aid training and were granted a certificate.

In 2017, employees were provided a total 89,843 hours of training.

### **Vestel Technology Academy**

Lifelong learning opportunity is provided at Vestel Technology Academy which was developed via collaboration between Vestel Group and Özyeğin University. The Program is aimed at enhancing the technical knowledge and experience of Vestel's engineers in their fields.

#### **The Program**

- allows employees who have been educated in different fields of engineering to address their weaknesses in areas required by Vestel,
- allows employees to take a post-graduate degree in the same area as their undergraduate degree,
- allows employees, who have graduate degrees, to get a PhD degree.

The total number of employees who received training at the Vestel Technology Academy reached 357 in 2017.

### **Vestel Management Trainee Program**

Vestel launched its eighth Vestel Management Trainee Program, which is carried out with the academic support of Turkey's leading universities, at Vestel Training Center in Manisa in cooperation with Koç University. The program is aimed at cultivating young talented university graduates as future managers of the Company.

Under the Management Trainee Program, the management trainees, who join Vestel after going through a number of phases, receive theoretical training for a total of 45 working days from their first day at work over a four month period. They complete their training with an applied internship period at Vestel Group of Companies.

The program aims to ensure that the young management trainees who join Vestel family understand both Vestel and the sector in the best way, develop new projects by employing what they have learned in the program and create value for Vestel.

### **Vestel Retail Academy**

Vestel Retail Academy opened 80 classrooms and provided 20,000 hours of training to a total of 1,200 people through 21 different courses in 2017. The Academy continues to provide training for the staff of Vestel's business partners and dealers in addition to the Head Office personnel.

Established under the management's vision of "R&D in Retail" the START team (Strategic Analysis and Retail Training Directorate) which brings together the departments which gather, analyze and distribute data, is comprised of the Market Research, Retail Metrics Measurement and Analysis Departments and the Vestel Retail Academy. START plays an important role in improving the content of the training programs by nurturing the spirit of R&D through interfunctional collaboration and synergy.

## **Vestel Supply Chain Academy**

In 2017, 180 people from various levels of employment received training at the “Supply Chain Academy”. These trainings were initiated in 2015 and have been improving since. The most important feature of the “Supply Chain Academy” trainings is the inclusion of the newly recruited personnel in the trainings, thus ensuring continuity. These trainings shorten the adaptation period for the new employees and ensure continuity in training. The new employees first receive in-house trainings in the Supply Chain Departments, followed by technical trainings in other departments and external institutions when they reach expert level, and finally complete their training by taking training courses in personal development. In-house department trainings increase the sense of belonging by improving the intra-group communication. Interdepartmental trainings foster communication between different departments by creating synergy and raising awareness about other departments. Finally, with the technical and personal development courses provided by the external institutions, employees improve their levels of competence.

Within the scope of the “Supply Chain Academy” Project, Supply Chain employees gave 268 person-hours of training in various fields to the new recruits, specialists, senior specialists and managers from the Quality, Manufacturing, R&D, and Purchasing departments in 2017. At the end of each training, a satisfaction analysis was conducted, and feedback was evaluated in order to improve the productivity of future trainings.

In 2017, in-house trainings and factory visits were organized for 20 new supply chain employees in order to increase their knowledge, improve their communication with employees in other departments, and familiarize them with the functioning of these departments.

For 2018, a number of in-house technical and personal development courses have been planned which aim at increasing the knowledge, motivation and productivity of supply chain employees.

## **Digital Supply Chain Solutions**

Within the context of the Projects for Achieving Excellence in Supply Chain Management initiated back in 2014, a major digital transformation has been achieved in the supply chain as of 2017, a process which is expected to continue in the forthcoming period.

With the projects implemented in this context, Vestel was awarded the “The Supply Chain Transformation of the Year” Award by SAP. Vestel delivered the opening remarks at the “International Supply Chain and SAP Conference, Amsterdam 2016” symposium in 2016, and the “19<sup>th</sup> EMEA Supply Chain and Logistics Summit” in Barcelona in 2017.

# THE “SUPPLY CHAIN ACADEMY” TRAININGS, WHICH WERE INITIATED IN 2015 AND HAVE BEEN IMPROVING SINCE, WERE PROVIDED TO 180 PEOPLE FROM VARIOUS LEVELS OF EMPLOYMENT IN 2017.

SAP TM (SAP Transportation Management) and SAP SNC (SAP Supplier Network Management) projects, which lie among the key supply chain projects, were extended across the entire supply chain in 2017, which enhanced digitization and trackability in supply and logistics operations. The number of suppliers employing SNC and TM systems rose to 500 in 2017. As a result, the materials in transit and work-in process at the suppliers’ facilities can be included in production planning and calculation of order fulfillment ratios. SNC (Supplier Network Collaboration) enables digital integration with the suppliers. Thanks to this online system, suppliers have real-time access to incoming orders and forecast data and can inform the Company about how much they could supply and their respective delivery dates. Establishing a direct and online communication with the suppliers other than e-mail, fax and phone, has enabled the Company to simplify its processes and shortened the process for placing and managing orders by up to 10 days. A shorter lead time in turn has led to a reduction in inventories and increased the flexibility in meeting customer orders.

Another solution by SAP, the TM (Transportation Management) software has gathered all the transportation processes in a single platform which offered an integration with all the logistics solution partners. The TM system is being actively used by three service providers and more than 500 suppliers at present. The main benefit to the Company from the digitalization brought about by the TM system, has been the quick access to data. Thanks to this, the Company can promptly monitor the changes in lead times and take actions on a timely basis.



### VESTEL AND THE ENVIRONMENT

Acting on its responsibility of being a global company in the consumer electronics and household appliances sectors, Vestel conducts environmental impact reviews for all of its operations, production lines and products. The Company believes that it has a duty to safeguard the health and safety of its employees, customers, and the general public who may be affected by its operations, products, and services and to protect the environment and nature for the good of future generations.

Vestel has documented its commitment to the environment by obtaining the ISO 14064 Greenhouse Gas Accounting and Verification Certificate in addition to the ISO 14001 Environmental Management System and the ISO 50001 Energy Management System Certificates.

Vestel is committed to continuous improvement with an eye for environmental impact, and in this vein, complies with all the applicable environmental legislation and administrative regulations, and carries out work on the following matters in light of its Environmental Policy by allocating adequate and appropriate resources accordingly.

- Take environmental factors into account in the evaluation of new products, projects and operations,
- Reduce the use of hazardous substances in its products and production processes and seeking substances with less polluting properties,

- Reduction, reuse, recycling and recovery of waste,
- Ensure savings of energy, water and natural resources by supporting productivity increases and use of new technologies,
- Use recycled/recyclable packaging materials wherever feasible,
- Organizing events to create environmental awareness.

#### **Production processes are in full compliance with the legal regulations.**

Vestel closely monitors its compliance with all the mandatory regulations throughout a product's life cycle. In order to ensure the protection of the environment and human health, the Company established a number of procedures on the basis of the legal regulations and its Management Systems Policy, and ensures that its activities are in full compliance with these procedures and legal regulations.

In this context, Vestel is fully compliant with the following legal regulations relating to its sector in Europe:

- WEEE (Waste of Electrical and Electronic Equipment) Directive,
- RoHS - Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment,

- Ecodesign Framework Directive for Energy-Related Products,
- REACH - Regulation of the Registration, Evaluation, Authorization and Restriction of Chemicals,
- Law on Energy Efficiency and Regulation on Increasing Efficiency in the Use of Energy and Energy Resources.

#### Maximum energy and water efficiency in all products

Vestel Elektronik's sustainable product portfolio includes LED lighting products, the Smart Home kit, televisions with A+ and A++ energy ratings, electric vehicle charging units, smart walking stick and household appliances with A, A+, A++ and above energy classes. The R&D designs of the entire product portfolio are undertaken in accordance with the sustainability criteria. All processes, from the product design to the recycling of waste generated, are managed with this in mind.

LED lighting products, which provide energy savings of up to 80% and are environmentally friendly as they do not contain mercury and reduce waste generation with an operating life of more than 35,000 hours, contribute to lower carbon emissions by consuming less energy than standard lighting fixtures. Sold in both domestic and foreign markets with these features, the whole range of LED lighting products is included in the sustainable product portfolio.

Thanks to the integration of heating and electrical systems through the Smart Home kits, households can benefit from the following;

- 10%-30% saving on thermal energy,
- automatic turning off of the unused lights,
- illumination at 90% brightness,
- electricity savings of up to 30% due to programming of devices to automatically switch on during low tariff periods.

The plan is to put Smart Home kits on sale in 2018, and increase market share in line with growing sales in the coming years.

The TV product group is comprised of products with energy efficiency classes of A, B and C. UHD and OLED TVs in particular consume more energy. With its efforts for increasing energy savings in recent years, Vestel aims to achieve A+, A++ and A+++ energy efficiency standards in TVs. At present, some of the Company's TVs offer A+ and A++ energy efficiency levels while the work is underway to achieve A+++ energy rating.

## VESTEL ELEKTRONİK'S SUSTAINABLE PRODUCT PORTFOLIO INCLUDES LED LIGHTING PRODUCTS, THE SMART HOME KIT, TELEVISIONS WITH A+ AND A++ ENERGY RATINGS, ELECTRIC VEHICLE CHARGING UNITS, SMART WALKING STICK AND HOUSEHOLD APPLIANCES WITH A, A+, A++ AND ABOVE ENERGY CLASSES.

The automotive industry is undergoing a dramatic shift from internal combustion engines to electric vehicles, due to waning fossil fuel reserves, increased environmental awareness and growing fuel economy. This represents an important field of focus for Vestel R&D's Sustainability Policy. As such, the number of projects focusing on this area is increasing. The Company's plan is to launch electric vehicle charging units in 2018, and increase its market share in line with growing sales performance in the coming years.

The "Smart Walking Stick" is designed to assist the visually impaired with noticing the obstacles before them and face lower accident risks. The desired outcome is to contribute to the educational, scientific and cultural development of the visually impaired individuals. Planned for launch as of 2018, the "Smart Walking Stick" will be an addition to the Company's portfolio of sustainable products for societal development and social responsibility.

Working with the same environmental sensitivity in its production processes as in its products, Vestel Elektronik continues its efforts towards attaining its energy consumption targets. In addition to making improvements in processes, new technologies are deployed where appropriate in order to reach these targets.

## SUSTAINABILITY AND VESTEL



European Union Environmental Awards Process Category - First Prize



Yıldız Technical University - Technology Stars Awards



PVD Nano Chrome Coating System



Innovation Star Award

The electrolytic processes used in chrome plating, an industrial practice currently employed, involve acids that threaten the environment and human health as well as carcinogenic Cr6-Cr3 oxides. Vestel developed a “zero-waste” Nano Chrome Coating Manufacturing Technology that uses neither chemicals nor carcinogenic Cr6-Cr3 oxides, initiating an unprecedented practice in the smartphone and TV industry. This technology has enhanced resource effectiveness, reduced environmental impacts while reducing costs by 70% and boosting productivity by 97%. Not using hazardous materials or water resulted in “zero” emission and waste levels. The said technology marked a key progress towards Vestel’s sustainability mission.

In 2017, this project won the First Prize in the Process Category of the European Commission’s European Business Awards for the Environment, one of Europe’s most prestigious accolades, and the

Innovation Star Award at the Technology Stars Awards presented by Yıldız Technical University.

Constantly revising its energy efficiency targets, Vestel Beyaz Eşya’s entire product range consists of eco-friendly products with energy classes of A, A+, A++ and above, which all fall into the high energy efficiency category. Vestel Beyaz Eşya strives to develop energy efficient and environmentally friendly products that have a minimum impact on the environment by continuously carrying out studies in R&D and innovation. Vestel Beyaz Eşya currently allocates half of its R&D budget to the development of environmentally friendly products as well as provides additional funding to such projects, which are implemented without delay.

- The Vestel Pyrojet washing machine product family has been expanded to include 7 kg and 10 kg models alongside the record-holding 8 kg and 9 kg models. The Vestel Pyrojet washing machine product family, which consumes 70% less energy than A+++ products with 8 kg and 9 kg of loading capacities, and 60% less than those with 7 kg and 10 kg of loading capacities, is the world record holder for energy efficiency. Moreover, all models have hit a record in terms of water consumption.
- Vestel Ekomaks dishwasher consumes 20% less energy than an A+++ energy class dishwasher, holding a record in this area.
- Pyrojet and Ekomaks received VDE approval from the German Association for Electrical, Electronic and Information Technologies by virtue of their energy efficiency.
- The Vestel built-in oven with A++ class energy efficiency is the most efficient product in its class.
- The Eco Time mode embedded in Vestel's next generation washing machines and dishwashers allows the machines to work at off-peak hours at lower electricity tariffs by setting the program's start time.
- The Vestel French Door fridge is the most efficient product in its class with A+++ energy efficiency.
- Vestel's 70 cm Combi fridge-freezer consumes 35% less energy than products in A+++ energy class.
- Vestel's 14 place setting dishwashers, which consume 5.4 liters of water and washing machines which consume 4.4 liters of water per kilogram are the most eco-friendly products in their segments with their least amount of water consumption.
- Vestel Beyaz Eşya manufactures air conditioners with A+++ energy class.
- The A+ energy class built-in and free-standing ovens developed by Vestel Beyaz Eşya provide consumers with mid-segment products of higher energy class, a first in the world.

### **Energy efficiency and TPM (Total Productive Maintenance) Activities**

Vestel implements various projects to improve the energy efficiency of its operations. Vestel's main policy is to maximize its production with low levels of energy consumption. In line with this understanding, Vestel aims to achieve higher efficiency and quality by improving the energy consumption in its production processes.

Performance results on energy efficiency are regularly monitored and evaluated by the senior management. In order to effectively manage the Energy Management System at Vestel, the Company appointed an energy officer and an energy management representative. Meanwhile, required steps were taken to ensure the

continuity of the TS EN 50001 Energy Management System Certificate in 2017.

Within the scope of the Environment and Energy Management Systems, energy consumption and related processes are managed in integration with the TPM model, which targets a zero incidence of equipment breakdown and zero quality defect in production systems, and with the practices for the management of key performance indicators in business plans.

Vestel successfully implements and ensures the sustainability of the TPM (Total Productive Maintenance) Management System. The TPM System approach brings the following environmental gains:

- Ensuring an orderly organization with 5S methodology, and decreasing pollution,
- Improvement activities through the Kaizen approach,
- Savings in energy and raw materials, a reduced incidence of breakdowns and lower scatter under the autonomous maintenance approach,
- Reducing scrap and rework, and thus waste,
- Increasing efficiency and quality and achieving continuous improvement.

Vestel Elektronik successfully completed the first phase of the TPM Management System and received the "TPM Excellence Award" from the Japan Institute of Plant Management on January 11, 2013. Completing the audit for the continuity of the TPM Excellence Award successfully, the Company was awarded the "Award for Excellence in Consistent TPM Commitment" at the end of 2014. The Company also passed the preliminary evaluation in the TPM Special Award category in 2016 and received the TPM Special Award in February 2017.

Vestel Beyaz Eşya was handed the "TPM Excellence Award" for its TPM activities simultaneously carried out at its refrigerator, washing machine, dishwasher, air conditioner- water heater and oven production plants. As the first company in the household appliances sector to qualify for this award with its six production plant at the same time, Vestel Beyaz Eşya notched up a worldwide success.

### **Vestel participated in the Carbon Disclosure Project**

Aware of the threat posed by the climate change to the future of the world, Vestel initiated studies for the measurement and reduction of its carbon footprint and participated in the Carbon Disclosure Project (CDP).

Vestel Elektronik published its Carbon Emission data on [www.cdp.net](http://www.cdp.net) in 2016. Under the CDP's renewed scoring methodology, the Company issued statements in the Climate Change, Water Program and Supply Chain modules and respectively earned scores of B in

# VESTEL CONTINUALLY TRAINS ITS EMPLOYEES TO ENSURE THAT THEY ADOPT THE RIGHT BEHAVIORAL PATTERNS WITH RESPECT TO QUALITY, ENVIRONMENTAL AWARENESS, ENERGY EFFICIENCY, INFORMATION SECURITY AND POTENTIAL HEALTH AND SAFETY RISKS.

the Climate Change module (the average score in the module was C), B- in the Water Program module (the average score was B-), and B in the Supply Chain module (the average score was D) in 2016. In 2017, the Company issued a declaration in the Climate Change module and was rated B (Average score of the module is C), thus maintaining its previous score.

### Sustainability in supplier relations

Vestel also acts in accordance with the sustainability criteria in its relations with its suppliers in the production cycle.

In order to assure the practices in this context, Vestel is a member of the Supplier Data Ethical Exchange (SEDEX) Group B and a registered supplier member of the Business Social Compliance Initiative (BSCI). In addition to SEDEX and the BSCI Social Responsibility audits, suppliers are also periodically audited by the independent audit bodies for FWC (Fair Working Conditions), ICS (Initiative Clause Sociale) and Walmart Social Responsibility.

Within the scope of the Supply Chain Excellence Project, the Code of Ethics was added to the Company's procurement website in order to share it with the suppliers and to encourage suppliers to also adopt these rules. Another project initiated in 2017 intended to identify the social responsibility risk levels of suppliers. This BSCI-based project will determine the social responsibility risk levels of 450 suppliers through country, technology, and company analyses and preliminary assessments, and will use the findings as a guide to improve the working and occupational health and safety conditions of suppliers.

### Occupational Health and Safety at Vestel

Vestel is highly sensitive about occupational health and safety for a safe and healthy work environment, attaching importance to the assessment and management of the potential impacts of risks in the workplace on personnel, subcontractors, visitors, solution partners and other employees. Vestel continually trains its personnel to ensure that they gain the right behavioral patterns with respect to quality, environmental awareness, energy efficiency, information security and potential health and safety risks.

The framework of Vestel's Occupational Health and Safety Policies comprises the following:

- To create a "Safety Culture" throughout the Company and ensure that it is adopted,
- To avoid health-threatening and hazardous conditions which may arise during the course of operations and to create a healthier work environment by conducting up-to-date risk analyses based on the policy of "preventing before it happens",
- To ensure occupational health and safety together with the employees, by asking for their feedback through constant training and platforms which support employee engagement,
- To consider occupational health and safety as an indispensable priority for all employees and as an inseparable part of their work,
- To create a safe working environment by preventing or minimizing fire risk and accidents in operations,
- To eliminate or minimize unsafe situations or acts in the workplace by conducting risk analyses and implementing preventive plans based on "The right work for the right employee" principle.



## VESTEL AND THE COMMUNITY

### It is essential for Vestel to grow by sharing with the community.

The principle of creating value for the community and keeping values alive together with the community underpins Vestel's fundamental business strategy. Vestel aims to provide resources and opportunities especially for the younger generations by carrying out long-term social contribution projects in areas which receive limited support. Vestel continues to develop social projects which are focused on the future on the axes of the environment and human, and which reflect Vestel's perfectionism.

Many projects are implemented at Vestel for the disabled, and in all of them sensitivity is shown to disabled citizens at every stage. These projects are summarized below:

- The "Equal Chance" Project carried out at the Electronics Factory aims to create employment for the hearing and visually impaired individuals following various training programs. Within the scope of the project, which started with 11 people on May 5, 2015, the number of disabled personnel has reached 170 as of the end of 2017. In this context, production lines where disabled people were to work were tailored to their needs. In collaboration with the Celal Bayar University Continuous Education Center, "Basic Sign Language Training" was launched on December 22, 2015 to improve the lives of people with disabilities who were employed through this project, to increase the awareness of employees without disabilities and to strengthen their communication with each other. A total of 69 Vestel employees were certified at this training, with 28, 21 and 20 people in 2015, 2016 and 2017, respectively.
- Four sign language interpreters were assigned in order to improve the lives of employees with hearing impairment, both at and outside the workplace, and Vestel High-end Training Academy hosted sign language classes for 51 first-level supervisors of the hearing impaired employees.
- Sports is another field where personnel with disabilities is supported. Within this scope, since 2015, 14 employees with disabilities were granted 2,796 hours (373 days) of paid leave to participate in sports competitions. Two female employees with hearing impairment competed at paralympics, representing Turkey in cycling.
- Within the scope of the Mental Health-friendly Workplace (ZEKİ) Project initiated by the Manisa OIZ, Vestel Beyaz Eşya employed 10 individuals with mental disabilities in 2017.
- The Company stands by the disabled individuals, not only by creating jobs, but also by assisting them in their daily life. As such, three battery-driven and 13 manual wheelchairs were provided to 16 disabled individuals in 2017.
- Vestel employed a total of 100 people with disabilities in 2017, including 39 at Vestel Beyaz Eşya, increasing the total number of its employees with disabilities to 440.
- With the "Accessibility Project" initiated to improve accessibility for the disabled individuals in every area, from the Company's products and manufacturing facilities to its customer services and stores, Vestel aims to create a transformation which will make life easier for people from all walks of life. The Accessibility Project, which is being carried out as a 360-degree project, aims to ensure that all products, working environments, including production plants, and all communication channels of Vestel are easily accessible for the disabled individuals. Within the scope of the project, televisions and household appliances produced by Vestel can be managed from mobile phones and tablets through voice commands and household appliances have become easily usable for the visually impaired thanks to service kits prepared in the Braille alphabet, which are placed on the control panels of the appliances. Vestel TVs can be controlled with voice commands

**VESTEL INITIATED THE  
"ACCESSIBILITY PROJECT"  
WITH THE AIM OF IMPROVING  
ACCESSIBILITY FOR  
DISABLED INDIVIDUALS IN  
EVERY AREA, FROM THE  
COMPANY'S PRODUCTS AND  
MANUFACTURING FACILITIES  
TO ITS CUSTOMER SERVICES  
AND STORES.**



through the voice control/command and voice feedback mobile applications offered by the Company's smartphone, the Venus V3 5040 model thanks to the "accessibility mode". In addition, small household appliances can be controlled through voice. As part of the Accessibility Project, audio user manuals and videos presenting products were prepared for the disabled individuals. In addition, a visual call center was established for the hearing impaired.

- Within the scope of the Company's "Accessibility Project", No Obstacles Hackathon (Engelsiz Hackathon) was held together with the Young Guru Academy ("YGA") on May 7-8 2016. Within the scope of the competition, Vestel Elektronik offered to provide R&D and manufacturing support to selected products which provide concrete solutions for the daily needs of the visually impaired. Vestel opened the doors of the Vestel City to YGA entrepreneurs for the implementation of the WeWALK Smart Walking Stick project, which was developed by the group which won the 1<sup>st</sup> place in the competition with the "Obstacle Detection Glass" project. The initial design and production of the WeWALK Smart Walking Stick were undertaken at Vestel City. The industrial design, software and hardware design and prototype studies for the product were also carried out jointly with YGA's volunteer engineers at Vestel City. Developed with the mobile app support to increase the freedom of movement for the visually impaired and to make life easier for them, the WeWALK Smart Walking Stick has the features of obstacle detection, telephone integration and an open platform. All mobile applications can be integrated into the WeWALK Smart Walking Stick, which can connect to the user's mobile phone via Bluetooth to enable the visually impaired user to access a wide range of services such as navigation and

transportation through the walking stick without needing to touch his/her mobile phone. The smart walking stick WeWALK was recognized as the "Social Innovation of the Year" at the Turkish Exporters Assembly's Innovation Summit. WeWALK qualified to compete in the "Best Wearable Mobile Technology" category in the finals of the Global Mobile Awards 2017, a globally renowned competition held as part of the GSMA Mobile World Congress.

- Vestel presented its Accessibility Project to national representatives at the 10<sup>th</sup> Session of the Conference of States Parties to the UN Convention on the Rights of Persons with Disabilities, which was held in New York, USA under the motto of "Technology for a Better Life" on June 13-16, 2017. Vestel attended the session of the conference held on June 14 to represent Turkey together with the Turkish Ministry of Family and Social Policies where it shared its innovative solutions for people with disabilities. The Company also presented the products it has developed specially for the disabled and the social responsibility projects it undertakes for people with disabilities including their employment, with the participants.
- Vestel Elektronik deems contributing to sports as one of its social responsibilities. With this understanding, Vestel became the name sponsor of the Sultans League - the top league of women's volleyball in Turkey - for the 2016-2017 and 2017-2018 seasons, and the main sponsor of the Turkish National Volleyball Teams under its cooperation with the Turkish Volleyball Federation ("TVF"). Vestel Elektronik also assumed the official sponsorship of the "Factory Volleyball", the TVF Volleyball Schools which shape the future of the Turkish volleyball and serves a platform to raise hundreds of athletes.



## REPORTS AND FINANCIAL INFORMATION

# RISKS AND ASSESSMENT OF THE BOARD OF DIRECTORS

## Risk Management

Founded in 2012, Zorlu Holding's Enterprise Risk Management Department is responsible for the early detection of risks which could jeopardize the existence, development and continuity of Vestel Elektronik Sanayi ve Ticaret AŞ ("Vestel Elektronik" or "the Company"), implementation of necessary measures against detected risks and the management of risks in a centralized structure. In this regard, the Zorlu Holding Risk Policy and Procedure and Enterprise Risk Management Framework were established to govern all Zorlu Group companies.

Zorlu Holding Enterprise Risk Management Policy is summarized below:

Goal Setting	<ul style="list-style-type: none"><li>• Embedding risk management principles into strategic planning and goal setting processes</li><li>• Aligning the strategy and goals set with the Company's risk appetite</li></ul>
Risk Definition	<ul style="list-style-type: none"><li>• Identifying the risks and opportunities which may affect the Company's goals with the participation of the entire organization in a coordinated manner and within the framework of a shared perception</li></ul>
Risk Assessment and Inherent Risk	<ul style="list-style-type: none"><li>• Assessing the probability of risks and their impact on the Company in case of their occurrence</li><li>• Determining the value of risk before the actions taken and control activities, i.e. inherent risk</li></ul>
Determining Actions	<ul style="list-style-type: none"><li>• Addressing the risks in the most appropriate way (Accepting the Risk, Transferring the Risk, Mitigating the Risk, Avoiding the Risk) by taking into consideration the risk appetite and cost/benefit factors</li><li>• Determining actions in line with the responses identified and managing the risks proactively</li></ul>
Residual Risk and Action Plan Follow-up	<ul style="list-style-type: none"><li>• Determining the value of risk after the actions taken, i.e. residual risk</li><li>• Monitoring the completion process of the activities specified in action plans</li></ul>
Reporting and Communication of Risks	<ul style="list-style-type: none"><li>• Prioritizing the revealed risks and tracking them using the Key Risk Indicators</li><li>• Measuring and reporting the key risk indicators which give warnings and all other risks taking into consideration the control points</li><li>• Sharing all activities transparently and ensuring that risk management process is integrated into the decision-making mechanisms with the establishment of a culture of risk awareness across the entire organization</li></ul>



Vestel Elektronik's Early Detection of Risk Committee, which was established on 15 March 2013 pursuant to the Article 378 of the Turkish Commercial Code, undertakes studies for the early detection of risks which could jeopardize the existence, development and continuity of the Company, implementation of the necessary actions and remedies and managing the risks in a coordinated manner. During 2017, Enterprise Risk Management Department submitted 6 risk reports to the Early Detection of Risk Committee to support the Committee in the effective supervision of the enterprise risk management processes, and the reports were presented to the Board of Directors following the review of the Committee. The headings of the risk reports submitted to the Committee and the Board of Directors are listed below:

1. Global Risks 2017,
2. Financial Risks of Vestel,
3. PESTLE Analysis on the White Goods Sector & PESTLE Analysis on the Consumer Electronics Sector,
4. Financial and Economic Indicators with a Negative Trajectory,
5. Turkish-German Relations - Development of the Crisis and Possible Reflections,
6. Risks in the White Goods and Consumer Electronics Sectors 2017.

A "Survey regarding the Risks in the White Goods and Consumer Electronics Sectors" was prepared as an output of the "Risks in the White Goods and Consumer Electronics Sectors 2017" report submitted to the Board of Directors on October 19, 2017. The survey included an assessment of the impact and probability of risks and was shared with top management in order to manage and assess risks with a common perception. It was then followed by an online survey for an overall assessment across the Company. According to survey results, the top three risks were identified as follows: "Competition Risk, Currency Risk and Geopolitical Risks".

The Company's vision is defined as creating sustainable value for all parties by ensuring operational efficiency, growth and legal compliance. The six main risk categories, which may jeopardize the realization of Company's goals towards its vision and the actions taken in relation there to are summarized below.

## Strategic Risks

Strategic risks refer to the inadequacy of the Company's strategies and inability to remain competitive and achieve targets due to failure to accurately identify external factors, employment of an outdated business model, incorrect composition of the business portfolio, inefficient organizational structure, inconsistency of performance measures with business strategies and insufficient resource allocation.

The strategic risks category includes, among others, various risks in relation to environmental analysis, business model and portfolio, organizational structure, resource allocation and planning.

The following actions are taken against these risks:

- Conducting coordinated feasibility studies, benefit and cost analysis and budgeting studies by the relevant departments in relation to new investment decisions,
- Evaluation of the legal, political, etc., risks before and after the investment by obtaining consultancy services as and when necessary,
- Diversification of investments made in different countries and business lines,
- Monitoring of return on investments,
- Using dealers, distributors, online sales and similar distribution channels actively and considering each one as a business model,
- Entering new business lines by making use of strategic partnerships in public and private sectors,
- Formulating innovative strategies with respect to sales and marketing.

### **Sector Related Risks**

The sector related risks mainly result from the delays in adapting to changes in short and long term supply and demand balances that occur as a result of changing production and consumption patterns. It is inevitable for these changes to have an impact on price predictability. Moreover, sector related risks also include adaptation to the climate change-related shifts in the industry.

Vestel Elektronik uses its best efforts to mitigate the negative impact of such risks by diversifying its areas of operation.

### **Financial Risks**

Financial risks refer to the inadequacy of the Company's finances, the emergence of currency, interest rate and credit risks and other uncertainties and fluctuations in financial markets, which may have a negative impact on the Company, and inability to secure liquidity.

The financial risks category includes, among others, risks in relation to interest rates, currency, capital, financial derivative instruments, commodity prices, liquidity, cash flow management and receivable collection.

The following actions are taken against these risks:

- Employing alternative financing methods,
- Asset and liability management,
- Making use of various derivative instruments for hedging purposes, when necessary,
- Conducting Value at Risk (VaR) study for forward contracts recognized in equity within the cash flow hedge reserve account, measuring the worst one and five-day fair value variations within a 99% confidence interval,
- Paying attention to not taking on a financing burden which cannot be covered with the highly liquid assets as per the Company's philosophy,
- Following up budget targets with the realizations on a monthly basis and making revisions as necessary,
- Following up the profit target with the realizations on a monthly basis and making revisions as necessary,
- Insuring receivables and obtaining various guarantees.

### **Operational Risks**

Operational risks refer to the inability of the Company's business model to secure and sustain operational efficiency over the course of its operations towards achieving customer satisfaction and the Company's performance targets in relation to quality, cost and time.

The operational risks category includes, among others, risks in relation to decision making with respect to operational processes such as supply, capacity, business interruption, customer satisfaction, human resources, environmental health and safety, information capital, authorization, information processing and technology, contractual obligations and pricing and risks related to financial reporting processes and budgeting and fraud risks.

The following actions are taken against these risks:

- Supervision of all operational activities by the Internal Audit, Financial Audit and Tax Audit Departments set up under the Holding organization,
- Oversight by Zorlu Holding Enterprise Risk Management Department of the operational risks deemed significant via key risk indicators through the IT system and informing the related business units on risk levels, when necessary,
- Measuring, reporting and monitoring of customer satisfaction in relation to products and service network,

## RISKS AND ASSESSMENT OF THE BOARD OF DIRECTORS

- Regularly providing compulsory training programs on occupational health and safety to all Zorlu Holding employees in accordance with the related regulations,
- Centralized follow-up of recommendations proposed by the insurance companies to Group companies subsequent to risk inspections,
- Following-up the policies and procedures for compliance with the legally defined standards in relation to environmental health, stakeholder safety and stakeholder health,
- Monitoring and keeping records of repair and maintenance of plant and machinery,
- Making commitments in relation to compliance with various principles such as human rights, environment, society, ethics, anti-corruption, etc. through the United Nations Global Compact.

### Reputation Risk

The Company's performance in other risk areas naturally poses a reputation risk for the Company. The reputation risk mainly refers to the negative impacts that may be caused by the Company's operations on the environment, society and internal and external stakeholders.

The following actions are taken against these risks:

- Establishing a multi-faceted, consistent and continuous communication with all stakeholders,
- Protecting the brand value and credibility; ensuring integrated management of all communication processes in accordance with the strategic business targets and in this regard representing Zorlu Holding Corporate Communications Department at the General Directorate level.

### External Risks

External risks refer to the presence of external factors which may affect the continuity of the Company's business model and the core values which drive the overall targets and strategies.

The external risks category includes, among others, risks in relation to access to capital, shareholder relations, natural disasters (force majeure risks), competition, customer demand (trends), financial markets, market sensitivity, sector risks, legal risks and risks in relation to regulatory compliance, political status and technological innovation.

The following actions are taken against these risks:

- Developing necessary plans for recovering and resuming critical systems, technical infrastructure and facilities in alternative sites in case of a natural disaster or contingency, regularly monitoring business continuity and emergency action plans,
- Determining a broad insurance coverage across the Company, taking into consideration natural disasters and terrorist acts to transfer potential risks to insurance companies and minimizing the potential tangible effects of such incidents,
- Managing regulatory changes, legal actions, tax conflicts, intellectual property infringements, unfair competition and risks in relation thereto through coordinated communication among all the relevant Company units,
- Carrying out specific short-lived rehabilitations and works to integrate with new technologies,
- Taking proper measures against adverse geographical and climatic conditions,
- Establishing continuous and healthy communication which is open to all stakeholders through the activities of the Corporate Communications Department.

Other than the actions listed under the risk headings above, insurance policies are purchased as a risk transfer mechanism. The primary insurance policies purchased are listed below.

### List of Primary Insurances Purchased

1. Fire, Machinery Breakdown and Loss of Profit
2. Employer's Liability
3. Directors and Officers (D&O) Liability
4. Professional Indemnity
5. Third Party Liability
6. Product Liability
7. Credit Insurance
8. Marine / Cargo
9. Fidelity Guarantee, Cash in Transit and Cash in Safe
10. Hazardous Materials
11. Personal Accident

## INTERNAL AUDIT DEPARTMENT AND ACTIVITIES

As is the case for all Zorlu Group Companies, the internal audit of Vestel Group of Companies is carried out by the centralized Internal Audit Department operating within Zorlu Holding since 2000. The Internal Audit Department carries out the board approved audit programs in line with the International Internal Audit Standards and legal requirements and shares the results of its audits through both the audit reports prepared after each audit and the annual reports detailing all the audit and control activities conducted throughout the year with the Board of Directors, the Audit Committees where applicable, and the Group CEOs.

In addition to the Internal Audit Department, Financial Audit and Tax Audit Departments were established in 2011 in order to perform financial audits across all Group companies, which commenced their activities in 2012. In the last quarter of 2013, the Internal Audit and Financial and Tax Audit Departments were gathered under the umbrella of Zorlu Holding General Directorate of Audit and Internal Control. In accordance with the changing needs of Zorlu Group, the Tax Audit Department was restructured as Tax Audit Directorate as of 1 December 2015 while the Internal Audit Department was restructured into two distinct Directorates, namely, the Internal Audit Process Oversight and Internal Audit Inspection Oversight as of 1 January 2016.

The purpose, authorizations and responsibilities as well as the operating principles and structure for the internal audit activities have been defined by a series of board-approved documents circulated across Group companies, such as the “Audit Regulation” and the “Internal Audit Working Principles”.

### Internal Audit Activities

Process audit activities are carried out in line with a board-approved, risk-based annual audit program to evaluate resource usage efficiency, adherence to written rules (laws, regulations, internal policies and directives), and information accuracy, security and reliability. Prior to each audit, internal auditors meet with senior management for risk assessment where the risks which could jeopardize the Company’s targets are positioned on a risk matrix based on their potential impact and probability of occurrence. During audit field work, tests are carried out to evaluate the effectiveness of internal controls which monitor risks with high impact and high probability of occurrence. The results of the observations are shared with the company management in the form of a draft report, and then a final report, including the feedback of the management, is sent to the top management. As a result, the department provides consultancy services with reasonable assurance while offering best practices drawing from synergy within the Group. One month after the issue of the final report, actions taken in line with the 4T approach (Treat, Terminate, Transfer, Tolerate) are reported to the Board of Directors.

Internal Audit Department organizes periodic meetings with the Audit Committee throughout the year. In these meetings, participants evaluate planned and actual audits, consultancy and special audits, etc. for the year, share findings, review action plans, follow-up results based on these findings, and review plans for the upcoming period.

Zorlu Group supports and promotes Zorlu Group Internal Audit Team, which consists of 13 people, in receiving additional training to improve and enhance their existing knowledge, skills and other qualities, becoming a member of the related associations (e.g. The Institute of Internal Auditors, Turkey – TIA) and obtaining international certificates. The Internal Audit team includes 2 CIAs (Certified Internal Auditors), 1 CPA (Certified Public Accountant), 1 CISA (Certified Information Systems Auditor), 1 CFE (Certified Fraud Examiner), 3 CRMAs (Certification in Risk Management Assurance), 1 CMAAAL (CMB Level 3 License), 1 CGRL (CMB Corporate Governance Rating License), 1 DIL (CMB Derivatives License) and 1 CMB Real Estate Appraisal License.

### Financial Audit and Tax Audit Activities

The Financial Audit and Tax Audit units have been carrying out their activities at Zorlu Group Companies since 2012. Currently, these departments have 9 and 8 employees, respectively.

These departments ensure that the Group companies’ balance sheets and income statements used for financial and tax reporting purposes are in conformity with the uniform chart of accounts, tax legislation and audit standards and provide reasonable assurance to the Board of Directors in these areas.

Audit findings are reported to the Company executives and senior management.

When deemed necessary, the Tax Audit Department also provides advisory services with reasonable assurance to Group companies against potential tax risks.

In addition, the Financial Audit Team reviews the CMB-compliant financial reports of the listed Group companies and shares its comments with the related departments.

The Financial Audit Team includes 1 Certified Public Oversight Authority Licensed Auditor, 5 CPAs (Certified Public Accountant) and 1 CMAALL (CMB Level 2 License), while the Tax Audit Team includes 1 Certified Public Oversight Authority Licensed Auditor, 1 CMA (Financial Management Certificate) and 7 CPAs.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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## PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Corporate governance activities were initiated at Vestel Elektronik Sanayi ve Ticaret AŞ (“Company” or “Vestel Elektronik”), which takes utmost care to comply with the “Corporate Governance Principles” of the Capital Markets Board (“CMB”) in late 2004. In order to have an independent evaluation of the Company’s corporate governance practices and share the results with the public, the Company has been obtaining corporate governance rating services for the past ten years. Vestel Elektronik’s Corporate Governance Rating has been improving steadily since its inclusion in the BIST Corporate Governance Index in 2007. Based on the corporate governance rating study conducted by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri AŞ (SAHA Corporate Governance and Credit Rating Services Inc.), which has been certified by the Capital Markets Board to perform Corporate Governance Rating assessment in accordance with the Corporate Governance Principles in Turkey, Vestel Elektronik’s corporate governance rating was revised up to 9.49 (94.86%) out of a scale of 10 as of 21 February 2017. This high score yet again confirms the importance, which Vestel Group attaches to corporate governance and its commitment to achieve further progress in this area. In parallel with being one of the pioneering companies which has adopted corporate governance practices in Turkey and the progress it has achieved in this field, Vestel Elektronik was also awarded with the “Best Corporate Governance, Turkey 2013” Prize by World Finance in 2013.

The breakdown of the Company’s Corporate Governance Rating by sub-categories is as follows:

Sub-categories	Weight	Rating in 2017 (%)
Shareholders	0.25	94.89
Public Disclosure and Transparency	0.25	97.58
Stakeholders	0.15	96.70
Board of Directors	0.35	92.12
<b>Total</b>	<b>1.00</b>	<b>94.86</b>

The Company’s Corporate Governance Rating Reports can be accessed via the Company’s website at [www.vestelinvestorrelations.com](http://www.vestelinvestorrelations.com).

Vestel Elektronik carries out its activities in compliance with the applicable regulations and the Capital Markets Board’s “Corporate Governance Principles”. The Company fully complies with all the mandatory principles in the Corporate Governance Principles appended to the CMB’s Communiqué on Corporate Governance (II-17.1) and has also adopted the majority of the non-mandatory principles. As briefly summarized below, the Company took the following actions in order to further improve its compliance with the Corporate Governance Principles in 2017.

- After having entered the BIST Sustainability Index, which comprises the shares of companies with high corporate sustainability performance listed on Borsa İstanbul AŞ (“Borsa İstanbul” or “BIST”), in November 2015 and for the second time in the 2016-2017 period, Vestel Elektronik was deemed eligible to maintain its place in the index for the November 2017 - October 2018 period too thanks to its continued compliance with the index criteria.
- Under the amendment to the Article 24 of the CMB’s Communiqué on Material Events Disclosure No. II-15.1, “Vestel Elektronik Sanayi ve Ticaret AŞ Public Disclosure Procedure”, which sets out the necessary procedures for disclosures to be made on the Public Disclosure Platform (PDP, in Turkish: KAP), was prepared to ensure the effective execution of public disclosure procedures, and went into effect with the Board of Directors’ resolution dated October 23, 2017.

### Reasons for the Corporate Governance Principles Which Are Not Implemented

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

- **Granting shareholders the right to demand special audit and inclusion of an additional provision in the Company’s Articles of Association for the minority rights:** Since the existing provisions in the Turkish Commercial Code on the appointment of a special auditor and minority rights are considered to be adequate, these rights are not separately stipulated in the Company’s Articles of Association.
- Due to the number of the members of the Board of Directors and the committee formation requirements, some Board members serve on more than one committee.
- Pursuant to the Article 4.6.5 of Corporate Governance Principles, remuneration and benefits provided to Board members and executive managers are publicly disclosed in the Company’s annual report. However, such disclosure is not made on an individual basis.
- Currently, there is only one female member on the Company’s Board of Directors and increasing the ratio of female Directors to the level set forth in the Article no. 4.3.9 of the Corporate Governance Principles lies among the Company’s medium term targets.
- Although there is no provision in the Company’s Articles of Association, the Chairman of the Board and the Chief Executive Officer are different individuals. No one in the Company has unlimited decision-making authority.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The Company has not been exposed to any conflicts of interest to date due to the non-mandatory principles which have not yet been implemented.

Acknowledging the contributions of the Corporate Governance Principles to the Company, Vestel Elektronik targets to attain a higher degree of compliance with those principles with the involvement of its employees and senior management and to reach the highest standards in the field of corporate governance. The Company fully complies with all the mandatory principles in the CMB's Corporate Governance Communiqué while also continuing its studies to ensure compliance with the non-mandatory principles.

## PART II - SHAREHOLDERS

### 2.1. Investor Relations Department

The Investor Relations Department is responsible for managing and maintaining the relations with existing and potential shareholders, protecting and facilitating the use of shareholder rights, including first and foremost the rights to access and examine information, responding to information requests from the analysts and investors, raising the investor awareness and market credibility of the Company, and carrying out the necessary works for ensuring compliance with the capital market legislation. The Department reports to Mr. Bekir Cem Köksal, who is a member of the Company's Executive Committee.

The Investor Relations Department presents a report on its activities to the Board of Directors at least once a year. The Department submitted its report, following its discussion at the Corporate Governance Committee, on its 2017 activities to the Board on January 5, 2018.

The individuals in charge of the investor relations are as follows:

Name	Duty	License
Serap Mutlu	Investor Relations Director and Member of Corporate Governance Committee	Capital Market Activities Level 3 License (No: 201618) Corporate Governance Rating Specialist License (No: 700906)
Özgün Ünalı	Investor Relations Specialist	Capital Market Activities Level 3 License (No: 212803) Corporate Governance Rating Specialist License (No: 703108) Derivative Instruments License (No: 308913)

Information relating to individuals working in the Investor Relations Department was announced on the Public Disclosure Platform on July 31, 2014 and December 29, 2014.

#### The Investor Relations Department performed the following activities during 2017:

- Ensured that the records of correspondences between the Company and the investors, and of other information and documents are kept in a proper, secure and up-to-date manner; coordinated the transactions related with Merkezi Kayıt Kuruluşu AŞ (the Central Registry Agency) jointly with the Legal Affairs Department,
- Responded to the information requests about the Company, except for confidential information and trade secrets that are not disclosed to the public, in a clear and timely manner and in line with the Company's Public Disclosure Policy, either via face-to-face meetings or using various other communication means,
- Responded to information requests from the equity analysts covering the Company; ensured that the analyst reports on the Company were prepared in an accurate and complete manner and would introduce the Company in the best way to investors,
- In cooperation with the related departments, ensured that the Ordinary General Assembly Meeting during the reporting period was carried out in accordance with the legislation, Articles of Association, and other internal regulations,
- Prepared the necessary documents for the General Assembly Meeting, which would be presented to the information and review of shareholders. All kinds of information and announcements which could affect the exercise of the shareholder rights were posted in a timely manner on the Company website for the information of shareholders,
- Maintained the Company website up-to-date, thereby enabling shareholders to access accurate, continuous and timely information about the Company,
- Following each quarterly reporting period, prepared an analytical study which compares the financial results and share price performance of the Company with those of its domestic peers traded on BIST and presented it to the upper management,
- Necessary procedures have been carried out for the rights-holders applying to the Company for shares which were not dematerialized within the statutory deadline and thus passed to the Investor Compensation Center,
- Monitored the fulfillment of the obligations arising from the capital market legislation, including all aspects of corporate governance and public disclosure, followed up the related processes by making the necessary internal disclosures, monitored and ensured the timely delivery of public announcements to be made pursuant to the Company's Public Disclosure Policy and applicable legislation,

- Held informative meetings with analysts and domestic and international investors about the Company's operations, financial performance and other developments during the reporting period and participated in the conferences and roadshows organized by the brokerage houses.

Towards informing the shareholders and investors during 2017, Investor Relations Department:

- Attended 2 investor conferences organized in Turkey and abroad by the brokerage houses,
- Held a total of 129 meetings with the investors and analysts either face-to-face or through teleconferences,
- Responded to nearly 200 enquiries received through e-mails and telephone calls in a timely fashion,
- Made a total of 52 material event disclosures within the scope of public disclosure under CMB regulations. All the material event disclosures were published simultaneously on the Company website.

## 2.2. Exercise of Shareholders' Rights to Obtain Information

- The Company's Articles of Association does not contain any provisions which eliminate or restrict the shareholders' right to access and examine information which are recognized by the legislation.
- Shareholders are not discriminated with respect to exercise of their right to access and examine information, and all information, except for confidential information and trade secrets, are made available to shareholders.
- During the year the information requests received from the analysts and shareholders were responded to in a coherent, clear and detailed manner in accordance with the Company's Public Disclosure Policy and if necessary after consulting with the most relevant person in the related subject matter and all the inquiries except those related to trade secrets were replied to as soon as possible and in an effective manner. These queries were responded to via phone, e-mail or postal mail in writing or verbally further to the demands of the shareholders.
- During 2017 developments that might have an impact on the exercise of shareholders' rights were disclosed to the public through the material event disclosures made on the Public Disclosure Platform (PDP) and via the Company website. Material event disclosures and any information of interest to shareholders were also provided in English on the Company website to inform the international investors.
- To facilitate the exercise of the shareholders' right to access and examine information, which lie among the most essential rights of the shareholders, the Company included all the information required by the CMB's Corporate Governance Principles on the corporate website and ensured that both domestic and international investors have an easy access to the highest amount of information within the shortest period of time in an accurate, quick, simultaneous, complete and comprehensive manner. All the information required in the CMB's Corporate Governance Principles is included on the Company website. Updating and monitoring of the website are the responsibilities of the Investor Relations Department.
- The Company's Articles of Association does not contain any clauses which prohibit special audit. Since this right is already granted to each shareholder at joint stock companies by the Article 438 of the Turkish Commercial Code, it was not deemed necessary to further stipulate it in the Articles of Association. The Company received no requests for the appointment of a special auditor during the reporting period. The Company's activities are periodically audited by an independent audit company which is appointed by the General Assembly upon the proposal of the Board of Directors.

## 2.3. General Assembly Meetings

- The Company's General Assembly meetings are held in compliance with the principles listed under the "General Assembly" heading of the Corporate Governance Principles.
- General Assembly meetings are held in a way not causing any inequality between shareholders and enabling them to participate in the least costly manner as possible, in order to increase participation.
- Vestel Elektronik held its Ordinary General Assembly Meeting for the year 2016 on May 9, 2017 at 10:00 am at the address of Raffles Istanbul, Levazım Mahallesi, Kuru Sokak No: 2, Zorlu Center, 34340 Beşiktaş, İstanbul, in compliance with the Company's Articles of Association.
- Invitation for the meeting was made in due time as set out in the Law and the Company's Articles of Association, by being published in the Turkish Trade Registry Gazette No. 9036 and dated 14 April 2017, and in Dünya newspaper dated 14 April 2017, and also by being posted on the Public Disclosure Platform, E-General Assembly System of the Central Registry Agency and the Company's website at "www.vestelinvestorrelations.com", by announcing the date, location and agenda of the meeting. In order to facilitate attendance to the General Assembly Meeting, announcements were published in a Turkish daily newspaper and with the General Assembly Information Document prepared in accordance with the Corporate Governance Principle no. 1.3.1, access was given to all the necessary information about the General Assembly Meeting, as well as to the information and announcements required by the regulations, and the relevant documents were also made available in hard copy for the examination of shareholders at the Company's headquarters. A sample power of attorney form was also made available for the use of the shareholders on the Company website.
- Out of the total 33,545,627,500 shares corresponding to the Company's total share capital of TL 335,456,275.00, 273,199.5 shares corresponding to TL 2,731,995 in capital were represented in person and 28,090,539,142.5 shares corresponding to TL 280,905,391.425 in capital were represented by proxy at the meeting. The meeting quorum achieved in the General Assembly was 83.74%.

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- Prior to the Ordinary General Assembly Meeting, the shareholders, Capital Markets Board and/or other relevant public agencies and institutions did not request to add any items to the agenda.
- The agenda of the meeting was prepared in such a way that, each proposal was given under a separate heading and the headings were expressed clearly and in a way that will not lead to different interpretations. The care was shown for the agenda to not to include phrases such as “other” and “various” and the information to be provided prior to the General Assembly Meeting was given with a reference to the related agenda items.
- In accordance with the “Communiqué Regarding the Electronic General Assembly System to be Implemented in the General Assembly Meetings of Joint Stock Companies”, published in the Official Gazette dated 29.08.2012 and numbered 28396, shareholders were granted the right to attend and cast vote at the Ordinary General Assembly through an electronic medium.
- As per the Turkish Commercial Code and applicable legislation, the Chairman of the meeting has made the necessary preparations and obtained the necessary information in advance for running the General Assembly Meeting.
- The Company’s Articles of Association contains no provisions for the participation of stakeholders or the media at the General Assembly Meeting. However, participation is possible provided that the Company is informed beforehand. Only shareholders attended the 2016 Ordinary General Assembly Meeting while there was no attendance either from the other stakeholders or the media.
- It was ensured that the Board members who were related to the significant agenda items of the General Assembly, other related persons and officers who had responsibility in the preparation of the financial statements as well as the independent auditor were present at the General Assembly Meeting so that they could provide the necessary information and answer the questions about the important subjects on the agenda.
- At the Annual General Assembly Meeting, agenda items were conveyed in a clear and coherent manner and shareholders were given the opportunity to express their opinions and pose questions under equal conditions. The shareholders did not pose any questions irrelevant to the agenda or so detailed that they could not be answered immediately during the meeting. Board members and senior managers provide the necessary answers to the questions posed by the shareholders at the General Assembly Meeting.
- At the General Assembly Meeting, shareholders were informed under a separate agenda item about the total donations of TL 186,008.16 made during the year 2016.
- The upper limit for the donations to be made in 2017 pursuant to the Article 19 of the Capital Market Law numbered 6362 was submitted to the approval of the General Assembly.
- In 2017, there has not been any transaction which required the approval of the majority of the independent Board members for the Board of Directors to take a decision and where the decision was left to be resolved by the General Assembly.
- Within the knowledge of our Company, the controlling shareholders, Board members, executives with administrative responsibilities and their spouses and relatives by blood or marriage up to second degree did not conduct any material transaction which may lead to a conflict of interest with the Company or its subsidiaries and/or did not carry out a commercial business transaction which is in the same field of activity with the Company or its subsidiaries on behalf of themselves or for a third party or did not become an unlimited shareholder in another company which operates in the same field of activity with the Company or its subsidiaries during the year. There were also no transactions conducted by individuals who have access to the Company information in a privileged way on their behalf within the scope of the Company’s field of activity.
- The minutes of the General Assembly Meeting and the list of attendees were disclosed to the public via the Public Disclosure Platform on the same day with the General Assembly Meeting. They are also made available for the review of shareholders at the Company’s headquarters. All the announcements, documents, and other materials related to the General Assembly Meetings are accessible to shareholders and all other stakeholders on the Company website.

## 2.4. Voting Rights and Minority Rights

- At Vestel Elektronik, the practices that impede the exercise of the right to vote are avoided and each shareholder, including the international shareholders, is given the opportunity to exercise his/her voting right in the easiest and most convenient way. In this context, according to the Article 21 of the Articles of Association titled the “Ordinary and Extraordinary General Assembly and Quorum”, shareholders who are entitled to attend the Company’s General Assembly Meetings are given the right to participate in these meetings via the electronic media as per the Article 1527 of the Turkish Commercial Code.
- All Vestel Elektronik shares are entitled to the same rights. There is no privilege concerning the voting right and this is stipulated in the Company’s Articles of Association. There is no provision in the Company’s Articles of Association which prevents a non-shareholder from voting as a representative by proxy.
- The Company’s subsidiaries do not have any shareholding interests in Vestel Elektronik. For this reason, there are no cross-shareholding interests and therefore, this issue was not put to vote at the General Assembly Meeting.

- The Company's Articles of Association does not contain any specific arrangements for shareholders representing less than one twentieth of the Company's paid-in capital, apart from the rights given by the law. However, two independent members serve on the Board of Directors to represent the interests of all shareholders and stakeholders, particularly those of the minority shareholders.

## 2.5. Right to Dividends

- There is no privilege granted to shareholders regarding the distribution of dividends. Each share is entitled to an equal dividend.
- In making its dividend distribution decisions, the Company takes into consideration the Turkish Commercial Code, Capital Market Legislation, CMB's regulations and resolutions, tax laws, provisions of other applicable legislation and the Company's Articles of Association.
- The Company's Dividend Distribution Policy which, has been put in place by the Board of Directors' resolution no. 2007/9 and dated 19 March 2007, has been amended in line with the CMB's Communiqué on Dividends No. II-19.1. The Policy was submitted to the approval of shareholders at the 2013 Ordinary General Assembly Meeting, and was also made available for the information of shareholders on the Public Disclosure Platform and the Company website.
- The Company's Dividend Distribution Policy, which has been approved by the Board of Directors and disclosed on the Public Disclosure Platform, stipulates the ratio of dividend payouts, which will be distributed in cash and/or in the form of bonus shares, as minimum 25% of the net distributable profit, which will be reviewed by the Board each year depending on the domestic and global economic conditions and the Company's growth and investment plans and financial position.
- As indicated in the Company's Articles of Association, the date and the method of dividend distribution are decided by the General Assembly based on the Board of Directors' proposal, which is prepared in accordance with the provisions of the Capital Market Law and applicable legislation.
- As per the Board of Directors' resolution numbered 2017/10 and dated 11 April 2017, a separate item was included in the agenda of the 2016 Ordinary General Assembly Meeting for informing the shareholders that no profit distribution will be made for the year 2016 despite the fact that the Company had recorded a TL 167,719,000.00 net profit in its 2016 consolidated financial statements prepared in accordance with the Turkish Accounting Standards pursuant to the CMB legislation and a TL 102,637,476 net profit in its statutory financial statements prepared under the provisions of the Tax Procedure Code, as there remains no distributable profit after offsetting the net profit for the year against previous years' losses and therefore, no dividends were paid.
- Information required by the applicable legislation regarding the Dividend Distribution Policy and dividend distribution is provided in the annual report each year. Dividend Distribution Policy was also announced to the public through the Company website.

## 2.6. Transfer of Shares

- The Company's Articles of Association does not contain any provisions restricting the transfer of shares, nor does the Company have any implementations complicating the free transfer of shares.

## PART III - PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. Corporate Website

- The Company has an active and easily accessible website. The website was set up to ensure that shareholders, stakeholders and the general public are kept informed in an open, clear and simultaneous fashion. Information presented on the website is regularly updated.
- Company's web address is "www.vestelinvestorrelations.com". Furthermore, pursuant to the "Regulation on Websites to be Launched by Joint Stock Companies" and the 1<sup>st</sup> paragraph of the Article 1524 of the Turkish Commercial Code, in accordance with the principles and procedures regarding the launching of a website, allocation of a section of this website to publishing the announcements which are required to be made by the Company under the law and to information society services, our Company procures Central Database Service Provider support services from Merkezi Kayıt Kuruluşu AŞ (Central Securities Depository - CSD) and the announcements which are required to be made by the Company by law can be accessed through the e-Company Information Portal of the CSD.
- The Company's website contains the required information and documents stipulated in the CMB's Corporate Governance Principles and the Turkish Commercial Code.
- As part of the efforts to be included in the BIST Sustainability Index, the Company created a separate section on its corporate website, detailing its sustainability efforts and practices in Turkish and English, in 2015.
- The information provided on the Company's website is the same and consistent with the disclosures made pursuant to the provisions of the applicable legislation and does not contain any contradicting or missing information.
- The shareholding structure of the Company as well as the identity of and the amount and percentage of shares held by the individuals who own more than 5% share in the Company are updated every six months and disclosed on the website.
- Majority of the information on the website is also available in English in order to provide information to international investors.

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## 3.2. Annual Report

- The Company's annual and interim reports are prepared in accordance with the Turkish Commercial Code and associated legislation, the Capital Market legislation, and hence, Corporate Governance Principles, and in sufficient detail to give the public access to complete and accurate information about the Company's operations and activities.
- Moreover, the Board of Directors' Annual Report is prepared in accordance with the provisions of the "Regulation Regarding the Determination of the Minimum Contents of the Companies' Annual Reports", published in the Official Gazette dated 28.08.2012 and numbered 28395.
- The Annual Report is prepared in both Turkish and English and announced to the public via the Company website.

## PART IV - STAKEHOLDERS

### 4.1. Informing Stakeholders

- Stakeholders are individuals, institutions or interest groups that are related with the achievement of goals or activities of the Company, such as employees, creditors, clients, suppliers and various non-governmental organizations. The Company protects the rights of stakeholders, which are set by the legislation and mutual agreements, in its transactions and operations. In cases where these rights are not protected by law and mutual agreements, utmost care is given to protect the rights of stakeholders in good faith and within the Company means.
- The necessary and systematic communication channels have been established in order to keep all stakeholders informed of matters that concern them.
- Employees and management hold periodic meetings which help employees to remain actively informed about the Company. Attention is given to ensure two-way communication with information flowing upward to management from employees as well as downward from management to employees. The Company adheres to an "open door policy" to keep channels of communication open between the management and employees. In addition, employees are kept continuously informed via the corporate portal and e-mails.
- To measure customer satisfaction, Vestel Elektronik regularly visits its dealers, which is one of its most important stakeholder groups. In addition to these visits, regional "Dealer Meetings" are organized and in these meetings the Company's strategy and vision are shared with the dealers and both sides exchange opinions. If necessary, additional meetings are held with the dealers either one-to-one or as a group.
- The Company also carries out face-to-face evaluation meetings with its domestic and international suppliers on a quarterly basis.
- The after-sales services of Vestel Group companies are carried out by the Vestel Customer Services General Directorate ("Vestel Customer Services"). Vestel Customer Services functions through a network of 360 authorized service points across the country, central service points in 12 locations in 11 provinces, 5 güVENUSsü call centers designed to service Vestel smartphones and tablets with a brand-new approach, a Service Academy, technical and field teams with a mission to provide services that inspire trust and transform expectations into satisfaction and satisfaction into appreciation. In line with this mission, Authorized Service Center Meetings are held every two years for the authorized service centers, which are divided into 4 regions and are managed regionally, with the participation of all authorized service providers and the Company's senior management. In these meetings where mutual feedback and opinions are exchanged, plans are made for the authorized service centers for the coming one year period and successful applications are awarded. In the years when these general meetings are not held, Regional Meetings are organized aimed at meeting the needs of the respective region. Within the scope of maintaining continuous communication with the authorized service centers, the General Manager of Vestel Customer Services sends them informative e-mails on a monthly basis about the matters on the agenda. Vestel Customer Services also utilizes the VMH+ news portal to communicate with the authorized service providers, who are also able to share information on this platform. Best performances, important developments and the key achievements of the last six months are also published twice a year in the printed VMH+ newsletter.
- The shareholders and investors are informed via specified means and in line with the Capital Market Law and CMB regulations.
- In the event of any conflict of interest between the stakeholders or where a stakeholder is involved in more than one interest group, the Company pursues a balanced policy to the extent possible with the aim of protecting each individual right independently from each other.
- The stakeholders can report the Company's transactions violating legislation or not compliant with the ethical rules to the Corporate Governance Committee, the Audit Committee or the Investor Relations Department by accessing them via phone and/or e-mail.

## 4.2. Stakeholders' Participation in Management

- Models supporting the participation of stakeholders, primarily of employees, in company management are developed in a manner not to hinder the activities of the Company. Besides, the independent members serving on the Board of Directors guarantee that not only the Company and the shareholders, but also all the stakeholders are represented in management.
- The Executive Committee Member responsible for Human Resources represents the employees, one of the Company's largest stakeholder groups, on the Executive Committee.
- In making important decisions with regard to stakeholders, senior executives representing stakeholders are invited to the Board and Executive Committee meetings to express their opinions. Moreover, attention is paid to ensure that employees participate in the Board and Executive Committee meetings at certain intervals so that they can provide their opinions first-hand.
- Employees are able to submit their suggestions which add value to the Company as well as their complaints, if any, directly to the Human Resources Department via the "Vestel Suggestions, Complaints, and Improvements System", or to the units and managers tasked with processing suggestions by using the "Suggestion Module" which is accessible to every employee. Moreover, the employees can share their suggestions for improving the quality, cost, occupational safety and efficiency in daily production processes and their innovative ideas with the management within the scope of the ("TPM") and Kaizen-Continuous Improvement activities, in which the participation of all employees is ensured, by using the kiosks located in different parts of the factories, via the web, through the "Suggestion and Appreciation Recognition System" located on the corporate portal or via the suggestion forms left in the suggestion boxes or in the autonomous maintenance boxes. The suggestions received from the employees are evaluated by the TPM Office; suggestions deemed appropriate are turned into applicable projects in line with the Company's goals and strategies. To encourage employee participation in this system, employees whose suggestions are selected to become a project or Kaizen are rewarded, and all employees who submit a suggestion earn cash points which they can use to receive rewards from a prize catalog.
- In determining the Company's domestic sales strategy, the feedback received from the dealers and their views on market dynamics are taken into account. In addition to dealer visits and meetings, dinner meetings are held with the participation of the Company's senior management during the month of Ramadan. In these meetings, the dealers are given the opportunity to directly convey their views to the Company management. The dealers are also invited to campaign meetings organized by the Company's Sales and Marketing Departments every two months to design domestic sales campaigns, and their opinions and recommendations on existing campaigns are taken. Inspiration is taken from the successful campaigns locally implemented by the dealers and some of them can be extended to the national scale by the Company.
- Vestel Elektronik integrates the ideas and the feedback received from its dealers regarding its products into its production processes. In this context, factory visits are regularly organized for the dealers during which dealers are provided information about the new products to be launched. The feedback received from the dealers during these visits enables the Company to better understand the demands and needs of the end-consumer and reflect them on its products.
- For Vestel Elektronik, the satisfaction of dealers who are in direct contact with the end-consumer and represent the Company in the field is as important as customer satisfaction. In this context, satisfaction surveys are being conducted in order to measure the satisfaction of dealers since 2016. In addition, the Dealer Communication Platform ("DCP" - web-based Intranet system) was established in order to allow the dealers to convey their suggestions, questions and requests directly to the related departments of the Company. Thanks to the DCP, Vestel Elektronik is able to take action on the feedback coming from its dealers promptly. In addition, the feedback received through the DCP is regularly shared with the senior management.
- Vestel Elektronik's Purchasing Department makes a presentation to the top management about the procurement processes of the relevant period at the end of each quarter. Feedback received from the suppliers, as well as their suggestions and expectations are conveyed in detail to the senior management through these presentations. Thanks to such presentations, a number of suppliers were encouraged to invest in Manisa where Vestel's production facilities are located.

The Company includes its suppliers into its product development and production processes. In this context, factory visits are organized for the new suppliers as well as for the sales and R&D teams of the existing suppliers, who want to see the production processes. These visits are aimed at demonstrating Vestel's production technology and quality practices to its suppliers. Information on a new product to be designed by the Company's R&D Department is shared with the suppliers, who will provide the key components, in the preliminary design stage, and some design revisions can be made based on the feedback from the suppliers. In addition, suppliers' views are taken into account in improving the production processes of the existing products.

The Company can make joint investment with the suppliers for specific components or can give a quantity guarantee to certain suppliers to ensure the continuity of their production. In addition, improvements can be made jointly with the suppliers in the production of some key components.

Vestel Elektronik attaches great importance to the satisfaction of its suppliers. Suppliers can communicate with the Company through the web-based supplier portal and the Supplier Life-Cycle Management (SCL) Module, which was launched in 2015 and can be accessed through this portal. The Company conducts a supplier satisfaction survey through the supplier portal. Launched in the first quarter of 2017, this survey allows domestic and international suppliers alike to convey their assessments and feedback about the Company's procurement, supply chain, quality, and R&D practices.

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For Vestel Elektronik, the development of suppliers is also of importance. Training programs are organized for the suppliers for them to effectively use systems such as the Supply Network Collaboration (SNC) and the Supplier Life Cycle Module, whose infrastructure was developed and implemented to improve the processes of suppliers within the scope of the Supply Chain Excellence Project. In addition, if needed by the Supply Chain Officers working at the Vestel's Far East office, immediate support is provided to the Company's overseas suppliers.

- Vestel Elektronik gives utmost care to the feedback coming from the authorized service centers. Each feedback which is directly received by the senior managers is meticulously assessed and necessary actions are taken. Authorized service centers can instantly access Service Operation Specialists through WhatsApp. Furthermore, they can convey any questions about the processes and systems by filling a form via the SAP CRM (Customer Relationship Management) System. Authorized service centers can also convey their suggestions and opinions to the Company by using the suggestion system named "Fikirler Fora" (Ideas Cast off). Out of these, the ideas that are selected to become projects are implemented by the Company. Authorized service centers share customers' feedback about the products with the Company. Such feedback is taken into account by the Company during both product development and product improvement processes.

Setting out from the question of how an ideal authorized service center should be, Central Services were established within Vestel Customer Services in order to provide a role model for the authorized service providers. The Central Services intervene in issues which cannot be solved by the authorized service centers in the field. The Central Services are also responsible for the coordination, training and supervision of the authorized service centers as well as for rapid supply of spare parts.

The Vestel Service Academy, established under Vestel Customer Services, provides applied specialist and development trainings on products to authorized service technicians who are in direct contact with the customers. Technicians participating in trainings carried out in Manisa are allowed to visit Vestel City, the Company's manufacturing complex, and are informed about the Company's production processes and products. Trainings are regularly provided to the employees of the authorized service centers in training halls located in the Central Services. In addition, visits are made to the authorized service centers, for which the areas of development are identified, by the Central Service customer representatives or technicians, and customized trainings are provided on related topics. Regular online trainings provided from the live broadcast studio allow the technicians of the authorized service centers to rapidly access up-to date technical information.

"Stakeholder Perception Surveys" are conducted once a year by an independent research company to obtain and evaluate the feedback received from all the stakeholder groups. In this context, a Service Satisfaction Survey is also conducted for the authorized service centers. In this survey, the feedback on the topics such as the authorized service centers' commitment to the Vestel Customer Services, training, the infrastructure and electronic systems used, communication with the Central Services, spare parts support, call center processes are collected. On the other hand, through a customer satisfaction survey conducted annually by an independent research company, the quality of services which customers obtain from the authorized service centers is also questioned.

- Vestel Elektronik pays utmost attention to the monitoring and evaluation of the customers' suggestions and complaints. In this context, after-service satisfaction surveys are conducted for customers and satisfaction messages are sent via phone in order to instantly measure the customer satisfaction.

In addition to surveys and visits, customers can also communicate their complaints and suggestions to Vestel Customer Services through the 7/24 serving Vestel Call Center, the corporate website or CapCanlı (Live) Support line, which provides direct access to customer representatives through a mobile application, social media accounts, WhatsApp application, vmh@vestel.com.tr and via dealers and service points. All suggestions and complaints are handled by Vestel Customer Services' complaint management system, which is certified by the ISO 10002 Customer Satisfaction Management System Certificate. Incoming complaints are recorded and followed by the complaint tracking number. Evaluation and resolution of the complaints and communication of solutions and feedback to and from the customers are undertaken in line with the standards of the system. In order to prevent complaints and to ensure customer satisfaction, projects intended to eliminate the root causes of complaints as well as improvement studies are carried out. The system is intended to be constantly improved via the conduct of trainings, system audits, complaint management and satisfaction analyses. In order to provide customers an exceptional experience that goes beyond mere satisfaction, calls that are finalized with an expression of thanks are followed. Further improvement activities are taken so as to ensure quality service and sustainability of the Company's success.

## 4.3. Human Resources Policy

- The Company's human resources operations are carried out by the Vestel Human Resources Department, which reports to the Zorlu Holding Human Resources Group. The Directorate was structured under 4 main organizations including Industrial Relations Directorate, Recruitment and Talent Management Directorate, Training and Personnel Development Directorate and Administrative Affairs Directorate. The Head of Zorlu Holding Human Resources Group is also a member of the Executive Committee of Vestel Group of Companies, which ensures regular provision of information on employee related matters to the top management.

- The Company's Human Resources Policy is set forth in writing and covers all the issues related to hiring, promotion-advancement, dismissal, compensation, career planning, performance evaluation system, linking performance results to remuneration, and training policies. The employees have been informed about their job descriptions and division of tasks, as well as the performance and compensation criteria through the Human Resources Policy.
- Vestel Human Resources Department was deemed worthy of two global awards in 2017 by virtue of its successful activities. The HR Department claimed:
  - Bronze Stevie with its project "How a Young Team 'Attract, Recruit, Affiliate' Young Candidates in an Excellent Way!" in the "Human Resources Team of the Year" category at the Stevie Awards, and
  - Silver medal in the "Best New Hire Onboarding Program" category at the 2017 Brandon Hall Group Excellence in Talent Acquisition Awards organized for the 23<sup>rd</sup> time.

Vestel Human Resources Directorate was also a finalist with its "TechnoTrip" project launched in 2017 in the "Most Innovative Deployment of HR Technology" category, in which numerous companies competed on a global scale, at the HR Excellence Awards.

- The following are implemented within the scope of the Human Resources Policy:
  - Recruitment, promotion and dismissal criteria are documented in writing. Recruitment and promotion criteria are detailed in the Recruitment Regulation and Promotion Regulation, respectively.
  - Vestel Group has in place a performance evaluation system which is based on individual performance, but is also linked to departmental and company-wide results, and is aimed at contributing to the individual development of employees and the corporate development of the organization. The outcomes from the performance evaluation system are used as an input for remuneration, training and career development.
  - Job evaluation has been performed according to the criteria of the Hay Group Grade system, and the employees were assigned to grades. The remuneration policy has been determined taking into consideration the said grading system and a remuneration system has been established, which is updated in line with the changing conditions.
  - Comprehensive training programs are held for employees. While the training process is centrally handled for all the Vestel Group of Companies, the whole process takes place on the intranet. Training programs are developed in a comprehensive scope and in a manner to facilitate advancement of employees in their careers. Employees are provided the opportunity to choose training programs in line with their career plans and needs.
  - Vestel Technology Academy was founded mainly for Vestel Group's engineering staff. The Academy provides masters and PhD level educational opportunities to around 300 employees. Additionally, the "Management Trainee" and similar programs are planned and implemented on a yearly basis in order to cultivate qualified managers.
  - Two separate career development structures have been set up: promotion and horizontal advancement. The system is run at periods specified in the regulation.
  - Employee orientation programs are being carried out. Individual programs are designed specifically for each department and position. The programs present differences in terms of duration and content.
  - Periodic information provision to employees is carried out using the corporate portal and the e-mail system. Each unit holds internal meetings at certain intervals. These are production meetings (every morning at factories), departmental meetings (every Monday), happy hour gatherings (on Fridays), quality management meetings (once in every two months), budget meetings (every month), and R&D new product meetings (every month).
  - All employees are treated equally and without any discrimination based on ethnic background, religion, language, race, gender, and the like whatsoever in all matters involving training, career development and promotion.
  - Measures are taken to prevent any practices which might cause discrimination among employees and all personnel are treated equally without any distinctions. There were no complaints from the employees related to discrimination.

#### **4.4. Code of Ethics and Social Responsibility**

- Vestel Elektronik's Code of Ethics has been set forth in writing and published on the Company website pursuant to the Public Disclosure Policy. Utmost care is taken to ensure that the Code of Ethics, which is formulated for the Company, the Board and the employees, is complied with in full.
- Under its social responsibility principle, Vestel Elektronik undertakes social efforts by contributing to the social responsibility projects carried out by Zorlu Holding in the areas of education, sports and culture, as well as by undertaking projects on its own. Zorlu Group, of which Vestel Elektronik is a member, took a major step in bringing a global social responsibility dimension to the principles and values espoused since its foundation, by signing the United Nations Global Compact in 2007. Since signatory companies to the Compact commit themselves to issuing annual progress reports outlining their activities and the value created in this scope, in 2017 Vestel Elektronik published its progress report for the year 2016 on the [unglobalcompact.org](http://unglobalcompact.org) website via Zorlu Holding.

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- In support of responsible and ethical business practices, the Company is a Class B member of SEDEX (Supplier Data Ethical Exchange), and a registered supplier with the BSCI (Business Social Compliance Initiative). In addition to the SEDEX and BSCI social responsibility audits, the Company also undergoes periodic FWC (Fair Working Conditions) and ICS (Initiative Clause Social) audits by the independent audit firms.
- Within the scope of the Supply Chain Excellence Project, the Code of Ethics was also added to the Company's procurement website to share Vestel Elektronik's Code of Ethics with the Company's suppliers and to encourage suppliers to also adopt these rules. Also in 2016, in accordance with Vestel's commitment to a non-conflict supply chain, in order not to supply the certain metals (Gold, Tin, Tungsten, Tantalum) used in its products from Conflict-Affected and High-Risk Areas, where there are violations of human rights, the compliance commitments of suppliers in this direction have begun to be collected by making addition to the SLC (Supplier Lifecycle) System in order to inform and warn the Company's business partners in the supply chain and this practice was continued in 2017 as well.
- Assuming the responsibilities of being a global player in consumer electronics and household appliances, Vestel Elektronik carries out environmental impact reviews of its operations, production lines, and products. The Company believes that it has a duty to be acutely aware of the health and safety of its employees, customers, and the general public who may be affected by its operations, products, and services and to protect the environment and nature for the good of future generations. Vestel Elektronik demonstrated its commitment to this area by obtaining the TS-EN ISO 14001 Environmental Management System Certification in 1998 and by receiving the ISO 14064 Greenhouse Gas Accounting and Verification System Certificate in 2017. The Company has pledged itself to continuously improve its performance on environmental issues, prevent pollution, strictly obey all the environment-related laws, legislation, and administrative regulations, and allocate sufficient and appropriate resources in its efforts to:
  - Take environmental factors into account in the evaluation of new products, projects and operations,
  - Reduce the use of hazardous substances in products and production processes, and seeking substances with less polluting properties,
  - Reduce, reuse, recycle, and recover waste,
  - Ensure savings of energy, water and natural resources by supporting productivity increases and use of new technologies,
  - Use recycled/recyclable packaging materials where feasible,
  - Organize events aimed at fostering environmental awareness.
- As part of its environmental efforts, in 2017, at the second Stars of Technology Awards organized by Yıldız Technopark, the Company won the Star of Technology and Innovation Award in the Stars of Turkey category for the "Nano Chrome Coating System" used in smartphone and TV production.
- As for biodiversity, the large green spaces within Vestel's premises, a perk of its location within an Organized Industrial Zone, will be further extended to cover 40,000 m<sup>2</sup>, and become home to 110 distinct species of plants and trees.

## Compliance with National and International Legislation Related to the Environment and Energy

- The Company closely monitors its compliance with all the mandatory regulations throughout a product's life cycle. Legal compliance issues are dealt with in accordance with both ISO 14001 Environmental Management System and ISO 50001 Energy Management System standards. In order to safeguard the human and environmental health and safety, Vestel Elektronik has established many procedures on the basis of the mandatory regulatory requirements and Management Systems Policy and ensures that its operations abide strictly by such procedures and requirements.

The Company also fully complies with the following EU laws and regulations applicable to its industry:

- WEEE (Waste of Electrical and Electronic Equipment) Directive,
- RoHS - (Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment),
- Ecodesign Framework Directive for Energy-Related Products,
- REACH - Regulation of the Registration, Evaluation, Authorization and Restriction of Chemicals.

## Energy Efficiency

- Vestel Elektronik capitalizes on energy efficiency opportunities in its operations and systematically implements various projects related to this area. The Company's main policy is to reach a high level of production with low energy consumption. In light of this approach, the Company reviews the energy consumption of its production processes and strives to obtain better results in terms of productivity and quality.

Under the Environment and Energy Management Systems, the Company manages energy consumption and related processes in tandem with the Total Productive Maintenance (TPM) model, corporate business plans and the key performance indicators methodology. The Company ensures sustainability by successfully implementing the TPM Management System. TPM is a maintenance management approach, which requires the participation of all employees in production and service processes, envisages autonomous maintenance, adopts a preventive approach rather than trouble-shooting and allows for the highest degree of equipment efficiency. Environmental gains through the TPM system approach may be listed as follows:

- Ensuring organization and order and reducing contamination with the 5S approach,
- Improvement works with the Kaizen approach,
- Less equipment breakdown, less dissemination, saving of energy and raw materials with the Autonomous Maintenance approach,
- Reducing scrap and rework, therefore, reducing waste,
- Increasing efficiency and quality and achieving continuous improvement.

Vestel Elektronik has successfully completed the first phase of the TPM Management System and on 11 January 2013, became eligible for receiving the "TPM Excellence Award" given by JIPM (Japan Institute of Plant Maintenance). The Company received the Award for Excellence in Consistent TPM Commitment in late 2014 by successfully passing the consistency audit. Vestel Elektronik was awarded the TPM Special Award in February 2017 after successfully passing the preliminary evaluations in 2016. Meanwhile, the Company's subsidiary Vestel Beyaz Eşya Sanayi ve Ticaret AŞ's integration of TPM philosophy and tools as well as its constant improvement efforts were awarded with the TPM Excellence Award by JIPM in 2014 and the Award for Excellence in Consistent TPM Commitment, the second phase of the Excellence Award, in 2017. Vestel Beyaz Eşya is the first and the only company in the world to be deemed worthy of this award for six different product families and six separate factories at the same time in the white goods industry, all thanks to the TPM initiatives it carried out simultaneously at its refrigerator, washing machine, dishwasher, air conditioner, water heater, and cooking appliances plants.

Senior executives regularly monitor and assess the relevant performance results related to energy efficiency. The Company has assigned an energy officer and an energy management representative to ensure that the Energy Management System is operated efficiently. The Company passed the required audits in 2012 and obtained the TS EN 50001 Energy Management System Certificate and ensured its continuity in 2017.

Energy saving activities which were undertaken in 2017 are given below under their main headings:

- Reduction of energy used in mold heating for 55"-65" TV models,
- Reduction of heat transfer in steam backplates,
- Use of vacuums thanks to the robotic vacuum energy balancing system,
- Energy efficiency through the PIHR soldering system,
- Use of low energy automatic fan cooling in plastic injection machines,
- Reduction in compressed air use by switching to electric screwdrivers.

## Climate Change

- Climate change is not only an environmental but also a social and economic threat. Vestel Elektronik considers climate change as an important risk for both the future of the world and sustainability of the Company and carries out pivotal projects in this regard. The Company initiated studies for the measurement and reduction of its carbon footprint and participated in the Carbon Disclosure Project. In 2017, Vestel Elektronik received the ISO 14064 Greenhouse Gas Accounting and Verification System Certification, and after having its greenhouse gas emissions validated, disclosed its carbon emission information on the cdproject website. As is known, CDP is an initiative, which was initiated in 2000, to encourage companies, investors and governments to collect and share emissions-related data which could help in the fight against climate change. The companies from Turkey which responded to CDP are also rated according to CDP's methodology, with the support of Ernst & Young Turkey. In 2017, within the scope of the CDP's renewed scoring methodology, the Company issued a statement in the Climate Change module and received a score of B (the average score in the module was C).

## Sustainability

- Environmental awareness and sustainability are the most important elements of Vestel Elektronik's vision. Due to the rapid change in social, economic and environmental factors in the world, the increasing strain on natural resources creates a threat for damaging the natural structure. Vestel Elektronik is aware that the sustainability of its success is possible only if it adheres to a fully-responsible approach in the design of its products. Considering this fact, Vestel Elektronik allocates a considerable amount of funds to research and development activities; for both reducing the energy consumed by its products and for the development of new environmentally friendly and recyclable materials which will be used in its products. Issues such as less power consumption, reliability for long product life, elimination of hazardous chemicals, use of recyclable materials, reducing the variety in the use of materials and less use of raw materials, etc. are considered to be the main factors in the design of its products. Considering that the Company has annual production capacities of 15 million units in electronics and digital products and 10 million units in household appliances, improving the design of a product will create a chain reaction in improving the environmental impacts in the supply chain, during the production and use of the product and at the end of the life cycle of the product, by reducing energy consumption, fuel consumption, transport-based carbon emissions and decreasing the use of packaging, etc. and thus, Vestel Elektronik has been constantly increasing the resources allocated to this matter. Vestel Elektronik plays an active role in the Sustainability Project of its parent company Zorlu Holding AŞ, and it has begun to integrate sustainability into its business strategies to reach the project's Sustainability Targets for 2017-2022.
- Through its efforts in sustainability and upon the assessment conducted by Ethical Investment Research Services Limited (EIRIS), which carries out indexing studies on behalf of Borsa Istanbul, Vestel Elektronik was included in the BIST Sustainability index, which comprises the shares of enterprises with high corporate sustainability performance listed on Borsa Istanbul, on November 2, 2015, and its sustained performance in this area ensured that the Company was included in the index in 2017 as well. Vestel Elektronik was deemed eligible for inclusion in the BIST Sustainability Index again for the November 2017 - October 2018 period, as a result of the assessments conducted by EIRIS in 2017. The Company's sustainability efforts and practices can be found at [www.vestelinvestorrelations.com](http://www.vestelinvestorrelations.com).
- At Vestel Group of Companies ("Vestel"), of which Vestel Elektronik is a member, corporate development is equivalent to social development. With this approach, the Company will continue to firmly support the corporate social responsibility initiatives that add value to society, pioneer new initiatives in this area, and raise the social awareness by promoting its future oriented and eco-friendly products.
- Vestel does its utmost to ensure that its corporate social responsibility activities deliver concrete and sustainable benefits to society. As a result, the Company chooses to support long-term projects. Prior to developing social responsibility projects, the Company first identifies the areas in which public support is insufficient or lacking. In the social responsibility initiatives it undertakes, Vestel demonstrates the same high performance and meticulousness which it displays in all of its operations, never compromising its total quality approach.
- Many projects are carried out at Vestel, where the greatest care is shown for the disabled citizens at every opportunity. These projects are summarized below:
  - With the "Equal Chance" Project carried out at the Electronics Factory, it was aimed to create employment for individuals who are hearing and visually impaired following various training programs. Within the scope of the project which started with 11 people on 5 May 2015, the number of disabled personnel reached 170 as of the end of 2017. In this context, production lines in the areas where the disabled people were to work were customized specifically for them. In addition, "Basic Sign Language Education" was launched with the Celal Bayar University Continuous Education Center on 22 December 2015 to improve the lives of people with disabilities who were employed through this project, to increase the awareness of employees without disabilities and to strengthen their communication with each other. With 28 employees in 2015, 21 in 2016, and 20 in 2017, 69 Vestel employees in total were certified upon completion of this training.
  - Four sign language interpreters were tasked to support hearing-disabled employees both during and outside work, and 51 first-level supervisors of hearing-disabled employees were given sign language training by interpreters at the Vestel High-end Training Academy.
  - The Company also supports sporting activities of disabled employees. In this regard, 14 disabled employees were given 2,796 hours (373 days) of paid leave since 2015 to participate in sporting events. Two female employees represented Turkey in the Cycling category of the Paralympic Games.
  - The Company stands by disabled citizens, not only by creating jobs, but also assisting them in their daily life. As such, one battery driven and 43 manual wheelchairs were provided to 44 disabled citizens.
  - Vestel Beyaz Eşya employed ten individuals with intellectual disability as part of the Manisa Organized Industrial Zone's Intellectually Disabled-Safe Workplace project named ZEKL.
  - A total of 100 disabled citizens were employed at Vestel in the past year, including 39 at Vestel Beyaz Eşya, taking the total number of disabled employees working at Vestel to 440.
  - With the "Accessibility Project" initiated by Vestel to improve accessibility for the disabled in every area, from its products and factories to its customer services and stores, Vestel aims to undertake the transformation which will make life easier for people from all walks of life. The Accessibility Project, which is being carried out as a 360-degree project, aims to ensure that all products manufactured by Vestel, all working environments, including its production plants, and all of its communication channels are easily accessible for the disabled individuals. Within the scope of the project, televisions and household appliances produced by Vestel can be managed from mobile phones and tablets through voice commands and household appliances have become easily usable for the visually impaired thanks to the service kits prepared with the Braille alphabet, which are placed on the control panels of the household appliances. Vestel televisions may be

controlled with voice commands and the voice feedback mobile application thanks to the “accessibility mode” offered by the Company’s smartphone, the Venus V3 5040 model. In addition, small household appliances can be controlled through voice. With the Accessibility Project, audio manuals and promotional videos were developed for the disabled. In addition, a project was initiated to create a visual call center for the hearing impaired.

- Within the scope of the Company’s “Accessibility Project”, No Obstacles Hackathon (Engelsiz Hackathon) was held together with the Young Guru Academy (“YGA”) on May 7-8 2016. Within the scope of the competition, Vestel Elektronik offered to provide R&D and manufacturing support to the selected products which provide concrete solutions to meet the daily needs of the visually impaired. Vestel provided its know-how and opened the doors of Vestel City to YGA entrepreneurs for the implementation of the WeWALK Smart Walking Stick project, developed by the group which won the 1<sup>st</sup> place in the competition with the “Obstacle Detection Glass” project. The initial design and production of the WeWALK Smart Walking Stick were undertaken at Vestel City. The industrial design, software and hardware design and prototype studies for the product were also carried out with YGA’s volunteer engineers at Vestel City. Developed with the Technology Mobile application support to increase the freedom of movement for the visually impaired and to make life easier for them, the WeWALK Smart Walking Stick has the features of obstacle detection, telephone integration and an open platform. All mobile applications can be integrated into the WeWALK Smart Walking Stick, which can connect to the user’s mobile phone via Bluetooth to enable the visually impaired user to access a wide range of services such as navigation and transportation through the walking stick without needing to touch his/her mobile phone. The smart walking stick WeWALK was chosen the “Social Innovation of the Year” at the Innovation Summit held by the Turkish Exporters Assembly. WeWALK qualified to compete in the finals of the “Best Wearable Mobile Technology” category at the Global Mobile Awards 2017, which is among the sector’s most important awards worldwide and organized within the scope of the GSMA Mobile World Congress.
- Vestel participated in the 10<sup>th</sup> Session of the Conference of States Parties with its Sustainability Project in 2017. Representing Turkey, Vestel and the Ministry of Family and Social Policies joined other participants such as the UN authorities and state representatives from across the globe in the June 14 session of the conference, which was titled the “Technology Builds Better Lives”. In the session, Vestel presented the innovative solutions it has developed to benefit disabled individuals, along with its range of accessibility-oriented products and corporate social responsibility projects to support individuals with disabilities.
- Vestel Elektronik deems contributing to the development of social life in the field of sports as one of its social responsibilities. With this understanding, Vestel became the name sponsor of the Sultans League - the highest league of women’s volleyball in Turkey - for the 2016-2017 and 2017-2018 seasons and the main sponsor for the Turkish National Volleyball Teams within the scope of the cooperation undertaken with Turkey’s Volleyball Federation (“TVF”). Vestel Elektronik also assumed the official sponsorship of “Factory Volleyball”, which are the TVF Volleyball Schools which shape the future of Turkish Volleyball and enable hundreds of athletes to grow.
- In April, Vestel Beyaz Eşya organized an internal blood donation campaign in cooperation with the Turkish Red Crescent. The campaign was very well-received by the employees, and resulted in the collection of over 208 units of blood. The high demand led to another campaign in November. The campaign, carrying the slogan “Looking for 1,000 donors among 6,000 employees” received 1,232 applications with 1,046 applicants ultimately donating blood, breaking a national record in the largest blood donation in a single day at an industrial facility. Given that a single donation of blood can save three lives, Vestel Beyaz has given hope to 3,138 people.
- To help meet book needs of villages and village schools without libraries, Vestel Beyaz Eşya launched a “Book Collection Campaign” in April, and installed book collection boxes at its production plants. As part of the campaign, 1,400 books were collected in the span of a month and donated to the Manisa Province Public Library.
- To highlight the importance of women’s employment on occasion of the March 8<sup>th</sup> International Women’s Day, Vestel Beyaz Eşya gifted its female employees with soap bars made by women from Soma to help the region and to contribute to women’s employment.
- Vestel Customer Services, which is a part of Vestel Group of Companies, also conducts corporate social responsibility projects with a systematic and sustainable approach. One such effort is a series of regular blood donation campaigns, which have been taking place for the past four years as part of a protocol signed with the Turkish Red Crescent.

In 2017, the employees of Vestel Customer Services carried out voluntary corporate social responsibility projects in five fields.

- The Children’s Group reached hundreds of children across the nation with an aim of making at least five children happy every month. The help provided by the group to children living together with their mothers at the Manisa Prison was named the Most Effective Corporate Social Responsibility Project by the Call Centers Association and received First Prize.
- The Audiobook Group narrates books for the digital library of Boğaziçi University Education Center for the Visually Impaired (GETEM). Audiobooks recorded by employee volunteers form part of a special collection at the library named after Vestel.
- The Elderly Group pays regular monthly visits to the Manisa Nursing Home.
- The Shelter Group works for the well-being of animals.
- On their journey of goodwill, Vestel employees make Vestel and the Zorlu brand proud with their great accomplishments in national races, helping raise awareness and raise funds for various NGOs.

Additionally, the Company organizes an annual exhibition of high-impact photographs and seminars every year in order to raise the awareness of female employees and to stop violence against women. It also makes regular donations to the Women’s Shelter in Manisa.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

## PART V - BOARD OF DIRECTORS

### 5.1. Structure and Composition of the Board of Directors

- The Company is governed, represented and bound by a Board of Directors formed of at least five and at most eleven members to be elected by the General Assembly.
- Majority of the Board is comprised of non-executive members.
- At the Company's Ordinary General Assembly Meeting held on 9 May 2017, it was resolved to set the number of the members of the Board as 6 and to elect Mr. Ahmet Nazif Zorlu, Mr. Olgun Zorlu, Mrs. Selen Zorlu Melik and Mr. Mehmet Emre Zorlu as Board members and Mr. Ali Akın Tari and Mr. Hacı Ahmet Kılıçoğlu as independent Board members to serve until the 2017 Ordinary General Assembly Meeting.

The members of the Board of Directors designated in accordance with the Company's Articles of Association and their duties are presented in the table below:

#### Board of Directors

Member	Duty	Term of Office	Other Positions Held Within the Group	Positions Held Outside the Group	Status
Ahmet Nazif Zorlu	Chairman	Until 2017 Ordinary General Assembly Meeting	Chairman and Vice Chairman - Zorlu Group Companies	-	Non-executive
Ali Akın Tari	Vice Chairman	Until 2017 Ordinary General Assembly Meeting	Board Member - Vestel Beyaz Eşya San. ve Tic. AŞ Vice Chairman - Zorlu Enerji Elektrik Üretim AŞ	Board Member and Audit Committee Member - Dilerbank, Board Member - Diler Holding	Independent
Selen Zorlu Melik	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Group Companies	-	Non-executive
Mehmet Emre Zorlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Group Companies	-	Non-executive
Olgun Zorlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Board Member - Zorlu Group Companies	-	Non-executive
Hacı Ahmet Kılıçoğlu	Board Member	Until 2017 Ordinary General Assembly Meeting	Vice Chairman - Vestel Beyaz Eşya San. ve Tic. AŞ. Board Member - Zorlu Enerji Elektrik Üretim AŞ	Board Member - Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd., Doğan Gazetecilik AŞ and Doğan Holding	Independent

#### Ahmet Nazif Zorlu - Chairman

(1944 - Denizli) Ahmet Nazif Zorlu began his professional career in a family owned textiles business in Denizli, Babadağ. He opened his first textile store in Trabzon, later in 1970 Mr. Zorlu moved the Company's headquarters to Istanbul and laid the foundations of Zorlu Holding with his brother, Zeki Zorlu. Ahmet Zorlu set up his first company, Korteks in 1976 and gathered all of his companies under the roof of Zorlu Holding in 1990. Acquiring Vestel in 1994, Ahmet Zorlu opened the door to new lines of business for Zorlu Holding. Zorlu's entrepreneurialism which began with the textile industry went on to manifest itself in more companies operating in a wide range of industries, such as household appliances, electronics, energy, property development, metallurgy and defense.

With a keen interest in civil society organizations, Ahmet Zorlu is a member of the Board of Directors of the Foreign Economic Relations Board, the Turkish Industry and Business Association, the Education and Culture Foundation of the Society of Denizli, the Babadağ Industry and Business Association, and the Turkish Home Textile Industrialists and Businessmen Association.

**Ali Akın Tarı - Vice Chairman**

(1943 - Koruköy) After his graduation from the Istanbul Law Faculty, Ali Akın Tarı served as a Tax Inspector and a Chief Tax Inspector at the Ministry of Finance between 1972 and 1986. He was appointed as the Vice-President of the Tax Inspectors Board in 1986 and Group Head of the Istanbul Tax Inspectors Board in 1989, and continued to serve in this position until he was appointed as a Board Member to the Banking Regulation and Supervision Agency in 2001. Ali Akın Tarı was also elected as a Board Member to the Savings Deposit Insurance Fund in addition to being a Board Member of the Banking Regulation and Supervision Agency in the same year. He left his position at the Banking Regulation and Supervision Agency when his period of duty expired in 2004, and was appointed as a Consultant for the Ministry of Finance. Mr. Tarı served in this position until 2007, when he voluntarily left his position in the public sector to work in different areas in the private sector. Mr. Tarı became a member of the Board of Directors and the Audit Committee of Dilerbank in 2008; in addition to this position, he was appointed as a member of the Board of Directors of Diler Holding in 2011. Besides his position as a Board Member at Vestel Elektronik, Mr. Tarı also serves as a Board Member at Vestel Beyaz Eşya and Zorlu Enerji.

**Selen Zorlu Melik - Board Member**

(1975 - Trabzon) Selen Zorlu Melik graduated from the Faculty of Economics and Administrative Sciences, Department of Business Administration at Uludağ University. She began her professional career at Denizbank in 1998. Following her internship at the Denizbank Bursa Branch, she joined the Management Trainee Program at the same bank in 1999. After working in a number of positions at the Denizbank head office, Mrs. Zorlu Melik attended a Marketing Certificate Program at the University of California, Berkeley, USA in 2001. She subsequently started to work at the Korteks Yarn Plant in 2002 and became a Board Member of the same company in 2004. Selen Zorlu Melik currently serves as a Board Member in numerous companies within the Zorlu Group in addition to being a Board Member at Vestel Elektronik.

**Mehmet Emre Zorlu - Board Member**

(1984 - Istanbul) Mehmet Emre Zorlu graduated from the Department of Electrical and Electronics Engineering at Koç University in 2006. He went on to complete a master's degree in Innovation and Technology Management from the University of Essex in the United Kingdom in 2007 and 2008. Mr. Zorlu began working at the Vestel Group of Companies in 2009. In addition to his position as a Board Member at Vestel Elektronik, Mr. Zorlu also serves as a Board Member at Zorlu Holding and its affiliated companies. Mehmet Emre Zorlu is a member of the Young Businessmen Association of Turkey (TÜGİAD) and Endeavor Turkey.

**Olgun Zorlu - Board Member**

(1965 - Trabzon) After graduating from university in the United Kingdom with degrees in Textile and Business Administration, Mr. Olgun Zorlu began his professional career in 1986. He has started to serve in managerial positions at various Zorlu Group companies in 1988 and managed their foreign market research and business development operations. Mr. Zorlu began serving as a Board Member at Zorlu Holding in 1998. In addition to his Board membership at Vestel Elektronik, Mr. Zorlu also serves as a Board member at Zorlu Holding and various other Zorlu Group companies.

**Hacı Ahmet Kılıçoğlu - Board Member**

(1956 - Giresun) Hacı Ahmet Kılıçoğlu graduated with a Bachelor's degree and Master's degree in Economics from the University of Essex. He started his professional career at the Ministry of Industry and Technology in 1979. In 1980 he became an Assistant Specialist at Türkiye İş Bankası and after working in the private sector for a couple of years, Mr. Kılıçoğlu held administrative positions at the United Nations Development Program (UNDP) and the F-16 project. He then took office at Türk Eximbank in 1987, where he worked in various positions. He later served as the CEO of the bank and as a Board Member between 1998 and 2010. He also served as a Board Member at the Banks Association of Turkey between 1998 and 2010 and was elected as the President of the World EximBanks Union (The Berne Union) in 2001. Mr. Kılıçoğlu also served as a Consultant to the President at the Islamic Development Bank between 2008 and 2009 and as a Vice Chairman at Denizbank in 2010. In addition to his position as a Board Member at Vestel Elektronik, Mr. Kılıçoğlu also serves as a Board Member at Vestel Beyaz Eşya and Zorlu Enerji, which are Zorlu Group Companies. He is also a Board Member at Şeker Mortgage Finansman AŞ, Şekerbank Kıbrıs Ltd., Doğan Gazetecilik AŞ and Doğan Holding AŞ.

The Chairman of the Executive Committee is Mr. Enis Turan Erdoğan.

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

(1955 - Mersin) Enis Turan Erdoğan graduated from the Department of Mechanical Engineering at Istanbul Technical University in 1976 and completed a master's degree in Production Management at Brunel University in the UK in 1979. After serving in managerial positions for various firms in Turkey, Mr. Erdoğan joined Vestel in 1988. Having held various managerial positions at Vestel since 1988, he served as the President of Vestel Foreign Trade and a member of the Executive Committee of Vestel Elektronik until 2013. Turan Erdoğan was appointed as the Chairman of the Executive Committee of the Vestel Group of Companies on 1 January 2013. Mr. Erdoğan served as the President of TURKTRADE (Turkish Foreign Trade Association) for two periods between 2002 and 2006 before being the first Turkish citizen to be appointed as a Board Member of Europe's largest ICT Confederation, DIGITALEUROPE, a position which he held between 2010 and 2014.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

- The Company's Board of Directors is structured to provide the highest level of efficiency and effectiveness. The Company pays utmost attention to compliance with the Capital Market Law and CMB regulations in this area.
- The Board of Directors has the powers and duties set forth in the relevant articles of the Turkish Commercial Code and the Article 17 of the Company's Articles of Association.
- Vestel Elektronik's Board of Directors consists of 6 members. Four of the six Board members are non-executive members and two are independent members. In accordance with the CMB's Communiqué on Corporate Governance, one third of the Board is comprised of independent Directors who can perform their duties without being influenced.
- Although there is no provision in the Articles of Association in this respect, the Chairman of the Board and the Chairman of the Executive Committee are different individuals: The Chairman of the Board is Mr. Ahmet Nazif Zorlu and Chairman of the Executive Committee is Mr. Enis Turan Erdoğan. No one in the Company has unrestricted decision-making authority.
- There are no restrictions with respect to the Board members taking up other duty or duties outside the Company, but the regulations set forth in the Corporate Governance Principles are complied with in this regard.
- Prior to the General Assembly Meeting for the year 2016, two independent board member candidates were presented to the Corporate Governance Committee, which also fulfills the duties of the Nomination Committee. The candidates for the independent board membership submitted their written statements of independence within the framework of the legislation, the Articles of Association and the independence criteria set forth in the Corporate Governance Communiqué, to the Corporate Governance Committee at the time of their nomination. The Committee submitted its assessment reports on whether these candidates fulfill the independence criteria to the Board of Directors on April 11, 2017. Upon a resolution by the Board of Directors dated April 11, 2017 and numbered 2017/7, it was decided that these candidates would be submitted to the approval of shareholders at the General Assembly to become independent Board members. The Board's proposal was approved by the shareholders at the 2016 General Assembly Meeting held on May 9, 2017. Information on the independent Board member candidates was disclosed to the public with the General Assembly Information Document published together with the General Assembly invitation.

Statement of independence of the independent board member candidates is provided herein below:

"I hereby declare that, I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Vestel Elektronik Sanayi ve Ticaret AŞ within the scope of the criteria stipulated in the legislation, the Company's Articles of Association and the Capital Markets Board's Communiqué on Corporate Governance No. II-17.1, and in that regard;

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with significant duties and responsibilities, nor have I/we individually or jointly held more than 5% of the share capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more) or held an executive position with significant duties and responsibilities or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflict of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member on the Company's Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member."

- Board Members Mr. Hacı Ahmet Kılıçoğlu and Mr. Ali Akın Tari are independent members who fulfill the independence criteria envisaged in the CMB's Corporate Governance Principles. No circumstances occurred during the reporting period to end the independence status of the independent board members.
- Currently, one female member serves on the Company's Board of Directors, and it is among the Company's medium-term targets to reach the minimum 25% ratio set in the Corporate Governance Principles for the female Directors. However, a policy has not yet been formulated towards reaching this goal.

## 5.2. Operating Principles of the Board of Directors

- The Board of Directors carries out its activities in a transparent, accountable, fair and responsible manner.
- The gathering procedures and frequency of Board meetings are set forth in the Company's Articles of Association.
- Agendas for the Board meetings are determined by the Chairman and Board Members. Requests coming from the Company management are also taken into account when setting the meeting agendas.
- Article 16 of the Company's Articles of Association stipulates that Board meetings shall be held as and when deemed necessary, and at least once a month. The Board of Directors shall be convened by the Chairman of the Board or the Deputy Chairman when the Chairman is not available. Any member may request from the Chairman to call the Board for a meeting. In addition, shareholders holding at least 20% of the Company's share capital and stakeholders can convoke a Board meeting.
- In order to increase the attendance at the meetings, the meeting dates are determined and notified to the Board Members at the beginning of the year. As a result, Board Members are given the opportunity to adjust their schedules according to meeting dates. As another measure to increase attendance at the meetings, the following article was added to the Company's Articles of Association: "The Board membership of a Board Member who fails to participate in three consecutive meetings without the Board's permission is deemed to be null and void."
- The Board of Directors convenes with absolute majority and resolves with the majority of those present at the meetings.
- During 2017, the Board of Directors took 52 decisions. The meeting attendance rate was 100%, and all the decisions were passed with the unanimous votes of the attendants.
- Invitation to the meetings is made via e-mail at least 7 days before the meeting. The secretariat which has been set up within the Company to report to the Board of Directors, provides the Board Members with the agenda and documents related to the matters on the agenda, together with the invitation.
- Reasonable and detailed justifications for dissenting votes are required to be entered into records on matters for which there were differing opinions at the Board meetings. The dissenting opinions and votes of the independent board members are disclosed to the public. However, to date there has never been such an instance.
- No Board member, including the Chairman, has a preferential voting right or the right to veto the Board's decisions. Each member possesses an equal vote.
- The Board decisions relating to all kinds of related party transactions of the Company are taken with the approval of the majority of the independent board members in accordance with the Corporate Governance Principles.
- Zorlu Holding AŞ, the main shareholder of the Company, has purchased a Directors & Officers Liability Policy to cover the losses which may be suffered due to the wrongful acts of the Board members in the execution of their duties. The Policy covers Zorlu Group Companies including Vestel Elektronik. The total annual liability limit of the policy exceeds 25% of Vestel's share capital.

## 5.3. Number, Structure and Independence of the Board Committees

- In order to help the Board of Directors to perform its duties and responsibilities more effectively, a Corporate Governance Committee, an Early Detection of Risk Committee and an Audit Committee have been set up, all three of which report directly to the Board. Owing to the structure of the Board, the Company has not set up a separate "Remuneration Committee" or a "Nomination Committee", the duties of which are performed by the Corporate Governance Committee.
- As per the Corporate Governance Principle no 4.5.3, all members of the Audit Committee and the chairmen of the other committees are elected from among the independent members of the Board. In accordance with the Principles, the Chief Executive Officer does not serve on the committees.
- Committee members Mr. Ali Akın Tari and Mr. Hacı Ahmet Kılıçoğlu serve on more than one committee due to the number of the Board Members and the committee formation requirements in accordance with the CMB's Corporate Governance Principles.
- Committees convene at intervals stipulated by the legislation and the related Committee's working principles or upon a request from a member. The Committees' activities and meeting minutes are presented to the Board of Directors.
- All kinds of resources and support are provided by the Board of Directors to the committees to enable them to perform their duties. Committees can invite individuals who are deemed to be necessary to their meetings in order to obtain their views.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

- Duties, working principles and the members of the Committees are determined by the Board of Directors and are publicly disclosed on the Public Disclosure Platform and the Company website.

## Audit Committee

- The Audit Committee was set up for the effective oversight of the Company's financial and operational activities pursuant to the Article 3 of the CMB's Communiqué Serial X, No: 19. The Committee is responsible for the supervision of the Company's accounting system, public disclosure of the financial information, independent auditing and the operation and efficiency of the Company's internal control and internal audit system.
- The Audit Committee can seek the opinions of independent experts on matters which it deems necessary with regard to its activities. The costs of the consultancy services required by the Audit Committee are borne by the Company.
- Pursuant to the CMB's Communiqué on Corporate Governance No: II-17.1, the "Working Principles of the Audit Committee" were revised and approved at the Board of Directors' meeting dated March 27, 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company website.
- The Audit Committee is structured in accordance with the Capital Markets Board's Corporate Governance Principles and comprises two members.
- The Chairman of the Committee was elected from among the independent members of the Board and certain criteria were taken into account in the election process. The Chairman of the Audit Committee is ensured to have served in a similar position previously, have the knowledge and experience needed to analyze financial statements and be versed in accounting standards.
- Both Audit Committee members were elected from among the independent Directors. The Chairman of the Committee is Mr. Ali Akın Tari, and the other member is Mr. Hacı Ahmet Kılıçoğlu.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 9 May 2017:

Committee Members	Duty	Status
Ali Akın Tari	Chairman of the Committee	Independent Board Member
Hacı Ahmet Kılıçoğlu	Member of the Committee	Independent Board Member

- In principle, the Audit Committee shall convene at least four times a year, being once in each quarter. The Committee convened six times in 2017.
- The Board of Directors' secretariat is responsible for keeping the records of the decisions made by the Committee, as well as the minutes of the meetings.
- The Committee carries out its activities in line with the working principles put into writing in detail.
- In 2017, the Audit Committee performed the following functions:
  - Monitoring of the Company's financial and operational activities,
  - Supervision and approval of the accuracy and conformity of the annual and interim financial statements, which will be disclosed to the public, with the accounting principles employed by the Company,
  - Election of the independent audit firm, preparation of the independent audit contract and initiation of the independent audit process,
  - Monitoring of the effectiveness and performance of the independent audit activity,
  - Supervision of the operation and efficiency of the internal control and internal audit system,
  - Conducting studies on the efficiency and adequacy of the internal control system and reporting its evaluations to the Board of Directors,
  - Review and approval of the internal control and internal audit reports.

## Corporate Governance Committee

- The Corporate Governance Committee was established to monitor the Company's compliance with the CMB's Corporate Governance Principles, carry out studies for improvement and make proposals to the Board of Directors in order to improve the implementation of corporate governance practices.
- Pursuant to the CMB's Communiqué on Corporate Governance No: II-17.1, the "Working Principles of the Corporate Governance Committee" were revised and approved at the Board of Directors' meeting dated 27 March 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company website.

- The Corporate Governance Committee is composed of at least three members, including two non-executive Board Members and the Investor Relations Manager. The Chairman of the Committee is Mr. Ali Akın Tari, who is an independent Board member.
- Corporate Governance Committee also fulfills the duties of the Nomination Committee and the Remuneration Committee.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 9 May 2017:

Committee Members	Duty	Status
Ali Akın Tari	Chairman of the Committee	Independent Board Member
Mehmet Emre Zorlu	Member of the Committee	Non-Executive Board Member
Serap Mutlu	Member of the Committee	Investor Relations Director

- In principle, the Committee convenes at least twice a year in order to ensure the effective performance of its duties. Corporate Governance Committee convened 4 times in 2017.
- The activities carried out by the Corporate Governance Committee in 2017, in accordance with its working principles put into writing in detail, are presented below:
  - Proposing improvements in corporate governance practices to the Board of Directors in order to enhance compliance with the CMB's Communiqué on Corporate Governance No. II-17.1; conducting and supervising the necessary works for the alignment with the legislation,
  - Overseeing the activities of the Investor Relations Department,
  - Preparing the evaluation reports on the independence status of the independent Board member candidates for submission to the Board of Directors,
  - In order to achieve compliance with the amended Article 24 of the CMB's Material Events Disclosure Communiqué No. II-15.1, prepared the "Vestel Elektronik Sanayi ve Ticaret AŞ Public Disclosure Procedure" which sets out the procedures for disclosures to be made on the PDP, and submitted the same for the approval of the Board of Directors,
  - Carrying out the activities related with the Corporate Governance Rating,
  - Within the scope of its duties as the Remuneration Committee, presented the proposal for the remuneration of the Company's Board members and executives with administrative responsibility for 2017, which takes into account the extent of the fulfilment of the criteria applied to remuneration, to the Board of Directors.

#### Early Detection of Risk Committee

- The Early Detection of Risk Committee was established in order to identify the risks, which could threaten the existence, development and continuity of the Company, take the necessary measures against these risks and undertake risk management activities pursuant to the Turkish Commercial Code, Articles of Association and CMB's Communiqué on Corporate Governance. The Committee continues its activities with regard to the early detection of threats which may have negative consequences on the development and continuity of the Company and manage the risks effectively by developing action plans against such threats.
- Pursuant to the CMB's Communiqué on Corporate Governance No: II-17.1, the "Working Principles of the Early Detection of Risk Committee" were revised and approved at the Board of Directors' meeting dated 27 March 2014. The revised version of the working principles was disclosed to the shareholders via the Public Disclosure Platform and the Company website.
- The Early Detection of Risk Committee is composed of at least two Board members. In case, the Committee has only two members, both of them, and in case it has more than two members, the majority of them, must be non-executive Board members. The Chairman of the Committee is the independent Board member, Mr. Hacı Ahmet Kılıçoğlu. The other member is Mrs. Selen Zorlu Melik.
- Early Detection of Risk Committee submits a report to the Board of Directors once in every two months.

The structure of the Committee and membership information are as follows as per the decision taken in the Company's Board meeting on 9 May 2017:

Committee Members	Duty	Status
Hacı Ahmet Kılıçoğlu	Chairman of the Committee	Independent Board Member
Selen Zorlu Melik	Member of the Committee	Non-executive Board Member

- The Early Detection of Risk Committee convenes as frequently as necessitated for the efficiency of its activities and in principle at least three times a year. The Committee held 6 meetings in 2017 and presented 6 risk reports to the Board of Directors.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

- The activities carried out by the Committee in 2017, in line with the working principles put into writing in detail, are presented below:
  - High risk evaluation was carried out and risk inventory was prepared containing strategic, financial and operational risks which are critically important for the Company.
  - Risks were evaluated in two different ways, namely, with (residual risk) and without (inherent risk) taking into account the efficiency performance of the existing control and precaution measures.
  - Inherent and residual risks contained in the risk reports were evaluated based on the 4-tier scale (Acceptable, Acceptable with Control, Undesired, Unacceptable).
  - Sector and company based risks contained in the risk reports were grouped under 9 main risk headings (External Environment, Operational, Authorization, Information Technology and Technology, Honesty/Integrity, Financial, Process/Operational, Reporting and Strategic) according to COSO (The Committee of Sponsoring Organizations of the Treadway Commission) risk taxonomy.
  - As a result of these assessments, it was seen that risks were generally gathered under the main headings of External Environment, Operational, Financial and Strategic Risks.
  - As a result of the risk inventory and risk management analyses, risk reports were prepared and submitted to the Committee in order to ensure early detection of risks which may jeopardize the Company's existence, development and continuity and adoption of the necessary measures against such risks and management of risk.

These reports were as follows:

- Global Risks 2017,
- Vestel's Financial Risks,
- White Goods Industry PESTLE Analysis and Consumer Electronics Industry PESTLE Analysis,
- Adverse Financial and Economic Indicators,
- Turkey-Germany Relations – The Development of the Crisis and its Potential Implications,
- White Goods and Electronics Industry Risks 2017 Report.
- In order to ensure adequate supervision of the Enterprise Risk Management processes, an internal questionnaire covering 20 risks was administered in 2017 within the scope of the White Goods and Electronics Industry Risks. Assessing the implications and probabilities of the risks pertaining to the white goods and electronics industry, the online questionnaire will be shared with the upper management after sufficient participation is achieved for the results. The outcomes from the questionnaire that will list the risks in order of significance will serve to manage risks based on a common perception.

## 5.4. Risk Management and Internal Control Mechanism

- Zorlu Holding Enterprise Risk Management Department was founded in 2012 with the purpose of early detecting the risks which may jeopardize the existence, development and continuity of Vestel Elektronik, taking the necessary measures against these risks, and managing the risks in a centralized manner. The Zorlu Holding Risk Policy and Procedure and Enterprise Risk Management Framework, which are applicable to all the Zorlu Group companies, form the basis for the Group's risk management activities.
- The Company makes intensive use of information technologies and uses the SAP system to secure internal control. Through the SAP system, all the integrated business processes in the Company are carried out/registered on the information systems, thus granting increased speed and productivity to the business. Efficient use of these systems allows employees and managers to easily access all sorts of information and reports that concern them in line with their authorities. Vestel Elektronik employs the SAP GRC (Governance Risk Compliance) system to monitor the risks which the Company is exposed to.
- The Company's internal control systems are evaluated with a risk-focused approach by taking into account the risks which are identified through the risk management analysis and/or during the internal control activities and by taking into account the related actions for risk mitigation. During the course of its activities carried out in line with its vision and mission, the Company may become exposed to risks related with the strategic goals, financial position, operational activities, legislation, occupational health and safety, and protection of assets and reputation. In order to accurately define and manage these risks, Zorlu Holding Enterprise Risk Management philosophy is summarized below:
  - Incorporating risks into the decision-making mechanisms by establishing risk awareness and risk culture throughout the Company,
  - Collaborating to reveal the risks and opportunities that may have an impact on the Company's targets based on a shared perception,
  - Defining and evaluating risks according to their impact and probability,
  - Proactively managing these risks through the best actions taken in accordance with the risk appetite.

- Founded on 15 March 2013, the Early Detection of Risk Committee is involved in the early detection of risks that could jeopardize the existence, development and continuity of the Company, implementation of the necessary measures against these risks, and management of risks for the purposes of achieving compliance with the Article 378 of the Turkish Commercial Code No. 6102 and for coordinated risk management.
- The Internal Audit Department reviews the efficiency and effectiveness of these systems at certain intervals in accordance with the approved annual plans and reports the results to the Board of Directors for necessary action. As in other Zorlu Group Companies, the effectiveness and efficiency of these systems are reviewed by the Internal Audit Department within the Zorlu Holding General Directorate of Audit and Internal Control through the audit activities carried out in line with the risk-based annual audit program. The annual audit program is approved by the Board of Directors and the findings are reported to the Board.
- Periodical meetings are held between the Internal Audit Department and the Audit Committee, where planned and actual audits during the year are evaluated and the findings are shared. At these meetings, necessary action plans and follow-up results for these actions as well as plans for the following period are also reviewed.

### 5.5. Strategic Targets of the Company

- In addition to managing and representing the Company with a rational and prudent risk approach which optimizes the balance between growth, risk and return and which observes the Company's long-term interests, the Board of Directors is also responsible for achievement of the Company's pre-set financial and operational targets. The Board of Directors sets the Company's strategic goals, identifies the human and financial resources necessary for the achievement of the Company's goals, and supervises the performance of the management.
- The Board of Directors or the management may formulate opinions on the Company's strategic targets. The Board of Directors always seeks the opinions of the managers on the targets it sets. The targets set by the managers are first discussed at the relevant management level, then presented to the Board of Directors and finally approved by the Board. Managers can be invited to the meetings on strategic targets. Actions to achieve the approved targets are initiated as soon as possible; the results are regularly monitored throughout the year by the managers and reported to the Board of Directors.
- The Board of Directors holds an evaluation meeting at least once a year in order to review the Company's operational performance and degree of target achievement.

### 5.6. Financial Benefits

- The Company's Remuneration Policy for the Board Members and Executive Managers, which has been approved by the Board of Directors' decision dated 18 May 2012 and made available for the information of shareholders on the Company website pursuant to the Corporate Governance Principles, was amended in line with the new Corporate Governance Principles appended to the CMB's Communiqué on Corporate Governance, and was publicly disclosed on 26 March 2014 via the Public Disclosure Platform and was also made available for the information of shareholders via the Company website.
- The attendance fees to be paid to the members of the Board of Directors are determined each year at the General Assembly Meeting. The fee is determined according to the Board Member's status (whether independent or executive), responsibilities, seniority, know-how, skills and experience. Also comparisons are made with the attendance fees paid by the peer companies in the industry.
- Vestel Elektronik's Board members were paid a total gross sum of TL 121,000.00 as an attendance fee in 2017, commensurate with the practices of the peer companies in the sector. The amounts for 2018 will be decided at the 2017 Ordinary General Assembly Meeting. No other benefits are provided to Board members.
- There is no rewarding scheme based on the performance measurement for the Board members.
- The Company does not use payment plans such as dividend, stock options or payment options based on the Company's performance in the remuneration of the independent Board members.
- The salaries of Vestel Elektronik's Executive Managers are determined by the Board of Directors. In addition, Executive Managers may be entitled to bonus payments at the end of the year, in line with the Company's financial performance and their respective contribution to this performance. The amounts of such bonus payments are determined by the Board of Directors. The "Senior Executive Remuneration Policy" is determined in accordance with the size of the Company's production and sales activities, the extensiveness of its operations, existence of international operations, the number of employees, subsidiaries and their weight in total operations, the level of knowledge required to manage the operations, the characteristics of the sector, the competitive environment, and the level of salaries paid by the peer companies.
- Remunerations provided to the Company's Chairman, Board Members and Executives Managers are disclosed in the footnotes of the financial statements and in the annual report on a cumulative basis. In this regard, the total amount of remunerations paid to the above during the 12 months ending on 31 December 2017 was TL 31,553 thousand (01.01-31.12.2016: TL 26,318 thousand).
- During 2017, the Company did not lend money or make credit available to any Board Member or Executive Manager, did not extend the maturity of the existing loans nor improved conditions, did not lend any credit via a third party under the name of a personal loan or grant any guarantee such as surety in their favor.

## EVALUATION OF THE BOARD OF DIRECTORS REGARDING THE WORKING PRINCIPLES AND EFFECTIVENESS OF THE BOARD COMMITTEES

The Board Committees were established to support the Board of Directors in fulfilling its duties and responsibilities more effectively. In line with the Corporate Governance Principles of the Capital Markets Board, at its meeting on 10 May 2017, the Board of Directors resolved to:

- Elect Mr. Ali Akin Tari, Independent Member of the Board, as the Chairman of the Corporate Governance Committee and Mr. Mehmet Emre Zorlu, Board Member, and Ms. Serap Mutlu, Investor Relations Director, as Committee members,
- Elect Mr. Ali Akin Tari, Independent Member of the Board, as the Chairman of the Audit Committee and Mr. Hacı Ahmet Kılıçoğlu, Independent Member of the Board, as Committee Member,
- Elect Mr. Hacı Ahmet Kılıçoğlu, Independent Member of the Board, as the Chairman of the Early Detection of Risk Committee and Mrs. Selen Zorlu Melik, Board Member, as Committee Member.

Due to the structure of the Board, the Company did not establish a separate “Remuneration Committee” and a “Nomination Committee”. The duties of these committees are fulfilled by the Corporate Governance Committee.

The Working Principles of the Board Committees were revised in accordance with the CMB’s Communiqué on Corporate Governance No. II-17.1 and approved at the Board meeting held on 27 March 2014. The revised Working Principles were announced to the public via the Public Disclosure Platform and the Company website ([www.vestelinvestorrelations.com](http://www.vestelinvestorrelations.com)).

In 2017, the Board Committees performed their duties and responsibilities effectively as required in the Corporate Governance Principles and their own Working Principles.

In compliance with the way required for the effectiveness of their functions, their Working Principles and annual meeting schedules, in 2017:

- The Corporate Governance Committee met twice on 26 June 2017 and 4 October 2017,
- The Corporate Governance Committee convened on 11 April 2017 to fulfill the duties of the Nomination Committee,
- The Corporate Governance Committee convened on 15 February 2017 to fulfill the duties of the Remuneration Committee,
- The Audit Committee met 6 times on 8 March 2017, 11 April 2017, 3 May 2017, 9 May 2017, 9 August 2017 and 30 October 2017,
- The Early Detection of Risk Committee met 6 times on 19 January 2017, 20 April 2017, 22 June 2017, 20 July 2017, 21 September 2017 and 19 October 2017.

The Committees submitted reports on the results of their meetings to the Board. According to these meetings:

- The Corporate Governance Committee, established in line with the Capital Markets Board’s Communiqué on Corporate Governance to monitor the Company’s compliance with the Corporate Governance Principles, carry out studies for improvement and make proposals to the Board in order to improve the implementation of corporate governance practices, identified whether the Corporate Governance Principles were implemented at the Company, assessed the rationale for incompliance, if any and the conflicts of interest caused by such incompliance and made recommendations to the Board to improve corporate governance practices, oversaw the activities of the Investor Relations Department, carried out the necessary activities for Corporate Governance Rating, carried out studies to fulfill the criteria for the Company’s inclusion in the BIST Sustainability Index for the November 2017 - October 2018 period and in line with the amendment to the Article 24 of the CMB’s Communiqué on Material Events Disclosure No. II-15.1, prepared “Vestel Elektronik Sanayi ve Ticaret AŞ Public Disclosure Procedure”, which sets out the necessary procedures for disclosures to be made on the Public Disclosure Platform to ensure effective implementation of public disclosure procedures.
- The Corporate Governance Committee also fulfills the duties of the Nomination Committee. Within the scope of its duties as the Nomination Committee, the Corporate Governance Committee evaluated the applications for independent board membership by assessing the independence status of the board member candidates according to the independence criteria. The Committee prepared a report on its evaluations and submitted it to the Board of Directors for approval.
- The Corporate Governance Committee also fulfills the duties of the Remuneration Committee. Within the scope of its duties as the Remuneration Committee, the Corporate Governance Committee submitted to the Board of Directors its proposal for the remuneration of Board members and executives with administrative responsibility for 2017, by taking into account the extent of the fulfilment of the remuneration criteria.
- The Audit Committee, which was established for the supervision of the Company’s accounting system, the independent audit, public disclosure of financial information, and functioning and efficiency of the Company’s internal control and internal audit system, presented its views and recommendations in the areas of its responsibility to the Board of Directors.
- The Early Detection of Risk Committee, which was established for the early detection of risks which could threaten the Company’s existence, development and continuity, implementation of necessary measures against these risks and management of risks, made a high-level risk assessment during the year, prepared a risk inventory pertaining to the critical risks in strategic, financial and operational areas and prepared and submitted six Risk Reports to the Board within the scope of its duties set forth in its Working Principles.

## AGENDA OF THE 2017 ORDINARY GENERAL ASSEMBLY MEETING

1. Opening, the moment of silence and election of the Presidential Board,
2. Authorization of the Presidential Board for signing the minutes of the General Assembly Meeting,
3. Review and discussion of the 2017 Annual Report of the Board of Directors,
4. Review of the Summary Statement of the Independent Audit Report for the fiscal year 2017,
5. Review, discussion and approval of the Consolidated Financial Statements for the fiscal year 2017,
6. Acquittal of the members of the Board of Directors severally for their activities and transactions in relation to the Company for the year 2017,
7. Determination of the number and tenure of office for the members of the Board of Directors and election of the Board members including the Independent Directors,
8. Determination of the remuneration for the members of the Board of Directors for the year 2018,
9. Discussion and approval of the Board of Directors' proposal for not distributing 2017 profit,
10. Granting authorization to the members of the Board of Directors for performing the transactions stated in the Articles 395 and 396 of the Turkish Commercial Code,
11. Discussion and approval of the Board of Directors' proposal regarding the selection of the independent audit company for auditing the Company's accounts and transactions for the fiscal year 2018 in accordance with the Capital Market Law and the Turkish Commercial Code,
12. Informing the General Assembly about the donations and aids made in 2017; discussion and approval of the upper limit for the donations to be made during the period of 1 January-31 December 2018,
13. Informing the General Assembly about the collaterals, pledges, mortgages and sureties granted by the Company and its subsidiaries in favor of third parties and the income and benefits generated therefrom in 2017 in accordance with the CMB regulations,
14. Closing.

## **DIVIDEND DISTRIBUTION POLICY**

The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other pertinent legislation as well as the profit distribution provision of its Articles of Association. The amount of profit to be distributed and date of distribution are approved by the General Assembly, upon the proposal of the Board of Directors.

The Company has adopted the profit distribution policy of distributing at least 25% of its distributable profit in cash and/or as bonus shares. Board of Directors shall review this policy every year, by taking into account the domestic and global economic conditions and the Company's growth and investment plans and financial position. Revisions made in the policy shall be submitted to the approval of the shareholders at the first General Assembly Meeting following such revisions and the policy will be published on the Company's website.

Distribution of profit shall commence on the date determined by the General Assembly, provided that it is no later than the end of the year in which the General Assembly Meeting is held. Subject to the provisions of the legislation in force, the Company may consider distributing advance dividends or paying dividends in equal or in varying installments.

## **BOARD'S RESOLUTION FOR THE DISTRIBUTION OF 2017 PROFIT**

At its meeting on 11 April 2018, the Company's Board of Directors took the following decisions.

Vestel Elektronik Sanayi ve Ticaret AŞ recorded TL 55,108,000 of net profit in its consolidated financial statements prepared in compliance with the Turkish Accounting Standards/Turkish Financial Reporting Standards as per the Capital Market Law and related Communiqués and TL 53,197,920.29 of net profit in its statutory financial statements prepared under the Tax Procedure Law.

In accordance with the provisions set forth in the Company's Profit Distribution Policy; the profit for 2017 is proposed to be added to the extraordinary reserves after setting aside the required amount for the first legal reserve and not to be distributed in order to strengthen the Company's equity and meet the funding requirements for ongoing investments. This proposal will be submitted to the approval of shareholders at the Company's 2017 Ordinary General Assembly Meeting.

## **CONCLUSION SECTION OF THE AFFILIATION REPORT PREPARED PURSUANT TO THE ARTICLE 199 OF THE TURKISH COMMERCIAL CODE**

In accordance with the provisions of the Turkish Commercial Code (“TCC”), Vestel Elektronik was an affiliated company of Zorlu Holding AŞ Group of Companies during the fiscal year 2017. Pursuant to the Article 199 of TCC, the Company’s Board of Directors issued the following declaration in the Affiliation Report which it has prepared regarding its relations with the controlling company or an affiliated company of the controlling company:

“During 2017, our Company did not enter into any legal transaction on behalf of Zorlu Holding AŞ (our controlling company) or its affiliates or did not take or avoid any measures to benefit Zorlu Holding AŞ or its affiliates under the direction of Zorlu Holding AŞ”.

## STATEMENT OF INDEPENDENCE BY THE INDEPENDENT BOARD MEMBER CANDIDATES

11.04.2018

### Statement of Independence

I hereby declare that I am a candidate for assuming the role of an “Independent Member” on the Board of Directors of Vestel Elektronik Sanayi ve Ticaret AŞ within the scope of the criteria stipulated in the legislation, the Company’s Articles of Association, and the Capital Markets Board’s Communiqué on Corporate Governance no. II-17.1, and in that regard;

- a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,
- b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,
- c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,
- d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,
- e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,
- f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,
- g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,
- h) I have not served as a Board member at the Company’s Board of Directors for more than 6 years within the last ten years,
- i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,
- j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Ayşegül İldeniz

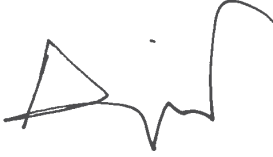


### Statement of Independence

I hereby declare that I am a candidate for assuming the role of an “Independent Member” on the Board of Directors of Vestel Elektronik Sanayi ve Ticaret AŞ within the scope of the criteria stipulated in the legislation, the Company’s Articles of Association, and the Capital Markets Board’s Communiqué on Corporate Governance no. II-17.1, and in that regard;

- a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,
- b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,
- c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,
- d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,
- e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,
- f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,
- g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,
- h) I have not served as a Board member at the Company’s Board of Directors for more than 6 years within the last ten years,
- i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,
- j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Bekir Ağırđır



## STATEMENT OF INDEPENDENCE BY THE INDEPENDENT BOARD MEMBER CANDIDATES

11.04.2018

### Statement of Independence

I hereby declare that I am a candidate for assuming the role of an “Independent Member” on the Board of Directors of Vestel Elektronik Sanayi ve Ticaret AŞ within the scope of the criteria stipulated in the legislation, the Company’s Articles of Association, and the Capital Markets Board’s Communiqué on Corporate Governance no. II-17.1, and in that regard;

a) Within the last five years, no employment relationship has been established between me, my spouse and my relatives by blood or marriage up to second degree and the Company, the affiliated companies which the Company controls the management of or has material influence over, shareholders who control the management of or have material influence over the Company and legal entities which these shareholders control the management of, in an executive position with important duties and responsibilities, nor have I/we individually or jointly held more than 5% of the capital or voting rights or privileged shares in or established a material business relationship with the same,

b) Within the last five years, I have not been a shareholder (5% and more), or held an executive position with significant duties and responsibilities, or served as a Board member in any company from or to which the Company purchases or sells a significant quantity of products or services based on the agreements made during the periods these products or services were sold or purchased including particularly those companies which provide auditing (including tax audit, legal audit and internal audit), rating and consultancy services to the Company,

c) I have the professional education, knowledge and experience necessary to duly carry out the duties which I shall assume due to my position as an independent Board member,

d) I will not be working as a full time employee at any public institution or organization after being elected as a Board member with the exception of working as a faculty member at a university provided that this is in compliance with the relevant legislation,

e) I am deemed to be a resident in Turkey according to the Income Tax Law dated 31 December 1960 and numbered 193,

f) I have strong ethical standards, professional reputation and experience which will allow me to make positive contributions to the operations of the Company, to protect my neutrality in case of conflicts of interest between the Company and the shareholders and to decide independently by taking into consideration the rights of the stakeholders,

g) I will be able to dedicate a sufficient amount of time to the affairs of the Company in a manner to follow up the conduct of the Company activities and to duly perform the duties I shall assume,

h) I have not served as a Board member at the Company’s Board of Directors for more than 6 years within the last ten years,

i) I am not serving as an independent board member at more than three companies whose management is controlled by the shareholders controlling the Company and Company management and at more than five companies which are traded on the stock exchange,

j) I am not registered and declared on behalf of the legal entity which is elected as a board member.

Elmas Melih Araz



# STATEMENT OF RESPONSIBILITY

## BOARD OF DIRECTORS' RESOLUTION ON THE APPROVAL OF FINANCIAL STATEMENTS AND ANNUAL REPORT

RESOLUTION DATE: 09.03.2018

RESOLUTION NUMBER: 2018/8

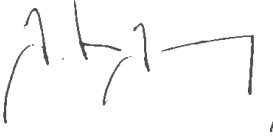
### STATEMENT OF RESPONSIBILITY PURSUANT TO THE ARTICLE 9 OF THE SECOND SECTION OF THE CAPITAL MARKETS BOARD'S COMMUNIQUE ON THE PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS NO: II-14.1

We hereby declare that:

- a) We have reviewed our Company's consolidated financial statements and annual report for the fiscal year ended 31 December 2017, which have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards published by the Public Oversight Accounting and Auditing Standards Authority pursuant to the provisions of the Capital Markets Board's Communiqué on the "Principles of Financial Reporting in Capital Markets" no. II-14.1 and approved by the Board of Directors' decision dated 9 March 2018 and numbered 2018/8,
- b) Based on the information we possess within the scope of our duties and responsibilities in the Company, the consolidated financial statements and the annual report do not contain any incorrect statement or any omission of material facts which may result in a misleading conclusion as of the date of the issuance,
- c) Based on the information we possess within the scope of our duties and responsibilities in the Company, the consolidated financial statements prepared in accordance with the financial reporting standards in effect provide an accurate view of the assets, liabilities, financial position and profit (loss) of the Company, and the annual report provides an accurate view of the development and performance of the business and the consolidated financial position of the Company along with the principal risks and uncertainties the Company is exposed to.

Sincerely,

Ali Akın Tari  
Vice Chairman



Hacı Ahmet Kılıçoğlu  
Board Member



Alp Dayı  
Financial Affairs Coordinator



**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT  
1 JANUARY - 31 DECEMBER 2017 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

(Originally Issued In Turkish)

# CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH



To the General Assembly of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

## A. Audit of the Consolidated Financial Statements

### 1. Opinion

We have audited the accompanying consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

### 2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

### 3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key Audit Matter</b>	<b>How our audit addressed the key audit matter</b>
<b>Recoverability of trade receivables (Refer to Notes 9 and 31)</b>  Trade receivables from third parties amounting TL 3.688.189 thousands as of 31 December 2017, constitute a significant portion of the consolidated financial statements of the Group.	We performed the following procedures in relation to the audit of recoverability of trade receivables: <ul style="list-style-type: none"><li>• We understood and assessed the Group's credit risk management and receivables monitoring policies including credit limits.</li><li>• We tested receivables from third parties balances by obtaining confirmation letters from customers on a sample basis.</li><li>• We analyzed the aging of receivables from third parties.</li></ul>

# INDEPENDENT AUDITOR'S REPORT



<b>Key Audit Matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The assessment of the recoverability of these receivables made by the Group management includes considerations of the amount of guarantees/collateral received from the customers, past collection performance, analysis of aging of receivables and litigations or disputes regarding receivables. As a result of all of these assessments, determination of doubtful receivables and setting of impairment provision for these receivables include also management judgements and estimations.</p> <p>Therefore, recoverability of trade receivables is a key matter for our audit.</p>	<ul style="list-style-type: none"> <li>• We tested, on a sample basis, collections in the subsequent period.</li> <li>• We tested, on a sample basis, guarantees/ collaterals held from customers.</li> <li>• We performed inquiries with management in relation to any disputes or litigation for trade receivables from third parties and obtained assessment of legal counsels on outstanding litigations and disputes.</li> <li>• Based on our discussions with the Group management, we assessed the basic assumptions underlying the calculation of impairment and other judgments made.</li> <li>• We assessed the appropriateness and adequacy of disclosures in the notes to the consolidated financial statements related to recoverability of trade receivables from third parties in accordance with the related accounting standards.</li> </ul>
<p><b>Fair value determination of land, buildings and land improvements (Refer to Notes 2.6.i and 13)</b></p> <p>The Group measured land, buildings and land improvements in the consolidated financial statements at their fair value in accordance with the related provisions of TAS 16 “Property, Plant and Equipment”. As a results of the revaluation performed by the independent professional valuation company as of 31 December 2017, increase in the value of the assets is amounting to TL 470.045 thousands. Increase arising from the revaluation of such land, buildings and improvements is recognized in the revaluation fund of property, plant and equipment by deducting deferred tax effect in the consolidated financial position within other comprehensive income under equity.</p> <p>We considered the fair value determination of land, buildings and land improvements as a key audit matter since the amount of those assets has a significant share in the Group’s assets as of 31 December 2017 and the valuations techniques applied include significant assumptions and judgements which are subjective.</p>	<p>We have performed following procedures regarding to the fair value determination of the land, building and land improvements during our audit work:</p> <ul style="list-style-type: none"> <li>• We evaluated the competence, capabilities, and objectivity of the independent professional valuation company appointed by the Group management by examining the relevant licenses, contracts and statements in the reports in accordance with the relevant audit standards.</li> <li>• We tested completeness of the data used by the independent professional valuation company appointed by the Group management such as m<sup>2</sup>., location of the property, zoning conditions by reconciliation with the Group’s records on a sample basis.</li> <li>• In order to evaluate the assumptions and methods used by the Group management and the independent professional valuation company appointed by the Group management, we involved our valuation specialist to examine a sample of valuation reports in accordance with the provisions of the relevant audit standard.</li> <li>• We assessed the appropriateness and adequacy of disclosures in the notes to the consolidated financial statements related to fair value determination of the land, building and land improvements in accordance with the related accounting standards.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

## 4. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## 5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT



## 5. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 9 March 2018.

PwC Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Talar Gül, SMMM  
Partner

İstanbul, 9 March 2018

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## CONSOLIDATED BALANCE SHEETS

### AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Footnotes	Audited 31 December 2017	Audited 31 December 2016
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	5	2.000.337	1.264.003
Trade Receivables		3.662.822	2.434.816
Trade Receivables Due from Related Parties	8	39.173	38.045
Trade Receivables Due from Unrelated Parties	9	3.623.649	2.396.771
Other Receivables		261.521	280.962
Other Receivables Due from Related Parties	8	-	52.282
Other Receivables Due from Unrelated Parties	10	261.521	228.680
Derivative Financial Assets		13.489	150.982
Derivative Financial Assets Held for Trading	30	11.237	44.454
Derivative Financial Assets Held for Hedging	30	2.252	106.528
Inventories	11	2.944.179	1.817.869
Prepayments		60.769	31.098
Prepayments to Unrelated Parties	12	60.769	31.098
Current Tax Assets		8.739	6.252
Other Current Assets		28.394	37.870
Other Current Assets Due from Unrelated Parties	20	28.394	37.870
<b>TOTAL CURRENT ASSETS</b>		<b>8.980.250</b>	<b>6.023.852</b>
<b>NON-CURRENT ASSETS</b>			
Financial Investments		51.831	11.896
Financial Assets Available-for-Sale	6	51.831	11.896
Trade Receivables		68.540	122.901
Trade Receivables Due from Unrelated Parties	9	68.540	122.901
Other Receivables		1.449.788	1.123.117
Other Receivables Due from Related Parties	8	1.448.685	1.121.832
Other Receivables Due from Unrelated Parties	10	1.103	1.285
Property, Plant and Equipments		2.366.014	1.642.927
Land and Premises	13	371.416	241.478
Land Improvements	13	92.831	58.799
Buildings	13	1.059.789	697.185
Machinery and Equipments	13	639.173	527.529
Vehicles	13	4.016	1.212
Fixtures and Fittings	13	84.418	83.128
Leasehold Improvements	13	26.874	25.761
Construction in Progress	13	87.497	7.832
Other Property, Plant and Equipment	13	-	3
Intangible Assets and Goodwill		666.433	593.018
Goodwill	15	197.793	197.793
Other Rights	14	20.274	20.393
Capitalized Development Costs	14	386.224	331.486
Other Intangible Assets	14	62.142	43.346
Prepayments		81.436	63.501
Prepayments to Unrelated Parties	12	81.436	63.501
Deferred Tax Asset	28	174.309	62.559
Other Non-current Assets		7.060	7.444
Other Non-Current Assets Due from Unrelated Parties	20	7.060	7.444
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4.865.411</b>	<b>3.627.363</b>
<b>TOTAL ASSETS</b>		<b>13.845.661</b>	<b>9.651.215</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

### AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Footnotes	Audited 31 December 2017	Audited 31 December 2016
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current Borrowings		1.341.892	342.397
Current Borrowings from Unrelated Parties		1.341.892	342.397
Bank Loans	7	1.341.413	318.694
Leasing Debts	7	479	-
Other Current Borrowings	7	-	23.703
Current Portion of Non-current Borrowings		2.142.397	518.099
Current Portion of Non-current Borrowings from Unrelated Parties		2.142.397	518.099
Bank Loans	7	2.142.397	518.099
Trade Payables		5.751.347	3.683.188
Trade Payables to Related Parties	8	7.239	6.440
Trade Payables to Unrelated Parties	9	5.744.108	3.676.748
Employee Benefit Obligations	19	107.735	91.229
Other Payables		10.095	46.379
Other Payables to Related Parties	8	9.295	-
Other Payables to Unrelated Parties		800	46.379
Derivative Financial Liabilities		163.545	235.398
Derivative Financial Liabilities Held for Trading	30	90.931	235.398
Derivative Financial Liabilities Held for Hedging	30	72.614	-
Current Tax Liabilities	28	9.023	3.959
Current Provisions		403.308	275.367
Other Current Provisions	17	403.308	275.367
Other Current Liabilities		295.477	181.276
Other Current Liabilities to Unrelated Parties	20	295.477	181.276
<b>TOTAL CURRENT LIABILITIES</b>		<b>10.224.819</b>	<b>5.377.292</b>
<b>NON-CURRENT LIABILITIES</b>			
Long Term Borrowings		1.024.003	2.233.073
Long Term Borrowings from Unrelated Parties		1.024.003	2.233.073
Bank Loans	7	1.016.557	2.228.870
Leasing Debts	7	7.446	4.203
Trade Payables		1.959	-
Trade Payables to Unrelated Parties		1.959	-
Non-current Provisions		180.980	153.260
Non-current Provisions for Employee Benefits	19	96.078	76.463
Other Non-current Provisions	17	84.902	76.797
Deferred Tax Liabilities	28	129.591	48.465
Other Non-current Liabilities		6.281	-
Other Non-current Liabilities to Unrelated Parties		6.281	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1.342.814</b>	<b>2.434.798</b>
<b>TOTAL LIABILITIES</b>		<b>11.567.633</b>	<b>7.812.090</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

### AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Footnotes	Audited 31 December 2017	Audited 31 December 2016
<b>EQUITY</b>			
<b>Equity Attributable to Owners of Parent</b>		<b>2.205.269</b>	<b>1.779.236</b>
Issued Capital	21	335.456	335.456
Inflation Adjustments on Capital		688.315	688.315
Share Premium (Discount)		103.165	103.165
Other Accumulated Comprehensive Income (Loss) that will not be Reclassified in Profit or Loss		900.139	551.864
Gains (Losses) on Revaluation and Remeasurement		900.139	551.864
Increases (Decreases) on Revaluation of Property, Plant and Equipment	21	917.385	561.662
Gains (Losses) on Remeasurements of Defined Benefit Plans		(17.246)	(9.798)
Other Accumulated Comprehensive Income (Loss) that will be Reclassified in Profit or Loss		69.373	59.698
Exchange Differences on Translation		76.183	10.038
Gains (Losses) on Hedge		(10.959)	48.184
Gains (Losses) on Cash Flow Hedges		(10.959)	48.184
Gains (Losses) on Revaluation and Reclassification		4.149	1.476
Gains (Losses) on Remeasuring and/or Reclassification of Available-for-sale Financial Assets	21	4.149	1.476
Restricted Reserves Appropriated From Profits		46.195	41.029
Legal Reserves	21	46.195	41.029
Prior Years' Profits or Losses	21	7.518	(168.010)
Current Period Net Profit Or Loss		55.108	167.719
<b>Non-controlling Interests</b>		<b>72.759</b>	<b>59.889</b>
<b>TOTAL EQUITY</b>		<b>2.278.028</b>	<b>1.839.125</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13.845.661</b>	<b>9.651.215</b>

Consolidated financial statements for the period 1 January - 31 December 2017, were approved by the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş. on 9 March 2018. General Assembly and specified regulatory bodies have the right to make amendments to statutory financial statements after issue.

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Footnotes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
<b>PROFIT OR LOSS</b>			
Revenue	22	12.100.938	9.540.494
Cost of Sales	22	(9.673.251)	(7.426.021)
<b>GROSS PROFIT (LOSS)</b>		<b>2.427.687</b>	<b>2.114.473</b>
General Administrative Expenses	24	(292.152)	(240.981)
Marketing Expenses	24	(1.445.198)	(1.163.662)
Research and Development Expense	24	(190.226)	(149.030)
Other Income from Operating Activities	25	779.250	428.094
Other Expenses from Operating Activities	25	(842.873)	(625.062)
<b>PROFIT (LOSS) FROM OPERATING ACTIVITIES</b>		<b>436.488</b>	<b>363.832</b>
Income from Investing Activities		-	5.912
<b>PROFIT (LOSS) BEFORE FINANCING INCOME (EXPENSE)</b>		<b>436.488</b>	<b>369.744</b>
Finance Income	26	1.194.317	970.537
Finance Costs	26	(1.646.768)	(1.176.133)
<b>PROFIT (LOSS) FROM CONTINUING OPERATIONS, BEFORE TAX</b>		<b>(15.963)</b>	<b>164.148</b>
Tax (Expense) Income, Continuing Operations		87.304	20.614
Current Period Tax (Expense) Income	28	(20.050)	(28.365)
Deferred Tax (Expense) Income	28	107.354	48.979
<b>PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>		<b>71.341</b>	<b>184.762</b>
<b>PROFIT (LOSS)</b>		<b>71.341</b>	<b>184.762</b>
<b>Profit (loss), attributable to</b>			
Non-controlling Interests		16.233	17.043
Owners of Parent		55.108	167.719
<b>Earnings per 100 share with a Kr 1 of Par Value (TL)</b>	29	<b>0,16</b>	<b>0,50</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other Comprehensive Income That will not be Reclassified to Profit or Loss	27	368.430	920
Gains (Losses) on Revaluation of Property, Plant and Equipment		470.043	-
Gains (Losses) on Remeasurements of Defined Benefit Plans		(9.506)	1.150
Taxes Relating to Components of Other Comprehensive Income that will not be Reclassified to Profit or Loss		(92.107)	(230)
Taxes Relating to Gains (Losses) on Revaluation of Property, Plant and Equipment		(94.008)	-
Taxes Relating to Remeasurements of Defined Benefit Plans		1.901	(230)
Other Comprehensive Income that will be Reclassified to Profit or Loss	27	8.593	86.677
Exchange Differences on Translation		66.145	57.724
Gains (Losses) on Exchange Differences on Translation		66.145	57.724
Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets		3.342	(720)
Gains (losses) on Remeasuring Available-for-sale Financial Assets		3.342	(720)
Other Comprehensive Income (Loss) Related with Cash Flow Hedges		(75.637)	36.911
Gains (Losses) on Cash Flow Hedges		(75.637)	36.911
Taxes Relating to Components of Other Comprehensive Income that will be Reclassified to Profit or Loss		14.743	(7.238)
Taxes Relating to Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets		(669)	144
Taxes Relating to Cash Flow Hedges		15.412	(7.382)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		<b>377.023</b>	<b>87.597</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>448.364</b>	<b>272.359</b>
<b>Total Comprehensive Income Attributable to</b>			
Non-controlling Interests		22.331	17.660
Owners of Parent		426.033	254.699

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Issued Capital	Inflation Adjustments on Capital	Share Premiums or Discounts							
				Increases (Decreases) on Revaluation of Property, Plant and Equipment	Gains (Losses) on Remeasurements of Defined Benefit Plans	Gains (Losses) Revaluations and Remeasurements	Other Accumulated Comprehensive Income That Will Not Be Reclassified In Profit Or Loss	Exchange Differences on Translation		
									Cash Flow Hedges	
Previous Period										
1 January -31 December 2016										
Equity at Beginning of Period	335.456	688.315	103.165	574.004	(10.702)	563.302	563.302	(47.686)	19.256	
Transfers	-	-	-	-	-	-	-	-	-	
Total Comprehensive Income (Loss)	-	-	-	(12.342)	904	(11.438)	(11.438)	57.724	28.928	
Profit (Loss)	-	-	-	(12.342)	-	(12.342)	(12.342)	-	-	
Other Comprehensive Income (Loss)	-	-	-	-	904	904	904	57.724	28.928	
Dividends Paid	-	-	-	-	-	-	-	-	-	
Equity at End of Period	335.456	688.315	103.165	561.662	(9.798)	551.864	551.864	10.038	48.184	
Current Period										
1 January -31 December 2017										
Equity at Beginning of Period	335.456	688.315	103.165	561.662	(9.798)	551.864	551.864	10.038	48.184	
Transfers	-	-	-	-	-	-	-	-	-	
Total Comprehensive Income (Loss)	-	-	-	355.723	(7.448)	348.275	348.275	66.145	(59.143)	
Profit (Loss)	-	-	-	(12.975)	-	(12.975)	(12.975)	-	-	
Other Comprehensive Income (Loss)	-	-	-	368.698	(7.448)	361.250	361.250	66.145	(59.143)	
Dividends Paid	-	-	-	-	-	-	-	-	-	
Equity at End of Period	335.456	688.315	103.165	917.385	(17.246)	900.139	900.139	76.183	(10.959)	

The accompanying notes are an integral part of these consolidated financial statements.

	Reserve Of Gains or Losses on Hedge	Gains (Losses) on Remeasuring and/or Reclassification of Available-for- sale Financial Assets	Gains (Losses) on Revaluation and Reclassification	Other Accumulated Comprehensive Income That Will Be Reclassified In Profit Or Loss	Restricted Reserves Appropriated From Profits	Prior Years' Profits or Losses	Net Profit or Loss	Retained Earnings	Equity attributable to owners of parent	Non- controlling interests	Equity
	19.256	2.052	2.052	(26.378)	28.314	(227.257)	59.620	(167.637)	1.524.537	49.271	1.573.808
	-	-	-	-	12.715	46.905	(59.620)	(12.715)	-	-	-
	28.928	(576)	(576)	86.076	-	12.342	167.719	180.061	254.699	17.660	272.359
	-	-	-	-	-	12.342	167.719	180.061	167.719	17.043	184.762
	28.928	(576)	(576)	86.076	-	-	-	-	86.980	617	87.597
	-	-	-	-	-	-	-	-	-	(7.042)	(7.042)
	48.184	1.476	1.476	59.698	41.029	(168.010)	167.719	(291)	1.779.236	59.889	1.839.125
	48.184	1.476	1.476	59.698	41.029	(168.010)	167.719	(291)	1.779.236	59.889	1.839.125
	-	-	-	-	5.166	162.553	(167.719)	(5.166)	-	-	-
	(59.143)	2.673	2.673	9.675	-	12.975	55.108	68.083	426.033	22.331	448.364
	-	-	-	-	-	12.975	55.108	68.083	55.108	16.233	71.341
	(59.143)	2.673	2.673	9.675	-	-	-	-	370.925	6.098	377.023
	-	-	-	-	-	-	-	-	-	(9.461)	(9.461)
	(10.959)	4.149	4.149	69.373	46.195	7.518	55.108	62.626	2.205.269	72.759	2.278.028

# CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Footnotes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		<b>603.883</b>	<b>1.026.954</b>
Profit (Loss)		71.341	184.762
Profit (Loss) from Continuing Operations		71.341	184.762
<b>Adjustments to Reconcile Profit (Loss)</b>		<b>788.787</b>	<b>836.417</b>
Adjustments for Depreciation and Amortisation Expense	13	366.814	321.350
Adjustments for Impairment Loss (Reversal of Impairment Loss)		14.145	(40.458)
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Receivables		9.080	(40.532)
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	11	5.065	74
Adjustments for Provisions		163.843	102.613
Adjustments for (Reversal of) Provisions Related with Employee Benefits	19	27.797	25.960
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	17	574	4.061
Adjustments for (Reversal of) Warranty Provisions	17	59.564	41.014
Adjustments for (Reversal of) Other Provisions		75.908	31.578
Adjustments for Interest (Income) Expenses		161.453	222.415
Adjustments for Interest Income	26	(220.411)	(123.531)
Adjustments for Interest Expense	26	381.864	345.946
Adjustments for Unrealised Foreign Exchange Losses (Gains)		138.674	119.948
Adjustments for Fair Value Losses (Gains)		(9.997)	134.355
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments		(9.997)	134.355
Adjustments for Tax (Income) Expenses		(87.304)	(20.614)
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		(3.641)	(2.832)
Adjustments for Losses (Gains) Arised from Sale of Tangible Assets		(3.641)	(2.832)
Other Adjustments to Reconcile Profit (Loss)	5	44.800	(360)
<b>Changes in Working Capital</b>		<b>(221.821)</b>	<b>21.180</b>
Decrease (Increase) in Financial Investments	6	(39.935)	(4.257)
Adjustments for Decrease (Increase) in Trade Accounts Receivable		(1.182.725)	394.936
Decrease (Increase) in Trade Accounts Receivables from Related Parties		(1.128)	(10.048)
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties		(1.181.597)	404.984
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(32.659)	125.200
Decrease (Increase) in Other Unrelated Party Receivables Related with Operations		(32.659)	125.200
Adjustments for Decrease (Increase) in Inventories		(1.133.459)	381.918
Decrease (Increase) in Prepaid Expenses		(47.606)	(34.347)
Adjustments for Increase (Decrease) in Trade Accounts Payable		2.070.118	(856.608)
Increase (Decrease) in Trade Accounts Payables to Related Parties		799	1.873
Increase (Decrease) in Trade Accounts Payables to Unrelated Parties		2.069.319	(858.481)
Increase (Decrease) in Employee Benefit Liabilities		16.506	24.223
Adjustments for Increase (Decrease) in Other Operating Payables		84	36.686
Increase (Decrease) in Other Operating Payables to Unrelated Parties		84	36.686
Other Adjustments for Other Increase (Decrease) in Working Capital		127.855	(46.571)
Decrease (Increase) in Other Assets Related with Operations		7.373	14.049
Increase (Decrease) in Other Payables Related with Operations		120.482	(60.620)
<b>Cash Flows from (used in) Operations</b>		<b>638.307</b>	<b>1.042.359</b>
Payments Related with Provisions for Employee Benefits	19	(17.819)	(16.652)
Income Taxes Refund (Paid)	28	(16.605)	1.247

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

		Audited	Audited
	Footnotes	1 January - 31 December 2017	1 January - 31 December 2016
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		<b>(967.217)</b>	<b>(732.902)</b>
Cash Flows Used in Obtaining Control of Subsidiaries or Other Businesses		-	(7.512)
Cash Outflows Arising from Purchase of Shares or Capital Increase of Associates and/or Joint Ventures		(45.663)	-
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		7.636	8.596
Proceeds from Sales of Property, Plant and Equipment		7.636	8.596
Purchase of Property, Plant, Equipment and Intangible Assets		(654.619)	(372.713)
Purchase of Property, Plant and Equipment	13	(487.752)	(239.501)
Purchase of Intangible Assets	14	(166.867)	(133.212)
Cash Advances and Loans Made to Other Parties		(274.571)	(361.273)
Cash Advances and Loans Made to Related Parties	8	(274.571)	(361.273)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		<b>1.114.430</b>	<b>282.980</b>
Proceeds from Borrowings		3.136.583	1.626.031
Proceeds from Loans		3.136.583	1.626.031
Repayments of Borrowings		(1.979.011)	(1.137.228)
Loan Repayments		(1.959.030)	(1.137.228)
Cash Outflows from Other Financial Liabilities		(19.981)	-
Increase in Other Payables to Related Parties		9.295	-
Dividends Paid		(9.461)	(7.042)
Interest Paid		(263.387)	(322.312)
Interest Received		220.411	123.531
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES</b>		<b>751.096</b>	<b>577.032</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents		30.038	(41.608)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>781.134</b>	<b>535.424</b>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	1.210.714	675.290
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>1.991.848</b>	<b>1.210.714</b>

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

### NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (“Vestel Elektronik” or “the Company”) and its subsidiaries (together “the Group”), mainly produce and sell a range of brown goods and white goods. The Company’s head office is located at Levent 199, Büyükdere Caddesi No: 199, 34394 Şişli/İstanbul. The Group’s production facilities are located in Manisa Organized Industrial Zone, İzmir Aegean Free Zone, Poland and Russia.

The Group’s refrigerator and air conditioner sales include the effects of seasonal variations whilst television and electronic devices and other segment sales are not materially affected by seasonality.

The ultimate controller of the Company is Zorlu Family.

Vestel Elektronik is registered to Capital Market Board (“CMB”) and its shares have been quoted to Borsa İstanbul (“BİST”) since 1990. As of 31 December 2017, 35,59% of the Company’s shares are publicly traded (2016: 35,59%).

As of 31 December 2017 the number of personnel employed at Group is 15.856 (31 December 2016: 15.371).

The Company’s subsidiaries and associates are as follows:

Subsidiaries	Country	Nature of operations
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	Production
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	Turkey	Sales
Vestel Ticaret A.Ş.	Turkey	Sales
Vestel CIS Ltd.	Russia	Sales
Vestel Iberia SL	Spain	Sales
Vestel France SA	France	Sales
Vestel Holland BV	Holland	Sales
Vestel Germany GmbH	Germany	Sales
Cabot Communications Ltd.	UK	Software
Vestel Benelux BV	Holland	Sales
Vestel UK Ltd.	UK	Sales
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Software
Vestel Trade Ltd.	Russia	Sales
OY Vestel Scandinavia AB	Finland	Sales
Intertechnika LLC	Russia	Service
Vestel Central Asia LLP	Kazakhstan	Sales
Vestel Ventures Ar-ge A.Ş.	Turkey	Service
Vestel Poland sp. z o.o.	Poland	Sales
Vestel Polska Technology Center sp. z o.o.	Poland	Production/Sales
Vestel Electronics Gulf DMC	UAE	Sales
Investments accounted for using equity method	Country	Nature of operations
Vestel Savunma Sanayi A.Ş.	Turkey	Production/Sales
Aydın Yazılım Elektronik ve Sanayi A.Ş.	Turkey	Software

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### 2.1 Basis of presentation

##### 2.1.1 Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, “Principals of Financial Reporting in Capital Markets” published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, consolidated financial statements are prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS”/“TFRS”) and its addendum and interpretations (“IFRIC”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POAASA”) Turkish Accounting Standards Board.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

The Company and its subsidiaries operating in Turkey maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. The consolidated financial statements, except for land, buildings and land improvements and the financial assets and liabilities presented with their fair values, are maintained under historical cost conversion in TL.

Consolidated subsidiaries operating in foreign countries have prepared their financial statements in accordance with the laws and regulations of the countries in which they operate with the required adjustments and reclassifications reflected in accordance with CMB Financial Reporting Standards. These financial statements are based on the statutory records which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/IFRS.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, TAS 29, "Financial Reporting in Hyperinflationary Economies" issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

#### 2.1.2 Currency used

##### i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are prepared and presented in Turkish Lira ("TL"), which is the functional currency of the parent company.

##### ii) Transactions and balances

Transactions in foreign currencies have been translated into functional currency at the exchange rates prevailing at the date of the transaction. Exchange gains or losses arising from the settlement and translation of monetary assets and liabilities denominated in foreign currency at the exchange rates prevailing at the balance sheet dates are included in consolidated comprehensive income, except for the effective portion of foreign currency hedge of cash flow and net investment which are included under shareholders' equity.

##### iii) Translation of financial statements of subsidiaries operating in foreign countries

Assets and liabilities of subsidiaries operating in foreign countries are translated into TL at the exchange rates prevailing at the balance sheet dates. Comprehensive income items of those subsidiaries are translated into TL using average exchange rates for the period (if the average exchange rates for the period do not reasonably reflect the exchange rate fluctuations, transactions are translated using the exchange rates prevailing at the date of the transaction). Exchange differences arising from using average and balance sheet date rates are included in "currency translation differences" under the shareholders' equity.

The balance sheet date rates and average rates used for translation of income statement items for the related periods are as follows:

<b>Period End:</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Turkish Lira/EUR	0,2215	0,2695
Turkish Lira/GBP	0,1968	0,2315
Turkish Lira/RUB	15,368	17,4459
Turkish Lira/PLN	0,9227	1,187
<b>Average:</b>	<b>1 January - 31 December 2017</b>	<b>1 January - 31 December 2016</b>
Turkish Lira/EUR	0,2428	0,2993
Turkish Lira/GBP	0,2132	0,2449
Turkish Lira/RUB	16,081	22,1597
Turkish Lira/PLN	1,0324	1,3045

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.1.3 Basis of consolidation

The consolidated financial statements include the accounts of the parent, Company, and its subsidiaries from the date on which the control is transferred to the Group until the date that the control ceases. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with CMB Financial Reporting Standards by applying uniform accounting policies and presentation.

##### a) Subsidiaries

The Group has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the entity's returns. On the other hand, the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In order to be consistent with accounting policies accepted by the Group, accounting policies of the subsidiaries are modified where necessary.

The balance sheet and statement of income of the subsidiaries are consolidated on a line-by-line basis and all material intercompany payable/receivable balances and sales/purchase transactions are eliminated. The carrying value of the investment held by Vestel Elektronik and its subsidiaries is eliminated against the related shareholders' equity.

The non-controlling share in the net assets and results of subsidiaries for the period are separately classified as "non-controlling interest" in the consolidated statements of comprehensive income and the consolidated statements of changes in shareholders' equity.

As of the balance sheet date, consolidated companies and the proportion of ownership interest of Vestel Elektronik in these subsidiaries are disclosed in note 3.

Financial assets in which the Group has direct or indirect voting rights equal to or above 50% which are immaterial to the Group financial results or over which a significant influence is not exercised by the Group are carried at cost less any provisions for impairment.

##### b) Investments in associates

Investments in associates are accounted for by the equity method and are initially recognized at cost. These are entities in which the Group has an interest which is more than 20% and less than 50% of the voting rights or over which a significant influence is exercised. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates, whereas unrealized losses are eliminated unless they do not address any impairment of the asset transferred. Net increase or decrease in the net asset of associates is included in the consolidated statements of comprehensive income in regards with the Group's share.

The Group ceases to account the associate using the equity method if it loses the significant influence or the net investment in the associate becomes nil, unless it has entered to a liability or a commitment. After the Group's interest in the associates becomes nil, additional losses are provided for, and a liability recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognized.

Since Vestel Savunma and Aydın Yazılım has net liability position as of 31 December 2017 and 31 December 2016, carrying value of those investment in associates accounted for by equity method is resulted as nil in the consolidated balance sheets.

The Group's voting rights and effective ownership rates in Vestel Savunma and Aydın Yazılım are 35% and 21% respectively (31 December 2016: 35%, 21%).

### 2.2 Comparatives

Consolidated financial statements of the Group have been prepared comparatively with the preceding financial period, in order to enable determination of trends in financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the consolidated financial statements.

### 2.3 Restatement and errors in the accounting estimates

Major changes in accounting policies are applied retrospectively and any major accounting errors that have been detected are corrected and the financial statements of the previous period are restated. Changes in accounting policies resulting from the initial implementation of a new standard, if any, are implemented retrospectively or prospectively in accordance with the transition provisions. If the changes in accounting estimates only apply to one period, then they are applied in the current period in which the change occurred; if the changes also apply to future periods, they are applied in both the period of change and in the future periods, prospectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.4 Amendments in International Financial Reporting Standards

- a) **New standards, amendments and interpretations issued and effective for the financial year beginning 31 December 2017 and are adopted by the Company:**
- **Amendments to IAS 7 'Statement of cash flows'** on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
  - **Amendments IAS 12 'Income Taxes'**, effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
  - **Annual improvements 2014-2016**, effective from annual periods beginning on or after 1 January 2017. These amendments impact 3 standards:
    - IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.
- b) **Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Company:**
- **IFRS 9 'Financial instruments'**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
  - **Amendment to IFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
  - **IFRS 15 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
  - **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
  - **Amendment to IAS 28, 'Investments in associates and joint venture'**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
  - **IFRS 16 'Leases'**, effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- **Amendment to IAS 40, Investment property** relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016**; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value
- **IFRIC 22, 'Foreign currency transactions and advance consideration'**, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **IFRIC 23, 'Uncertainty over income tax treatments'**, effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The Group will evaluate the effect of the aforementioned changes within its operations and apply changes starting from effective date. It is expected that the application of the standards and interpretations will not have a significant effect on the consolidated financial statements of the Group.

c) Other new standards, amendments and interpretations issued and effective as of 1 January 2017 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.

### 2.5 Summary of significant accounting policies

#### 2.5.1 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- Group has transferred to the buyer the significant risks and rewards of ownership of the goods,
- Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where necessary, contract revenue is recognized in proportion to stage of completion of a fixed fee contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Service income and other income are recorded using accrual accounting assumptions about the fair value of the amount that is obtained or that can be obtained in the event that the service is rendered or items relating to the income are realized or risks and benefits are transferred and it is possible for the economic benefits relating to the transactions to flow into the Company.

Interest income is accrued in the relevant period at the effective interest rate, which reduces the remaining principal balance and the estimated cash inflow, to be obtained from the relevant financial asset throughout its life, and the book value of the asset.

Sales are recorded at the amount that remains after estimated discounts and returns are deducted from the price determined in the sales agreements during the sales. Customers have the right to return products in consistency with the market practice. Previous experiences are used for the estimation of discounts and returns. Discounts are determined by taking the performed yearly sales into consideration.

#### 2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory. Group uses moving weighted average method for costing.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

#### 2.5.3 Property, plant and equipment

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2017 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş.

Property, plant and equipment except for land, land improvements and buildings acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of TL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less accumulated amortization and impairment losses, if any.

Any revaluation increase arising on the revaluation of such land, land improvements and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, land improvements and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued land improvements and buildings is charged to profit or loss.

Each period, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statements of comprehensive income) and the depreciation based on the asset's original cost is transferred from revaluation reserves to the retained earnings.

Land is not depreciated. Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate. On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

Subsequent costs such as repairs and maintenance or part replacement of plant and equipment are included in the asset's carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company. All other costs are charged to the statements of comprehensive income during the financial period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.5.4 Intangible assets

##### a) Research and development costs

Research costs are recognized as expense in the period in which they are incurred. Intangible assets arising from development (or from the development phase of an internal project) are recognized as intangible assets when the following criteria are met;

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

In other cases, development costs are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. In cases where it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately.

##### b) Rights and other intangible assets

Rights and other intangible assets consist of acquired computer software, computer software development costs and other identifiable rights. Rights and other intangible assets are recognized at their acquisition costs and are amortized on a straight line basis over their expected useful lives which are less than fifteen years.

##### c) Goodwill

Goodwill arising on acquisition is the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities recognized. Within the scope of TFRS 3 "Business Combinations", beginning from 1 January 2005 the Group has stopped amortizing goodwill. Goodwill recognized on acquisitions before 31 December 2004 was being amortized until 31 December 2004 on a straight line basis over their useful lives not to exceed twenty years.

Goodwill is tested for impairment annually or more frequently when there is an indication of impairment. Goodwill arising on acquisitions measured at cost less any impairment losses.

Impairment losses calculated on goodwill cannot be reversed in the statement of income even if the impairment ceases to exist in the following periods. Goodwill is linked to cash generating units during the impairment test.

In case the consideration transferred in a business combination includes any contingent considerations, the Group recognizes the acquisition date fair value of the contingent consideration as part of the consideration transferred. During the measurement period, contingent considerations recognized at the acquisition date fair value are retrospectively adjusted when necessary. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. This period shall not exceed one year from the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.5.5 Financial instruments

##### a) Financial assets

The Group classifies its financial assets into the following specified categories: financial assets as at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### Financial assets as at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

##### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified in this category. Loans and receivables (trade and other receivables, bank deposits, cash and others) are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for cases when the recognition of interest would be immaterial.

##### Available for sale financial assets

Available for sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value can't be reliably measured.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

##### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets carried at amortized cost, if the amount of a past impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the impairment is reversed through profit or loss. However, the carrying amount should not be increased to an amount that exceeds what the amortized cost would have been at the date of the reversal had the impairment not been recognized.

For financial assets carried at cost, if there is objective evidence of impairment, the amount of the impairment loss is measured as the difference between carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset. Once an impairment loss has been recognized on a financial asset recognized at cost, it is not permitted to recognize a reversal.

For available for sale financial assets, a significant or prolonged decline in the fair value of the assets below its cost is considered as an objective indicator of impairment. Cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### b) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### c) Derivative financial instruments and hedge accounting:

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

##### Derivative financial instruments held for trading

Group's held for trading derivative financial instruments consist of forward foreign currency purchase and sale contracts. Such derivative financial instruments providing effective protection against the risk for the Group economically and due to meeting the conditions for hedge accounting usually, they are accounted as derivative financial instruments held for trading in financial statements. The fair value changes of these derivative instruments are recognized in consolidated income statement as financial income/expense.

##### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity within cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income within finance income/expense. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place or portion related to the accrued interest). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized, in the statement of comprehensive income within finance income/expense. The Group has evaluated its forward contracts and recognized certain contracts as hedging derivative instruments since they have been carrying necessary hedging conditions regarding to TAS 39.

#### 2.5.6 Foreign currency transactions

Transactions in foreign currencies during the period are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated to TL at the rates prevailing on the balance sheet date. Exchange differences on foreign currency denominated monetary assets and liabilities are recognized in profit or loss in the period in which they arise except for the effective portion of the foreign currency hedge of net investments in foreign operations. Monetary items which are denominated in foreign currency and measured with historical costs are translated using the exchange rates at the dates of initial transactions.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period. Exchange differences arising are recognized in other comprehensive income and in equity.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

#### 2.5.7 Provisions, contingent assets and liabilities

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the company are not included in the consolidated financial statements and treated as contingent assets or liabilities.

#### 2.5.8 Warranty and assembly expenses provision

Warranty expenses include repair and maintenance expenses of products sold and labor and material costs of authorized services for products under the scope of warranty terms without any charge to the customers. Based on estimations using past statistical information, warranty expense provision is recognized for the products sold with warranty terms in the period, for possible repair and maintenance expenses to be incurred during the warranty period.

Based on estimations using past statistical information, assembly expenses provision is recognized for products sold during the period but not yet installed in the sites of the end customers, against the cost of free of charge installments.

#### 2.5.9 Related parties

Shareholders, key management personnel and board members, their close family members and companies controlled, jointly controlled or significantly influenced by them and Zorlu Holding Group companies are considered and referred to as related parties.

#### 2.5.10 Taxation on income

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items directly recognized in equity. In that case, tax is recognized in shareholders' equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Investment incentives that are conducive to payment of corporate taxes at reduced rates are subject to deferred tax calculation when there is reasonable assurance that the Group will benefit from the related incentive.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.5.11 Employee benefits

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Group arising in case of the retirement of the employees. According to Turkish Labor Law and other laws applicable in Turkey, the Group is obliged to pay employment termination benefits to all personnel in cases of termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Employment termination benefits are considered as being part of defined retirement benefit plan as per TAS 19. All actuarial gains and losses are recognized in consolidated statements of income.

The effects of the significant forecasts used in employment termination benefits provision calculations have been recognized as actuarial gains and losses and they have been explained in the relevant note.

#### 2.5.12 Government grants

Government grants, including non-monetary grants at fair value, are recognized in consolidated financial statements when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grants will be received.

Incentives for research and development activities are recognized in consolidated financial statements when they are authorized by the related institutions.

#### 2.5.13 Earnings per share

Earnings per share disclosed in the consolidated statement of income is determined by dividing consolidated net income attributable to equity holder of the parent by the weighted average number of such shares outstanding during the year concerned.

#### 2.5.14 Statement of cash flows

In the consolidated statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities. Cash flows from operating activities are those resulting from the Group's production and sales activities. Cash flows from investment activities indicate cash inflows and outflows resulting from property, plant and equipments and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. Cash and cash equivalents comprise of cash in hand accounts, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

#### 2.5.15 Segment reporting

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Group Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategical decisions.

The Group management evaluates the operational results at industrial and geographical level. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses.

Group's operations are reported under three industrial segments:

- Television and electronic devices
- White goods
- Other

Group's operations are reported under three geographical segments:

- Turkey
- Europe
- Other

#### 2.5.16 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net if the nature of the transaction or the event qualify for offsetting.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

#### 2.5.17 Events after the balance sheet date

Events after the balance sheet date, announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue.

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Group makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and that do not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

#### 2.5.18 Going Concern

The Group prepared consolidated financial statements in accordance with the going concern assumption.

#### 2.5.19 Trade Receivables

Trade receivables that are created by the Group by way of providing goods or services in the ordinary course of business directly to a debtor are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest rate method, less provision for impairment. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

The Group collects some of its receivables via factoring. The Group follows related receivables in its consolidated financial statements since the collection risk of these receivables belongs to the Group until these ceded receivables are collected by the factoring company.

### 2.6. Critical accounting estimates and judgements

Preparation of consolidated financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although these estimates and assumptions rely on the Group management's best knowledge about current events and transactions, actual outcomes may differ from those estimates and assumptions. Significant estimates of the Group management are as follows:

#### i. Revaluation of land, buildings and land improvements:

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2017 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. (Note 13).

As there were no recent similar buying/selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements and machinery and equipment were based on the method of cost approach and based on the following valuation techniques and assumptions:

- Revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements were based on the method of cost approach, considering existing utilization of the aforementioned property, plant and equipments are consistent to the highest and best use approach.
- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m<sup>2</sup> sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.
- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.

The carrying values of land, land improvements and buildings do not necessarily reflect the amounts that would result from the outcome of a sales transaction between independent parties.

As of initial recognition and as of balance sheet date, the Group performs impairment assessment for buildings and land improvements of which valuations are based on cost approach, accordance with the TAS 36 "Impairment of Assets", and no impairment indicator is identified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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### NOTE 3 - INTERESTS IN OTHER ENTITIES

#### Subsidiaries:

As of 31 December 2017 and 2016 the Group's major subsidiaries are as follows:

Consolidated subsidiaries	31 December 2017		31 December 2016	
	Voting rights	Effective ownership	Voting rights	Effective ownership
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	94,6	94,6	94,6	94,6
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	100	100	100	100
Vestel Ticaret A.Ş.	100	100	100	100
Vestel CIS Ltd.	100	100	100	100
Vestel Iberia SL	100	100	100	100
Vestel France SA	100	100	100	100
Vestel Holland BV	100	100	100	100
Vestel Germany GmbH	100	100	100	100
Cabot Communications Ltd.	90,8	90,8	90,8	90,8
Vestel Benelux BV	100	100	100	100
Vestel UK Ltd.	100	100	100	100
Vestek Elektronik Araştırma Geliştirme A.Ş.	100	100	100	100
Vestel Trade Ltd.	100	100	100	100
OY Vestel Scandinavia AB	100	100	100	100
Intertechnika LLC	99,9	99,9	99,9	99,9
Vestel Central Asia LLP	100	100	100	100
Vestel Poland sp. z.o.o.	100	100	100	100
Vestel Polska Technology Center sp. z o.o.	100	100	100	100

Financial information of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. which is not wholly owned by the Group and has significant non-controlling interests is as follows.

	31 December 2017	31 December 2016
Accumulated non-controlling interests	77.930	57.723
Comprehensive income attributable to non-controlling interests	22.331	17.660

The financial statements of the subsidiary is adjusted to include the effects of revaluation of land, buildings and land improvements in accordance with the Group's accounting policies applied in preparation of the consolidated financial statements.

#### Condensed balance sheet:

	31 December 2017	31 December 2016
Current assets	2.289.940	1.818.709
Non-current assets	1.134.824	647.612
Current liabilities	(1.706.307)	(1.002.241)
Non-current liabilities	(377.662)	(391.157)
<b>Net assets</b>	<b>1.340.795</b>	<b>1.072.923</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 3 - INTERESTS IN OTHER ENTITIES (Cont'd)

#### Condensed statement of comprehensive income:

	1 January - 31 December 2017	1 January - 31 December 2016
Net sales	3.857.756	3.037.017
Income/(loss) before tax	297.677	330.839
Tax benefit/(expense)	(4.753)	(8.181)
Net income/(loss) for the period	292.924	322.658
Total comprehensive income	406.270	328.253

#### Condensed statement of cash flows:

##### Operating activities:

Changes in working capital	204.766	(246.393)
<b>Net cash provided by operating activities</b>	<b>655.672</b>	<b>245.564</b>

##### Investing activities:

<b>Net cash used in investing activities</b>	<b>(610.975)</b>	<b>(374.901)</b>
----------------------------------------------	------------------	------------------

##### Financing activities:

Proceeds from bank borrowings	652.275	442.600
Repayment of bank borrowings	(392.977)	(259.591)
Other payables to related parties	(180.000)	(130.877)
<b>Net cash (used in)/provided by financing activities</b>	<b>8.653</b>	<b>52.512</b>

Cash and cash equivalents at the beginning of the period	11.840	88.665
Cash and cash equivalents at the end of the period	65.190	11.840

Other financial information of Group's subsidiaries are not presented on the grounds of materiality.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 4 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Group Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategic decisions.

Considering the fact that the Group's risks and rate of returns are dissimilar between product types and between geographical areas, The Group management uses industrial segments as primary reporting format and geographical segments as secondary reporting format.

#### Industrial segments

	Television and electronic devices	White goods	Other	Total
<b>1 January -31 December 2017</b>				
Revenue	7.151.365	4.888.203	61.370	12.100.938
Cost of sales	(5.833.683)	(3.778.624)	(60.944)	(9.673.251)
Gross profit	1.317.682	1.109.579	426	2.427.687
Depreciation and amortization	230.027	136.787	-	366.814
<b>1 January -31 December 2016</b>				
Revenue	5.770.366	3.770.128	-	9.540.494
Cost of sales	(4.585.014)	(2.841.007)	-	(7.426.021)
Gross profit	1.185.352	929.121	-	2.114.473
Depreciation and amortization	210.159	111.038	153	321.350
<b>Capital expenditure</b>				
	Television and Electronical devices	White goods	Other	Total
1 January -31 December 2017	264.860	389.373	386	654.619
1 January -31 December 2016	286.210	154.953	471	441.634

#### Geographical segments:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Segment revenue</b>		
Turkey	4.536.199	3.571.637
Europe	7.598.088	5.974.042
Other	1.051.270	792.424
Gross segment sales	13.185.557	10.338.103
Discounts (-)	(1.084.619)	(797.609)
<b>Net sales</b>	<b>12.100.938</b>	<b>9.540.494</b>

The amount of export for the period 1 January - 31 December 2017 is 8.649.358 thousand TL (1 January - 31 December 2016: 6.766.466 thousand TL). Export sales are denominated in EUR, USD and other currencies as 60,2%, 31,5%, and 8,3% of total exports respectively. (1 January - 31 December 2016: 59,6% EUR, 35,2% USD, 5,2% other)

The carrying value of segment assets and costs incurred in order to obtain these assets are not separately disclosed since significant portion of assets of the Group are located in Turkey.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 5 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	1.186	1.166
Bank deposits		
- Demand deposits	346.131	299.157
- Time deposits	1.523.842	827.814
Cheques and notes	55.599	45.185
Other	65.090	37.392
Blocked deposits	8.489	53.289
<b>Cash and cash equivalents</b>	<b>2.000.337</b>	<b>1.264.003</b>

### Effective interest rates

	31 December 2017	31 December 2016
TL	14,75%	10,40%
EUR	-	0,60%

As of 31 December 2017 and 31 December 2016 the Group's time deposits have an average maturity of less than 3 months.

### NOTE 6 - FINANCIAL ASSETS

	Country	Ownership		Amount	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets available for sale:					
Zorlu Enerji Elektrik Üretim A.Ş.	Turkey	< 1%	< 1%	13.117	4.776
Tursoft A.Ş.	Turkey	7%	7%	11	11
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	51	51
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	11	11
Other	Turkey	-	-	200	-
				13.390	4.849

		Ownership		Amount	
		31 December	31 December	31 December	31 December
Non-consolidated subsidiaries :	Country	2017	2016	2017	2016
Vestel Ventures Ar-ge A.Ş.	Turkey	100%	100%	36.275	6.290
Vestel Electronics Gulf DMC	BAE	100%	100%	1.409	-
Vestel Electronica SRL	Romania	100%	100%	1.778	1.778
Vestel Electronics Shanghai Trading Co. Ltd	China	100%	100%	751	751
Uts-United Technical Services, S.R.O	Slovakia	100%	100%	6	6
				40.219	8.825
Impairment of subsidiaries (-)					
Vestel Electronica SRL				(1.778)	(1.778)
				38.441	7.047

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 7 - FINANCIAL LIABILITIES

	31 December 2017	31 December 2016
<b>Short term financial liabilities</b>		
Short term bank loans	1.341.413	318.694
Short term portion of long term bank loans	2.142.397	518.099
Leasing debts	479	-
Other	-	23.703
	<b>3.484.289</b>	<b>860.496</b>

### Long term financial liabilities

Long term bank loans	1.016.557	2.228.870
Leasing debts	7.446	4.203
	<b>1.024.003</b>	<b>2.233.073</b>

Details of the Group's short term bank loans are given below:

	31 December 2017			31 December 2016		
Currency	Weighted average of effective interest rates per annum	Original currency	TL Equivalent	Weighted average of effective interest rates per annum	Original currency	TL Equivalent
- USD	2,33%	87.097	328.521	-	-	-
- EUR	2,41%	180.671	815.820	0,77%	21.895	81.230
- TL	17,33%	197.072	197.072	10,47%	237.464	237.464
			<b>1.341.413</b>			<b>318.694</b>

Details of the Group's long term bank loans are given below:

	31 December 2017			31 December 2016		
Currency	Weighted average of effective interest rates per annum	Original currency	TL Equivalent	Weighted average of effective interest rates per annum	Original currency	TL Equivalent
- USD	5,33%	93.076	351.074	4,62%	25.897	91.138
- EUR	3,91%	69.055	311.818	3,34%	56.995	211.447
- TL	14,71%	1.479.505	1.479.505	15,58%	215.514	215.514
<b>Short term portion</b>			<b>2.142.397</b>			<b>518.099</b>
- USD	7,51%	78.831	297.342	4,67%	73.947	260.236
- EUR	5,09%	93.709	423.145	3,54%	119.161	442.077
- TL	17,88%	296.070	296.070	14,58%	1.526.557	1.526.557
<b>Long term portion</b>			<b>1.016.557</b>			<b>2.228.870</b>
			<b>3.158.954</b>			<b>2.746.969</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 7 - FINANCIAL LIABILITIES (Cont'd)

The maturity schedule of Group's long term bank loans is given below:

	31 December 2017	31 December 2016
One to two years	690.684	1.933.173
Two to three years	142.837	201.137
Three to four years	102.007	72.002
Four years and over	81.029	22.558
	<b>1.016.557</b>	<b>2.228.870</b>

Total amount of Group's floating bank loans is 807.406 thousand TL (31 December 2016: 547.963 thousand TL)

The analysis of Group's bank loans in terms of periods remaining to contractual re-pricing dates is as follows:

	31 December 2017	31 December 2016
6 months or less	807.406	547.963
	<b>807.406</b>	<b>547.963</b>

Fair values of short term bank borrowings are considered to approximate their carrying values due to immateriality of discounting. Fair values are determined using average effective annual interest rates. Long term bank borrowings are stated at amortized cost using effective interest rate method and their fair values are considered to approximate their carrying values since loans usually have a re-pricing period of six months.

Guarantees given for the bank loans obtained are presented in note 17.

As of 31 December 2017 and 2016, the Group's net financial debt reconciliation is shown below:

	31 December 2017	31 December 2016
<b>Net financial debt as of 1 January</b>	<b>1.829.566</b>	<b>1.732.965</b>
Cash inflows from loans	3.136.583	1.626.031
Cash outflows from loan payments	(1.959.030)	(1.137.228)
Cash inflow/outflow from other financial debts	(19.981)	-
Unrealized FX gain/loss	138.674	119.948
Accrued interest	118.477	23.634
Change in cash and cash equivalents	(736.334)	(535.784)
<b>Net financial debt as of 31 December</b>	<b>2.507.955</b>	<b>1.829.566</b>

### NOTE 8 - RELATED PARTY DISCLOSURES

#### a) Short term trade receivables from related parties

	31 December 2017	31 December 2016
UTS- United Technical Services, Spol S.R.O. <sup>(3)</sup>	16.551	13.915
Vestel Elektronika S.R.L. <sup>(3)</sup>	9.764	8.341
Other related parties	12.923	15.839
	<b>39.238</b>	<b>38.095</b>
Unearned interest on receivables (-)	(65)	(50)
	<b>39.173</b>	<b>38.045</b>

<sup>(1)</sup> Zorlu Holding Group Company, <sup>(2)</sup> Parent <sup>(3)</sup> Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 8 - RELATED PARTY DISCLOSURES (Cont'd)

#### b) Short term trade payables to related parties

	31 December 2017	31 December 2016
ABH Turizm Temsilcilik ve Ticaret A.Ş. <sup>(1)</sup>	2.912	1.113
Zorlu Holding A.Ş. <sup>(2)</sup>	3.159	2.795
Other related parties	1.193	2.559
	7.264	6.467
Unearned interest on payables (-)	(25)	(27)
	<b>7.239</b>	<b>6.440</b>

#### c) Other short term receivables from related parties

	31 December 2017	31 December 2016
Vestel Savunma Sanayi A.Ş. <sup>(3)</sup>	-	52.282
	-	<b>52.282</b>

#### d) Other long term receivables from related parties

	31 December 2017	31 December 2016
Z.F.S. Financial Services Ireland <sup>(1)</sup>	-	40.049
Zorlu Holding A.Ş. <sup>(2)</sup>	1.242.427	1.081.783
Vestel Savunma Sanayi A.Ş. <sup>(3)</sup>	206.258	-
	<b>1.448.685</b>	<b>1.121.832</b>

As of 31 December 2017, the annual average effective interest rate of other receivables in USD is between 6%, average effective interest rate of other receivables in TL is 18% (31 December 2016: USD- 5% - 6%).

#### e) Other payables to related parties

	31 December 2017	31 December 2016
Vestel Ventures A.Ş. <sup>(3)</sup>	9.295	-
	<b>9.295</b>	-

#### f) Transactions with related parties

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Sales</b>		
Zorlu Solar Enerji Tedarik ve Ticaret A.Ş. <sup>(1)</sup>	61.380	-
UTS- United Technical Services, Spol S.R.O. <sup>(3)</sup>	9.697	10.647
Zorlu Yapı Yatırım A.Ş. <sup>(1)</sup>	1.324	2.079
Vestel Electronica S.R.L. <sup>(3)</sup>	16.699	17.520
Zorluteks Tekstil Sanayi ve Ticaret A.Ş. <sup>(1)</sup>	11.200	8.880
Other related parties	4.496	2.479
	<b>104.796</b>	<b>41.605</b>

<sup>(1)</sup> Zorlu Holding Group Company, <sup>(2)</sup> Parent <sup>(3)</sup> Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 8 - RELATED PARTY DISCLOSURES (Cont'd)

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Operating expenses</b>		
ABH Turizm Temsilcilik ve Ticaret A.Ş. <sup>(1)</sup>	31.586	29.018
Zorlu Holding A.Ş. <sup>(2)</sup>	23.921	21.051
Zorlu Gayrimenkul Geliştirme ve Yatırım A.Ş. <sup>(1)</sup>	8.469	7.113
Zorlu Air Havacılık A.Ş. <sup>(1)</sup>	3.055	2.109
Other related parties	8.055	5.957
	<b>75.086</b>	<b>65.248</b>
<b>Other income from operating activities</b>		
Other	<b>4.993</b>	<b>3.530</b>
<b>Other expense from operating activities</b>		
Other	<b>146</b>	<b>92</b>
<b>Financial income</b>		
Z.F.S. Financial Services Ireland <sup>(1)</sup>	6.776	26.791
Zorlu Holding A.Ş. <sup>(2)</sup>	221.329	288.239
Vestel Savunma Sanayi A.Ş. <sup>(3)</sup>	25.900	2.726
Other related parties	628	-
	<b>254.633</b>	<b>317.756</b>
<b>Financial expense</b>		
Z.F.S. Financial Services Ireland <sup>(1)</sup>	2.326	11.227
Zorlu Holding A.Ş. <sup>(2)</sup>	52.571	5.058
Other related parties	2.105	473
	<b>57.002</b>	<b>16.758</b>
<b>Dividends paid</b>		
Other	<b>9.461</b>	<b>7.042</b>

g) Guarantees received from and given to related parties are disclosed in note 17.

#### h) Compensation paid to key management including directors, the Chairman and members of Board of Directors, general managers and assistant general managers

Compensation paid to key management for the twelve months period ended 31 December 2017 is 31.553 thousand TL (1 January -31 December 2016: 26.318 thousand TL)

<sup>(1)</sup> Zorlu Holding Group Company, <sup>(2)</sup> Parent <sup>(3)</sup> Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 9 - TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
<b>Short term trade receivables</b>		
Trade receivables		
- Related parties (note 8)	39.238	38.095
- Other parties	3.405.019	2.107.894
Cheques and notes receivables	309.915	340.560
Other	34.886	34.087
	3.789.058	2.520.636
Unearned interest expense (-)		
- Related parties (note 8)	(65)	(50)
- Other parties	(61.433)	(28.904)
Allowance for doubtful receivables (-)	(64.738)	(56.866)
<b>Total short term trade receivables</b>	<b>3.662.822</b>	<b>2.434.816</b>
<b>Long term trade receivables</b>		
Receivables from other parties	62.410	119.698
Cheques and notes receivables	7.326	3.632
Unearned interest expense (-)	(1.196)	(429)
<b>Total long term trade receivables</b>	<b>68.540</b>	<b>122.901</b>

The Group provides allowance for doubtful receivables based on historical experience.

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>56.866</b>	<b>102.883</b>
Current year additions	13.498	8.252
Provisions no longer required	(1.945)	(7.108)
Doubtful receivables written-off	(4.418)	(48.784)
Currency translation differences	737	1.623
<b>Balance at 31 December</b>	<b>64.738</b>	<b>56.866</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Cont'd)

	31 December 2017	31 December 2016
<b>Short term trade payables</b>		
Trade payables		
- Related parties (note 8)	7.264	6.467
- Other parties	5.751.561	3.679.252
Notes payables		
- Other parties	51	1.319
Other	2.027	268
	5.760.903	3.687.306
Unearned interest income (-)		
- Related parties (note 8)	(25)	(27)
- Other parties	(9.531)	(4.091)
<b>Total short term trade payables</b>	<b>5.751.347</b>	<b>3.683.188</b>

Risk analysis of trade receivables and payables is disclosed in note 31

### NOTE 10 - OTHER RECEIVABLES

	31 December 2017	31 December 2016
<b>Short term other receivables</b>		
VAT receivable	216.171	197.371
Receivables from related parties (note 8)	-	52.282
Deposits and guarantees given	41.171	29.498
Other	93.555	91.187
	<b>350.897</b>	<b>370.338</b>
Allowance for doubtful receivables (-)	(89.376)	(89.376)
	<b>261.521</b>	<b>280.962</b>
<b>Long term other receivables</b>		
Deposits and guarantees given	1.103	1.285
Receivables from related parties (note 8)	1.448.685	1.121.832
Other	8.278	8.278
	1.458.066	1.131.395
Allowance for doubtful receivables (-)	(8.278)	(8.278)
	<b>1.449.788</b>	<b>1.123.117</b>

The Group provides allowance for doubtful receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 11 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	1.355.573	778.014
Work in process	77.577	65.015
Finished goods	1.346.329	859.097
Merchandise	189.383	135.071
Other	3.622	1.828
	2.972.484	1.839.025
Provision for impairment on inventories (-)	(28.305)	(21.156)
	<b>2.944.179</b>	<b>1.817.869</b>

Cost of the inventory included in the consolidated statement of comprehensive income in the period 1 January - 31 December 2017 is 8.572.850 thousand TL (2016: 6.404.083 thousand TL).

As of 31 December 2017 the Group does not have inventories pledged as security for liabilities (31 December 2016: None)

Allocation of provision for impairment on inventories in terms of inventory type is as follows:

	31 December 2017	31 December 2016
Raw materials	8.980	8.529
Finished goods and merchandise	19.325	12.627
	<b>28.305</b>	<b>21.156</b>

Movement of provision for impairment on inventories is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	21.156	17.938
Current year additions	22.335	5.458
Realised due to sale of inventory	(17.270)	(5.384)
Currency translation differences	2.084	3.144
<b>Balance at 31 December</b>	<b>28.305</b>	<b>21.156</b>

### NOTE 12 - PREPAID EXPENSES

	31 December 2017	31 December 2016
<b>Prepaid expenses in current assets</b>		
Order advances given	19.903	15.569
Prepaid expenses	39.887	14.625
Business advances given	979	904
	<b>60.769</b>	<b>31.098</b>
<b>Prepaid expenses in non-current assets</b>		
Advances given for fixed asset purchases	74.087	44.434
Prepaid expenses	7.349	19.067
	<b>81.436</b>	<b>63.501</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Disposals	Currency translation differences	Transfers	Fair value increase	31 December 2017
<b>Cost or revaluation</b>							
Land	241.478	32.516	(12)	5.887	-	91.547	371.416
Land improvements	61.976	6	-	1.620	(6.179)	35.408	92.831
Buildings	722.232	7.921	(9)	38.488	(51.957)	343.114	1.059.789
Leasehold improvements	139.456	12.666	(13.600)	419	845	-	139.786
Plant and machinery	1.900.703	270.686	(25.801)	19.691	34.607	-	2.199.886
Motor vehicles	6.244	3.524	(542)	496	5	-	9.727
Furniture and fixtures	321.300	29.279	(4.080)	3.902	6.291	-	356.692
Other tangible assets	849	-	-	-	-	-	849
Construction in progress	7.832	131.154	(13)	6	(51.482)	-	87.497
	<b>3.402.070</b>	<b>487.752</b>	<b>(44.057)</b>	<b>70.509</b>	<b>(67.870)</b>	<b>470.069</b>	<b>4.318.473</b>
<b>Accumulated depreciation</b>							
Land improvements	3.177	2.678	-	345	(6.200)	-	-
Buildings	25.047	25.103	(3)	8.401	(58.548)	-	-
Leasehold improvements	113.695	12.426	(13.481)	231	41	-	112.912
Plant and machinery	1.373.174	196.540	(24.904)	15.916	(13)	-	1.560.713
Motor vehicles	5.032	724	(509)	464	-	-	5.711
Furniture and fixtures	238.172	34.529	(3.463)	3.279	(243)	-	272.274
Other tangible assets	846	3	-	-	-	-	849
	<b>1.759.143</b>	<b>272.003</b>	<b>(42.360)</b>	<b>28.636</b>	<b>(64.963)</b>	<b>-</b>	<b>1.952.459</b>
<b>Net book value</b>	<b>1.642.927</b>						<b>2.366.014</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	1 January 2016	Additions	Disposals	Currency translation differences	Transfers	Fair value increase	31 December 2016
<b>Cost or revaluation</b>							
Land	223.359	-	(665)	2.885	-	15.899	241.478
Land improvements	58.609	56	-	3.311	-	-	61.976
Buildings	624.996	5.030	(6.812)	44.216	4.088	50.714	722.232
Leasehold improvements	130.534	8.695	(135)	249	113	-	139.456
Plant and machinery	1.699.568	182.466	(21.958)	26.494	12.727	1.406	1.900.703
Motor vehicles	5.516	588	(131)	183	-	88	6.244
Furniture and fixtures	297.112	22.086	(1.717)	2.506	1.313	-	321.300
Other tangible assets	849	-	-	-	-	-	849
Construction in progress	5.670	20.580	-	-	(18.418)	-	7.832
	<b>3.046.213</b>	<b>239.501</b>	<b>(31.418)</b>	<b>79.844</b>	<b>(177)</b>	<b>68.107</b>	<b>3.402.070</b>
<b>Accumulated depreciation</b>							
Land improvements	-	2.537	-	640	-	-	3.177
Buildings	-	21.450	(5.176)	8.773	-	-	25.047
Leasehold improvements	103.490	10.180	(100)	125	-	-	113.695
Plant and machinery	1.202.180	173.836	(21.251)	18.409	-	-	1.373.174
Motor vehicles	4.096	872	(100)	164	-	-	5.032
Furniture and fixtures	206.936	30.831	(1.457)	1.862	-	-	238.172
Other tangible assets	845	1	-	-	-	-	846
	<b>1.517.547</b>	<b>239.707</b>	<b>(28.084)</b>	<b>29.973</b>	<b>-</b>	<b>-</b>	<b>1.759.143</b>
<b>Net book value</b>	<b>1.528.666</b>						<b>1.642.927</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Additions to property, plant and equipment in the period 1 January - 31 December 2017 mainly consist of machinery and equipment investments made to television and electronic devices factory, first and second refrigerator, cooker, dishwasher, washing machine and tumbler drier factories.

As of 31 December 2017 the Group does not have property, plant and equipment pledged (2016: None)

Useful lives of property, plant and equipment is as follows:

	<u>Useful life</u>
Land improvements	5 - 35 years
Buildings	25 - 50 years
Leasehold improvements	3 - 10 years
Plant and machinery	2 - 25 years
Motor vehicles	5 - 10 years
Furniture and fixtures	5 - 14 years

Allocation of current year depreciation and amortization expenses is as follows:

	<b>1 January - 31 December 2017</b>	<b>1 January - 31 December 2016</b>
Cost of sales	204.091	182.615
Research and development expenses	105.815	88.706
Marketing, selling and distribution expenses	32.164	29.314
General administrative expenses	20.601	15.954
Other operating expense (idle capacity depreciation expense)	4.143	4.761
	<b>366.814</b>	<b>321.350</b>

As of 31 December 2017 and 2016, the Group's non-financial assets which are recognized in fair value are showed below:

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Tangible Assets</b>			
Lands	-	371.416	-
Buildings and land improvements	-	1.152.620	-
<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Tangible Assets</b>			
Lands	-	241.478	-
Buildings and land improvements	-	755.984	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 14 - INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	Currency translation differences	Transfers	31 December 2017
<b>Cost</b>						
Rights	64.279	570	(9)	684	2.206	67.730
Development cost	677.726	141.851	(2.241)	-	-	817.336
Other intangible assets	109.712	24.446	(48)	5.720	786	140.616
	<b>851.717</b>	<b>166.867</b>	<b>(2.298)</b>	<b>6.404</b>	<b>2.992</b>	<b>1.025.682</b>
<b>Accumulated amortization</b>						
Rights	43.886	3.009	-	611	(50)	47.456
Development cost	346.240	84.872	-	-	-	431.112
Other intangible assets	66.366	6.930	-	5.248	(70)	78.474
	<b>456.492</b>	<b>94.811</b>	<b>-</b>	<b>5.859</b>	<b>(120)</b>	<b>557.042</b>
<b>Net book value</b>	<b>395.225</b>					<b>468.640</b>

	1 January 2016	Additions	Disposals	Currency translation differences	Transfers	31 December 2016
<b>Cost</b>						
Rights	61.858	2.381	(100)	400	(260)	64.279
Development cost	566.290	113.813	(2.377)	-	-	677.726
Other intangible assets	91.227	17.832	-	289	364	109.712
	<b>719.375</b>	<b>134.026</b>	<b>(2.477)</b>	<b>689</b>	<b>104</b>	<b>851.717</b>
<b>Accumulated amortization</b>						
Rights	40.451	3.121	(47)	393	(32)	43.886
Development cost	271.885	74.355	-	-	-	346.240
Other intangible assets	62.070	4.167	-	97	32	66.366
	<b>374.406</b>	<b>81.643</b>	<b>(47)</b>	<b>490</b>	<b>-</b>	<b>456.492</b>
<b>Net book value</b>	<b>344.969</b>					<b>395.225</b>

Development costs, incurred by the Group on development projects relating to television and electronic devices, refrigerators, split air conditioners, washing machines, cookers and dish washers are capitalized as intangible assets when it is probable that costs will be recovered through future commercial activity and only if the cost can be measured reliably.

Useful lives of intangible assets are as follows:

	<u>Useful life</u>
Rights	2 - 15 years
Development cost	2 - 10 years
Other	2 - 15 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 15 - GOODWILL

Goodwill is distributed on cash generating unit which are based on segmental reporting. Summary table of goodwill based on segmental reporting is given below:

	31 December 2017	31 December 2016
White goods	168.543	168.543
Television and electronic devices	26.998	26.998
Software	2.252	2.252
	<b>197.793</b>	<b>197.793</b>

Impairment of the goodwill amount relating to the listed subsidiary of the Group is tested through the evaluation of the fair value determined on the average transaction amounts effective as of the balance sheet date as recoverable amount.

### NOTE 16 - GOVERNMENT GRANTS

There are investment incentive certificates to which the Group has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Group in nature are as follows:

- i) Exemption from customs duty on machinery and equipment to be imported,
- ii) VAT exemption with respect to purchases of investment goods both from domestic and export markets,
- iii) Incentives under the jurisdiction of the research and development law,
- iv) Inward processing permission certificates,
- v) Cash refund from Tübitak - Teydeb for research and development expenses,
- vi) Discounted corporate tax incentive,
- vii) Insurance premium employer share incentive
- viii) Brand support incentive (Turquality) given by Republic of Turkey Ministry of Economy.

Research and development incentive premium from Tübitak Teknoloji ve Yenilik Destek Programları Başkanlığı ("TEYDEB") amounts to 6.615 thousand TL for the period 1 January - 31 December 2017. (1 January -31 December 2016: 6.618 thousand TL).

Brand support incentive Turquality obtained from Republic of Turkey Ministry of Economy amounts to 14.450 thousand TL in year 2017. (2016: 17.626 thousand TL).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

#### a) Provisions

	31 December 2017	31 December 2016
<b>Short term provisions</b>		
Warranty and assembly provision	193.900	147.020
Other provisions	178.877	98.390
Provision for lawsuit risks	30.531	29.957
	<b>403.308</b>	<b>275.367</b>
<b>Long term provisions</b>		
Warranty and assembly provision	52.556	39.872
Other provisions	32.346	36.925
	<b>84.902</b>	<b>76.797</b>

There are various cases filed and continuing against the Group domestically and in foreign countries. With reference to Group management's and legal advisors' assessments, no provision is provided for those cases amounting to 31.378 thousand EUR and 34.253 thousand TL, that are expected to be finalized in favor of the Group. As of 31 December 2017, the amount of provision provided for the cases for which the probability of losing the case is assessed to be high by the Group management and legal advisors is 30.351 thousand TL (31 December 2016: 29.957 thousand TL).

As of 31 December movements of warranty and assembly provisions are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>186.892</b>	<b>145.878</b>
Current year additions	301.420	290.362
Provisions no longer required	(241.856)	(249.348)
<b>Balance at 31 December</b>	<b>246.456</b>	<b>186.892</b>

#### b) Waste Electrical and Electronic Equipment Directive

Legal regulation prepared in conformity with European Union Waste Electrical and Electronic Equipment Directive ("WEEE") has been effective in Turkey since 2012. The Directive set collection, recycling and recovery targets for all types of electrical and electronic goods upon manufacturers. The Group fulfills these obligations.

#### c) Guarantees received by the Group

##### Guarantee letters, collaterals, cheques and notes received

	31 December 2017	31 December 2016
Guarantee letters	548.083	300.175
Cheques and notes	835.895	442.201
Collaterals and pledges	1.545.237	1.026.964
	<b>2.929.215</b>	<b>1.769.340</b>

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. and Vestel Ticaret A.Ş. has given collaterals to various banks on behalf of the Company for its forward contracts and loans utilized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

#### d) Collaterals, pledges and mortgages ("CPM's") given by the Group

CPM's given by the Group	USD (‘000)	EUR (‘000)	TL	TL Equivalent
<b>31 December 2017</b>				
A. CPM's given on behalf of its own legal entity	17.013	27.424	93.019	281.023
B. CPM's given on behalf of fully consolidated subsidiaries <sup>(*)</sup>	2.073.784	367.117	2.511.303	11.991.126
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	30.766	-	17.314	133.360
i. Total amount of CPM's given on behalf of the parent company	-	-	-	-
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	30.766	-	17.314	133.360
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
<b>Total</b>	<b>2.121.563</b>	<b>394.541</b>	<b>2.621.636</b>	<b>12.405.509</b>

(\*) Fully consolidated subsidiaries have given collaterals to various financial institutions on behalf of each other for their forward contracts and for the total amount of loans utilized.

CPM's given by the Group	USD (‘000)	EUR (‘000)	TL	TL Equivalent
<b>31 December 2016</b>				
A. CPM's given on behalf of its own legal entity	24.428	31.870	83.720	287.922
B. CPM's given on behalf of fully consolidated subsidiaries	1.952.014	344.515	2.588.419	10.736.063
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	40.596	-	35.075	177.940
i. Total amount of CPM's given on behalf of the parent company	-	-	-	-
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	40.596	-	35.075	177.940
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
<b>Total</b>	<b>2.017.038</b>	<b>376.385</b>	<b>2.707.214</b>	<b>11.201.925</b>

As of 31 December 2017 proportion of other CPM's given by the Group to its equity is 6% (31 December 2016: 10%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 18 - COMMITMENTS

As of the balance sheet date the Group has committed to realize exports amounting to 568.309 thousand USD (31 December 2016: 1.384.676 thousand USD) due to the export and investment incentive certificates obtained.

As of 31 December 2017 the Group has forward foreign currency purchase contract that amounts to 1.522.920 thousand USD, 273.243 thousand EUR, 17.803 thousand GBP, 17.514 thousand PLN, 104 thousand CHF, 2.224 thousand RON, 82.891 thousand RUB and 492.689 thousand TL against forward foreign currency sales contract that amounts to 282.759 thousand USD, 641.161 thousand EUR, 94.710 thousand GBP, 1.000 thousand CHF, 1.218.572 thousand RUB, 12.825 thousand RON, 187.881 thousand PLN, 16.143 thousand SEK and 2.999.135 thousand TL. (31 December 2016: 1.236.701 thousand USD, 398.335 thousand EUR, 49.227 thousand GBP, 178.366 thousand CHF, 80.211 thousand PLN, 24.978 thousand RON and 1.523.431 thousand TL against forward foreign currency purchase contract; 1.016.871 thousand USD, 525.956 thousand EUR, 83.445 thousand GBP, 178.600 thousand CHF, 845.977 thousand RUB, 24.978 thousand RON, 79.852 thousand PLN, 12.811 thousand SEK and 1.682.263 thousand TL against forward foreign currency sales contract).

As of 31 December 2017 the Group does not have foreign currency purchase contract (31 December 2016: 355.140 thousand TL and 462.000 thousand USD against put options that amount to 1.394.726 thousand TL and 112.300 thousand USD).

### NOTE 19 - EMPLOYEE BENEFITS

#### Liabilities for employee benefits:

	31 December 2017	31 December 2016
Due to personnel	69.328	62.572
Social security payables	38.407	28.657
	<b>107.735</b>	<b>91.229</b>

#### Long term provisions for employee benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	<b>96.078</b>	<b>76.463</b>

Under Turkish law, the Company is required to pay employment termination benefits to each employee whose employment is terminated without due cause. In addition, under the existing Social Security Law No.506, clause No. 60, amended by the Labor Laws dated 6 March 1981, No.2422 and 25 August 1999, No.4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The amount payable is the equivalent of one month's salary for each year of service and is limited to a maximum of 4.732,48 TL/year as of 31 December 2017 (31 December 2016: 4.297,21 TL/year).

Provision for employment termination benefits is not subject to any funding.

The provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined employee plans. Accordingly actuarial assumptions were used in the calculation of the total liability which are described below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. An expected inflation rate and appropriate discount rate should both be determined, the net of these being real discount rate. Consequently in the accompanying financial statements as of 31 December 2017, the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 31 December 2017 provision is calculated based on real discount rate of 4,67% (31 December 2016: 4,79%) assuming 6,5% annual inflation rate and 11,47% discount rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 19 - EMPLOYEE BENEFITS (Cont'd)

The movement in the provision for employment termination benefit is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Balance at 1 January</b>	<b>76.463</b>	<b>68.311</b>
Increase during the year	18.820	19.155
Payments during the year	(17.819)	(16.652)
Actuarial (gain)/loss	9.637	(1.156)
Interest expense	8.977	6.805
<b>Balance at 31 December</b>	<b>96.078</b>	<b>76.463</b>

As of 31 December 2017, an increase in annual discount rate by 0,25% would lead to decrease in employee benefit liability by 3,49%; a decrease in annual discount rate by 0,25%, would lead to an increase in employee benefit liability by 3,67%. (31 December 2016: 3,46% decrease and 3,69% increase).

As of 31 December 2017, an increase in salary escalation by 0,25% would lead to an increase in employee benefit liability by 3,83%; a decrease in salary escalation by 0,25% would lead to a decrease in employee benefit liability by 3,65%. (31 December 2016: 3,86% increase and 3,63% decrease).

### NOTE 20 - OTHER ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
<b>Other current assets</b>		
VAT carried forward	13.608	29.626
Other	14.786	8.244
	<b>28.394</b>	<b>37.870</b>
<b>Other non - current assets</b>		
Assets held for sale	7.060	7.444
	<b>7.060</b>	<b>7.444</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Other current liabilities</b>		
Advances received	48.891	34.393
Tax payables	86.318	59.813
Other	160.268	87.070
	<b>295.477</b>	<b>181.276</b>

### NOTE 21 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

#### a) Paid in capital

	31 December 2017	31 December 2016
Shares of par value Kr 1 each		
limit on registered share capital	1.000.000	1.000.000
Issued share capital	335.456	335.456

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 21 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

As of 31 December 2017 and 31 December 2016 the shareholding structures are as follows:

	Shareholding		Amount	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Zorlu Holding A.Ş.	64,41%	64,41%	216.054	216.054
Shares held by public				
Other shareholders	22,46%	22,46%	75.355	75.355
Zorlu Holding A.Ş.	13,13%	13,13%	44.047	44.047
	<b>100%</b>	<b>100%</b>	<b>335.456</b>	<b>335.456</b>

#### b) Adjustment to share capital

Adjustment to share capital (restated to 31 December 2004 purchasing power of money) is the difference between restated share capital and historical share capital.

#### c) Share premium

Share premium account refers the difference between par value of the company's shares and the amount the company received for newly issued shares. The share premium account is disclosed under equity as a separate line item and may not be distributed. It may be used in capital increase.

#### d) Legal reserves

The legal reserves consist of first and second legal reserves appropriated in accordance with the Turkish Commercial Code ("TCC"). The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. Under TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid in share capital

	31 December 2017	31 December 2016
Legal reserves	46.195	41.029

#### e) Revaluation reserve

Fair value gains on financial assets	4.149	1476
Revaluation of property, plant and equipment	917.385	561.662
	<b>921.534</b>	<b>563.138</b>

#### f) Accumulated deficit

Extraordinary reserves	512.541	415.036
Previous year's loss	(624.741)	(702.764)
Other inflation adjustment of share capital	119.718	119.718
	<b>7.518</b>	<b>(168.010)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 21 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

#### g) Dividend distribution

For quoted companies dividends are distributed in accordance with the Communiqué Serial II -19.1 on "Principals Regarding Distribution of Interim Dividends" issued by the CMB effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and in conformity with relevant legislations. The communiqué does not state a minimum dividend rate. Companies distribute dividends in accordance with the method defined in their dividend policy or articles of association. Additionally, dividend can be distributed in fixed or variable installments and dividend advances can be paid over the profit on interim financial statements.

Unless the general reserves that has to be appropriated in accordance with TCC or the dividend to shareholders as determined in the articles of association or dividend policy are set aside; no decision can be taken to set aside other reserves, to transfer reserves to the subsequent year or to distribute dividends to holders of usufruct right certificates, to board of directors members or to employees; and no dividend can be distributed to those unless the determined dividend to shareholders is paid in cash.

On the other hand, in accordance with the Articles of Association of the Company, the net period income is allocated after deducting the accumulated losses from the previous years, if any, as follows:

- a) As per Article 519 of the Turkish Commercial Code, 5% is allocated to a general legal reserve.
- b) A dividend is allocated from the remaining amount, at the rate determined by the General Assembly over an amount to be found after the addition of a donation, which is made in line with the Turkish Commercial Code and Capital Market Legislation.
- c) After the deductions above, the General Assembly has the right to decide how to allocate the dividend to members of the board of directors and officers, employees and workers, foundations established with various purposes, and similar persons and corporations.
- d) After the amounts stated in paragraph (a), (b) and (c) are deducted from the net period profit, the General Assembly is authorized to allocate the remaining amount as a second dividend or to allocate the remaining amount to its own reserve as per Article 521 of the Turkish Commercial Code.
- e) One tenth of the amount obtained after a dividend of 5% of the paid in capital and other legal reserve are deducted from the amount that is agreed to be allocated to the shareholders and other persons participating to the profit is added to the general legal reserve as per paragraph c) of the second clause of article 519 of the Turkish Commercial Code.

### NOTE 22 - SALES

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	4.536.199	3.571.637
Overseas sales	8.649.358	6.766.466
<b>Gross sales</b>	<b>13.185.557</b>	<b>10.338.103</b>
Sales discounts (-)	(1.084.619)	(797.609)
<b>Net sales</b>	<b>12.100.938</b>	<b>9.540.494</b>
Cost of sales	(9.673.251)	(7.426.021)
<b>Gross profit</b>	<b>2.427.687</b>	<b>2.114.473</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 23 - EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Raw materials, supplies and finished goods	9.126.956	6.194.193
Changes in finished goods, work in process, trade goods	(554.106)	209.890
Personnel expenses	890.867	772.333
Depreciation and amortization	362.671	316.589
Export, transportation, warehouse expenses	422.893	304.531
Warranty and assembly expenses	301.420	290.362
Advertising expenses	152.254	102.420
Other	897.872	789.376
	<b>11.600.827</b>	<b>8.979.694</b>

### NOTE 24 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

#### a) General administrative expenses:

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	97.782	88.630
Depreciation and amortization	20.601	15.954
Consultancy expenses	25.933	20.172
Information technology expenses	25.787	15.881
Rent and office expenses	24.219	22.780
Tax and duties	10.472	9.805
Benefits and services provided externally	7.345	5.479
Insurance expenses	7.224	6.202
Travelling expenses	6.233	4.741
Other	66.556	51.337
	<b>292.152</b>	<b>240.981</b>

#### b) Marketing expenses:

Personnel expenses	242.178	186.441
Export, transportation, warehouse expenses	414.641	297.252
Warranty and assembly expenses	301.420	290.362
Advertising expenses	151.804	101.893
Depreciation and amortization	32.164	29.314
Other	302.991	258.400
	<b>1.445.198</b>	<b>1.163.662</b>

#### c) Research and development expenses:

Depreciation and amortization	105.815	88.706
Personnel expenses	33.185	25.309
Travelling expenses	10.716	8.077
Other	40.510	26.938
	<b>190.226</b>	<b>149.030</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 25 - OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

#### a) Other income from operating activities:

	1 January - 31 December 2017	1 January - 31 December 2016
Credit finance gains arising from trading activities	170.976	124.849
Foreign exchange gains arising from trading activities	504.579	213.558
Reversals of provisions	14.171	6.475
Other income	89.524	83.212
	<b>779.250</b>	<b>428.094</b>

#### b) Other expense from operating activities:

Debit finance charges arising from trading activities	187.157	103.603
Foreign exchange expenses arising from trading activities	537.514	438.899
Provision expenses	27.182	23.283
Other expenses	91.020	59.277
	<b>842.873</b>	<b>625.062</b>

### NOTE 26 - FINANCIAL INCOME AND FINANCIAL EXPENSE

#### a) Financial income:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	305.819	370.039
Gains on derivative financial instruments	668.087	476.967
Interest income	220.411	123.531
	<b>1.194.317</b>	<b>970.537</b>

#### b) Financial expense:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange losses	437.176	309.967
Losses on derivative financial instruments	827.024	517.986
Interest and commission expense	381.864	345.946
Other finance expenses	704	2.234
	<b>1.646.768</b>	<b>1.176.133</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 27 - ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

#### a) Fixed assets revaluation fund:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>561.662</b>	<b>574.004</b>
Depreciation transfer upon revaluation reserves - net of deferred tax	(13.100)	(12.469)
Net depreciation transfer upon revaluation reserves attributable to non-controlling interests	125	127
Increase in reserves arising from revaluation of land, buildings and land improvements	470.043	-
Deferred tax income calculated over increase in revaluation reserves	(94.008)	-
Increase in revaluation reserves attributable to non-controlling interests	(9.172)	-
Deferred tax income calculated over increase in revaluation reserves attributable to non-controlling interest	1.835	-
<b>Balance at 31 December</b>	<b>917.385</b>	<b>561.662</b>

#### b) Cash flow hedge fund:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>48.184</b>	<b>19.256</b>
Profit/(loss) from cash flow hedges	(75.637)	36.911
Deferred tax calculated over cash flow hedge fund	15.412	(7.382)
(Profit)/loss from cash flow hedges attributable to non-controlling interests	1.353	(751)
Deferred tax calculated over profit/(loss) from cash flow hedges attributable to non-controlling interests	(271)	150
<b>Balance at 31 December</b>	<b>(10.959)</b>	<b>48.184</b>

#### c) Actuarial gain/loss arising from defined benefit plans:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>(9.798)</b>	<b>(10.702)</b>
Actuarial gain/loss arising from defined benefit plans	(9.506)	1.150
Deferred tax calculated over actuarial gain/loss arising from defined benefit plans	1.901	(230)
Actuarial gain/loss arising from defined benefit plans attributable to non-controlling interests	196	(20)
Deferred tax calculated over actuarial gain/loss arising from defined benefit plans attributable to non-controlling interests	(39)	4
Transactions with non-controlling interests	-	-
<b>Balance at 31 December</b>	<b>(17.246)</b>	<b>(9.798)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 28 - TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2017	31 December 2016
Corporation and income taxes	19.182	19.546
Prepaid taxes (-)	(18.898)	(21.839)
<b>Current income tax liabilities - net</b>	<b>284</b>	<b>(2.293)</b>
Deferred tax liabilities	(129.591)	(48.465)
Deferred tax assets	174.309	62.559

Turkish Tax Legislation does not permit a parent company its subsidiaries and investments in associates to file a consolidated tax return. Therefore, tax liabilities as reflected in these consolidated financial statements have been calculated on a separate entity basis for the fully consolidated subsidiaries.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and by deducting other exempt income. In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed at the rate of 15%, except for companies receiving dividends who are resident companies in Turkey. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

In Turkey, advance tax returns are filed on a quarterly basis at the rate of 20%, until the 14<sup>th</sup> day of the following month and paid until the 17<sup>th</sup> day. Advance tax returns files within the year are offset against corporate income tax calculated over the annual taxable corporate income.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and investments in equity shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back.

There is no procedure for a final and definitive agreement on tax assessments. Tax returns are filed between 1-25 April following the close of the accounting year to which they relate. Tax authorities may however examine such returns and the underlying accounting records and may revise assessment within five years.

For the years 2006-2017, corporate tax rate in Turkey is 20%. In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Bazı Vergi Kanunları İle Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

#### Russian Federation

In Russia, corporate tax rate applicable is 20% (2016: 20%). Under the Russian Federation taxation system, tax losses can be carried forward to be offset against future taxable income for up to ten years. There are no restrictions on the amounts subject to net off. On the other hand, tax, currency and customs legislations are subject to various interpretations and changes which can occurs frequently in Russian Federation. Management's interpretation for such legislation, which is applied to the Company's operations and activities, can be interpreted by regional and federal authorities in different ways. The events of the recent past in Russian Federation, shows that risk could be possible on approval of operations and activities, which approved in the past may not be approved in the future as a result of reviews by the tax authorities on legislation. According to a review by the tax inspection authorities, without exceptional circumstances, tax inspection covers three years prior to the final inspection. Under certain circumstances, such views may cover longer periods.

The tax results of Group's subsidiaries in other countries are not material to consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 28 - TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

As of 1 January - 31 December 2017 and 2016 tax benefit in the consolidated statement of income is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Current period tax expense	(20.050)	(28.365)
Deferred tax benefit	107.354	48.979
<b>Total tax (expense)/benefit</b>	<b>87.304</b>	<b>20.614</b>
	1 January - 31 December 2017	1 January - 31 December 2016
<b>Profit before tax</b>	<b>(15.963)</b>	<b>164.148</b>
Local tax rate	22%	20%
Tax income calculated using local tax rate	3.512	(32.830)
Carry forward tax losses utilized	(22.857)	(2.510)
Non-deductible expenses	(6.374)	(19.957)
Adjustments with no tax effects	(6.448)	(7.062)
Research and development incentives	71.241	32.862
Reduced taxation	48.359	50.111
Deferred tax effect of change in legal tax rate	(129)	-
<b>Total tax (expense)/benefit</b>	<b>87.304</b>	<b>20.614</b>

Due to modernization, plant extension and investments incentive documents in Manisa Organized Industrial Zone, the Company has reduced rate of corporate tax advantage.

#### Deferred tax assets and liabilities

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Communiqué II, No. 14.1 and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for the Communiqué and tax purposes.

As of 31 December 2017, the Group has not recognized deferred tax assets arising from its investment incentive certificate, in accordance with conservatism principle of accounting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 28 - TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities provided using principal tax rate as of the balance sheet dates is as follows:

	Cumulative temporary differences		Deferred tax	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Deferred tax assets</b>				
Employment termination benefits	(93.880)	(74.675)	18.776	14.935
Warranty provision	(132.382)	(111.450)	29.124	22.290
Provision for doubtful receivables	(124.241)	(113.065)	27.333	22.613
Unearned interest expense	(59.859)	(30.715)	13.169	6.143
Provision for impairment on inventories	(7.627)	(8.010)	1.678	1.602
Derivative financial instruments	(150.056)	(84.165)	33.005	16.833
Carryforward tax losses and R&D incentives	(521.750)	(114.290)	104.350	22.858
Other	(131.291)	(127.360)	28.884	25.472
			<b>256.319</b>	<b>132.746</b>
<b>Deferred tax liabilities</b>				
Useful life and valuation differences on property, plant and equipment and intangible assets	86.840	70.240	(17.368)	(14.048)
Revaluation of tangible fixed assets	1.129.982	676.289	(194.063)	(103.329)
Other	773	6.375	(170)	(1.275)
			<b>(211.601)</b>	<b>(118.652)</b>
<b>Deferred tax assets/(liabilities) - net</b>			<b>44.718</b>	<b>14.094</b>

As of 31 December 2017, the Group has not recognized deferred tax assets arising from its investment incentive certificate, in accordance with conservatism principle of accounting.

Expiration date of carry forward tax losses amounted 260.934 thousand TL is 2022. Furthermore, within R&D law framework, the Group has R&D incentives amounted 234.722 thousand TL which can be used in 2017 and future periods.

	31 December 2017	31 December 2016
Subsidiaries with net deferred tax liabilities	(129.591)	(48.465)
Subsidiaries with net deferred tax assets	174.309	62.559

The movement of net deferred tax assets and liabilities is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Opening balance, 1 January</b>	<b>14.094</b>	<b>(29.787)</b>
Tax benefit recognized in income statement	107.354	48.979
Recognized in shareholders' equity	(77.364)	(7.468)
Currency translation differences	634	2.370
<b>Deferred tax(liabilities)/assets at the end of the period, net</b>	<b>44.718</b>	<b>14.094</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 29 - EARNINGS/(LOSS) PER SHARE

	1 January - 31 December 2017	1 January - 31 December 2016
Net income/(loss) attributable to equity holders of the parent	55.108	167.719
Weighted number of ordinary shares with a Kr 1 of par value (hundred shares)	33.546.000	33.546.000
	<b>0,16</b>	<b>0,50</b>

### NOTE 30 - DERIVATIVE INSTRUMENTS

	31 December 2017		31 December 2016	
	Contract amount	Fair Value Assets/(Liabilities)	Contract amount	Fair Value Assets/(Liabilities)
<b>Derivative financial assets:</b>				
<b>Held for trading</b>				
Forward foreign currency transactions	1.147.859	11.237	2.883.369	44.454
<b>Cash flow hedge</b>				
Forward foreign currency transactions	509.405	2.252	1.503.127	106.528
<b>Derivative financial liabilities:</b>				
<b>Held for trading</b>				
Forward foreign currency transactions	4.092.737	(90.931)	3.881.954	(235.398)
<b>Cash flow hedge</b>				
Forward foreign currency transactions	1.838.130	(72.614)	-	-
	<b>7.588.131</b>	<b>(150.056)</b>	<b>8.268.450</b>	<b>(84.416)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

#### a) Capital risk management:

The Group manages its capital to ensure that it will maintain its status as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance.

The management considers the Group's cost of capital and the risks associated with each class of capital. The management aims to balance its overall capital structure through the payment of dividends, share issues and proceeds from or repayments of debt.

As of 31 December 2017 and 31 December 2016 the Company's net debt/total equity ratios are as follows:

	31 December 2017	31 December 2016
Total financial liabilities (note 7)	4.508.292	3.093.569
Cash and cash equivalents (note 5)	(2.000.337)	(1.264.003)
<b>Net debt</b>	<b>2.507.955</b>	<b>1.829.566</b>
Total shareholders' equity	2.278.028	1.839.125
<b>Total capital invested</b>	<b>4.785.983</b>	<b>3.668.691</b>
<b>Net debt/capital invested</b>	<b>52%</b>	<b>50%</b>

#### b) Financial risk factors:

The Group's activities expose it to a variety of financial risks including the foreign currency exchange rates risk, credit risk and liquidity risk. The Group's overall risk management programme on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments in order to protect itself from various financial risks.

##### b.1) Credit risk:

The Group is exposed to credit risk arising from receivables from credit finance sales and deposits with banks. Credit risk of receivables from third parties is managed by securing receivables with highest possible coverage. Methods used are:

- Bank guarantees (guarantee letters, etc.)
- Credit insurance
- Mortgages
- Cheque-notes

For customers receivables from which are not secured with collaterals, the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors and individual risk limits are determined and monitored regularly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

31 December 2017	Receivables				Bank deposits	Other
	Trade receivables		Other receivables			
	Related party	Other party	Related party	Other party		
Maximum exposed credit risk as of 31 December 2017 (A+B+C+D)	39.173	3.692.189	1.448.685	262.624	1.869.973	130.364
- Secured portion of the maximum credit risk by guarantees, etc.	-	(1.854.525)	-	-	-	-
A. Net book value of financial assets either are not due or not impaired	39.173	3.070.165	1.448.685	262.624	1.869.973	130.364
- Secured portion by guarantees etc.	-	(1.636.489)	-	-	-	-
B. Financial assets with renegotiated conditions	-	72.217	-	-	-	-
C. Net book value of the overdue but not impaired financial assets	-	548.205	-	-	-	-
- Secured portion by guarantees etc.	-	(352.477)	-	-	-	-
D. Net book value of the impaired financial assets	-	1.602	-	-	-	-
- Over due (gross book value)	-	66.340	-	97.654	-	-
- Impairment (-)	-	(64.738)	-	(97.654)	-	-
- Secured portion of the net value by guarantees etc.	-	(1.602)	-	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

31 December 2016	Receivables				Bank deposits	Other
	Trade receivables		Other receivables			
	Related party	Other party	Related party	Other party		
Maximum exposed credit risk as of 31 December 2016 (A+B+C+D)	38.045	2.519.672	1.174.114	229.965	1.126.971	137.032
- Secured portion of the maximum credit risk by guarantees, etc.	-	(1.517.241)	-	-	-	-
A. Net book value of financial assets either are not due or not impaired	38.045	1.929.244	1.174.114	229.965	1.126.971	137.032
- Secured portion by guarantees etc.	-	(1.381.880)	-	-	-	-
B. Financial assets with renegotiated conditions	-	128.776	-	-	-	-
C. Net book value of the overdue but not impaired financial assets	-	449.659	-	-	-	-
- Secured portion by guarantees etc.	-	(123.368)	-	-	-	-
D. Net book value of the impaired financial assets	-	11.993	-	-	-	-
- Over due (gross book value)	-	68.859	-	97.654	-	-
- Impairment (-)	-	(56.866)	-	(97.654)	-	-
- Secured portion of the net value by guarantees etc.	-	(11.993)	-	-	-	-

Aging of financial assets which are overdue but not impaired is as follows:

	31 December 2017	31 December 2016
Overdue 1 - 30 days	181.748	159.256
Overdue 1 - 3 months	104.623	94.237
Overdue 3 - 12 months	76.103	105.988
Overdue 1 - 5 years	188.218	89.002
Overdue more than 5 years	1.585	1.176
<b>Total</b>	<b>552.277</b>	<b>449.659</b>

#### b.2) Liquidity risk:

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. Derivative financial liabilities are presented by undiscounted net inflows and outflows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2017 maturity analysis of the Group's financial liabilities is as follows:

Contractual maturities	Carrying value	Contractual cash flows	Up to 3 months	3 - 12 months	1 - 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Financial liabilities	4.500.367	4.744.852	1.699.174	1.817.433	1.110.539	117.706
Trade payables	5.751.347	5.760.878	2.658.109	3.098.797	3.972	-
Other payables	10.095	10.095	10.095	-	-	-
	<b>10.261.809</b>	<b>10.515.825</b>	<b>4.367.378</b>	<b>4.916.230</b>	<b>1.114.511</b>	<b>117.706</b>
<b>Derivative financial instruments</b>						
Derivative cash inflows		7.588.190	6.023.522	1.564.668	-	-
Derivative cash outflows		(7.748.500)	(6.165.303)	(1.583.197)	-	-
	<b>150.056</b>	<b>(160.310)</b>	<b>(141.781)</b>	<b>(18.529)</b>	<b>-</b>	<b>-</b>

As of 31 December 2016 maturity analysis of the Group's financial liabilities is as follows:

Contractual maturities	Carrying value	Contractual cash flows	Up to 3 months	3 - 12 months	1 - 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Financial liabilities	3.065.663	3.407.117	245.742	619.841	2.514.336	27.198
Trade payables	3.683.188	3.687.306	1.828.531	1.858.775	-	-
Other payables	46.379	46.379	46.379	-	-	-
	<b>6.795.230</b>	<b>7.140.802</b>	<b>2.120.652</b>	<b>2.478.616</b>	<b>2.514.336</b>	<b>27.198</b>
<b>Derivative financial instruments</b>						
Derivative cash inflows		8.268.451	6.062.385	2.206.066	-	-
Derivative cash outflows		(8.328.835)	(6.113.947)	(2.214.888)	-	-
	<b>84.416</b>	<b>(60.384)</b>	<b>(51.562)</b>	<b>(8.822)</b>	<b>-</b>	<b>-</b>

#### b.3) Foreign currency risk:

The Group is exposed to exchange rate risk due to its foreign currency denominated transactions. The main principle of foreign currency risk management is to maintain foreign exchange position at the level that minimizes the impact of foreign exchange fluctuations.

Derivative instruments are used in foreign currency risk management where necessary. In this respect the Group mainly prefers using foreign exchange forward contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

31 December 2017	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	221.245	287.728	129.655	2.263.405
2a. Monetary financial assets (including cash and cash equivalents)	17.615	20.622	4.844	164.405
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
<b>4. Current assets (1+2+3)</b>	<b>238.860</b>	<b>308.350</b>	<b>134.499</b>	<b>2.427.810</b>
5. Trade receivables	16.548	-	-	62.417
6a. Monetary financial assets	329.460	-	-	1.242.690
6b. Non-monetary financial assets	4.504	7.157	-	49.306
7. Other	-	51	-	230
<b>8. Non-current assets (5+6+7)</b>	<b>350.512</b>	<b>7.208</b>	<b>-</b>	<b>1.354.643</b>
<b>9. Total assets (4+8)</b>	<b>589.372</b>	<b>315.558</b>	<b>134.499</b>	<b>3.782.453</b>
10. Trade payables	1.295.301	76.141	2.138	5.231.699
11. Financial liabilities	180.173	171.726	-	1.455.024
12a. Other monetary liabilities	9.425	426	2.663	40.137
12b. Other non-monetary liabilities	-	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.484.899</b>	<b>248.293</b>	<b>4.801</b>	<b>6.726.860</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	78.831	93.709	-	720.487
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>78.831</b>	<b>93.709</b>	<b>-</b>	<b>720.487</b>
<b>18. Total liabilities (13+17)</b>	<b>1.563.730</b>	<b>342.002</b>	<b>4.801</b>	<b>7.447.347</b>
<b>19. Off-balance sheet derivative instruments net asset/(liability) position (19a+19b)</b>	<b>1.240.162</b>	<b>(367.918)</b>	<b>(670.296)</b>	<b>2.346.138</b>
19a. Hedged total assets	1.522.920	273.243	117.367	7.095.498
19b. Hedged total liabilities	(282.758)	(641.161)	(787.663)	(4.749.360)
<b>20. Net foreign currency asset/(liability) position (9-18+19)</b>	<b>265.804</b>	<b>(394.362)</b>	<b>(540.598)</b>	<b>(1.318.756)</b>
<b>21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(978.862)</b>	<b>(33.652)</b>	<b>129.698</b>	<b>(3.714.430)</b>
<b>22. Fair value of financial instruments used in foreign currency hedging</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(150.056)</b>
23. Export	696.046	1.177.060	648.405	8.649.358
24. Import	1.751.687	211.432	1.475	7.240.650

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

	USD	EUR	Other (TL Equivalent)	TL Equivalent
<b>31 December 2016</b>				
1. Trade receivables	244.448	261.613	246.998	2.077.817
2a. Monetary financial assets (including cash and cash equivalents)	26.411	6.158	16.260	132.051
2b. Non-monetary financial assets	-	-	-	-
3. Other	134	1	1.446	1.921
<b>4. Current assets (1+2+3)</b>	<b>270.993</b>	<b>267.772</b>	<b>264.704</b>	<b>2.211.789</b>
5. Trade receivables	26.253	-	-	92.390
6a. Monetary financial assets	318.852	-	-	1.122.104
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	57	-	211
<b>8. Non-current assets (5+6+7)</b>	<b>345.105</b>	<b>57</b>	<b>-</b>	<b>1.214.705</b>
<b>9. Total assets (4+8)</b>	<b>616.098</b>	<b>267.829</b>	<b>264.704</b>	<b>3.426.494</b>
10. Trade payables	839.159	75.575	9.504	3.243.048
11. Financial liabilities	25.897	78.891	-	383.815
12a. Other monetary liabilities	1	-	135	139
12b. Other non-monetary liabilities	-	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>865.057</b>	<b>154.466</b>	<b>9.639</b>	<b>3.627.002</b>
14. Trade payables	-	-	-	-
15. Financial liabilities	73.947	119.161	-	702.313
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>73.947</b>	<b>119.161</b>	<b>-</b>	<b>702.313</b>
<b>18. Total liabilities (13+17)</b>	<b>939.005</b>	<b>273.627</b>	<b>9.639</b>	<b>4.329.315</b>
<b>19. Off-balance sheet derivative instruments net asset/(liability) position (19a+19b)</b>	<b>219.830</b>	<b>(127.621)</b>	<b>(201.720)</b>	<b>98.444</b>
19a. Hedged total assets	1.236.701	398.335	915.035	6.745.016
19b. Hedged total liabilities	(1.016.871)	(525.956)	(1.116.755)	(6.646.572)
<b>20. Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(103.077)</b>	<b>(133.419)</b>	<b>53.345</b>	<b>(804.377)</b>
<b>21. Net foreign currency monetary asset/(liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(323.041)</b>	<b>(5.856)</b>	<b>253.619</b>	<b>(904.953)</b>
<b>22. Fair value of financial instruments used in foreign currency hedging</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(84.416)</b>
23. Export	701.958	1.084.310	316.060	6.766.466
24. Import	1.289.514	181.950	1.054	4.501.861

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2017 and 31 December 2016 sensitivity analysis of foreign exchange rates is presented in below tables. Secured portions include impact of off-balance sheet derivative instruments.

	Gain/Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
<b>31 December 2017</b>				
<b>+/- 10% fluctuation of USD rate:</b>				
USD net asset/liability	(369.217)	369.217	(369.217)	369.217
Secured portion from USD risk (-)	336.827	(336.827)	466.316	(466.316)
<b>USD net effect</b>	<b>(32.390)</b>	<b>32.390</b>	<b>97.099</b>	<b>(97.099)</b>
<b>+/- 10% fluctuation of EUR rate:</b>				
EUR net asset/liability	(15.196)	15.196	(15.196)	15.196
Secured portion from EUR risk (-)	(53.652)	53.652	(166.870)	166.870
<b>EUR net effect</b>	<b>(68.848)</b>	<b>68.848</b>	<b>(182.066)</b>	<b>182.066</b>
<b>+/- 10% fluctuation of other currency rates:</b>				
Other currencies net asset/liability	12.970	(12.970)	12.970	(12.970)
Secured portion from other currency risk (-)	(142.581)	142.581	(142.581)	142.581
<b>Other currency net effect</b>	<b>(129.611)</b>	<b>129.611</b>	<b>(129.611)</b>	<b>129.611</b>
	Gain/Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
<b>31 December 2016</b>				
<b>+/- 10% fluctuation of USD rate:</b>				
USD net asset/liability	(147.912)	147.912	(147.912)	147.912
Secured portion from USD risk (-)	5.461	(5.461)	80.100	(80.100)
<b>USD net effect</b>	<b>(142.451)</b>	<b>142.451</b>	<b>(67.812)</b>	<b>67.812</b>
<b>+/- 10% fluctuation of EUR rate:</b>				
EUR net asset/liability	(2.637)	2.637	(2.637)	2.637
Secured portion from EUR risk (-)	11.890	(11.890)	(47.844)	47.844
<b>EUR net effect</b>	<b>9.253</b>	<b>(9.253)</b>	<b>(50.481)</b>	<b>50.481</b>
<b>+/- 10% fluctuation of other currency rates:</b>				
Other currencies net asset/liability	25.362	(25.362)	25.362	(25.362)
Secured portion from other currency risk (-)	(25.120)	25.120	(25.120)	25.120
<b>Other currency net effect</b>	<b>242</b>	<b>(242)</b>	<b>242</b>	<b>(242)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

#### b.4) Interest rate risk:

The Group is exposed to interest rate risk as the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate hedge contracts and forward interest rate contracts.

Analysis of financial instruments of the Group which are sensitive to interest rate changes is as follows

	31 December 2017	31 December 2016
<b>Financial instruments with fixed interest rates</b>		
Bank deposits	1.532.331	881.103
Financial liabilities	3.700.886	2.545.606
<b>Financial instruments with floating interest rates</b>		
Financial liabilities	807.406	547.963

On 31 December 2017, if interest rates of all currency denominated financial assets and liabilities with variable interest rates has strengthened/weakened by 100 base point with all other variables held constant, income before taxes would have been 7.260 thousand TL (2016: 8.828 thousand TL) lower/higher as a result of interest expenses.

### NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

#### Categories of financial instruments and fair values

Group has classified its financial assets and liabilities as at fair value through profit or loss, available for sale financial assets and loans and receivables. Among Group's financial assets, cash and cash equivalents (note 5), trade receivables (notes 8 and 9) and other receivables (notes 10), are classified as loans and receivables and are measured at amortized cost using the effective interest method. Group's available for sale financial assets are disclosed in note 6.

Group's financial liabilities consist of financial liabilities (note 7), trade payables (note 8 and 9) and other payables (note 10) and are measured at amortized cost using the effective interest method.

#### Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgement is necessarily required interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

#### Monetary assets

The book value of foreign currency denominated balances which are translated to TL using exchange rates prevailing on the date of the balance sheet approximate their fair values. For financial assets measured at cost including cash and cash equivalents, the carrying amounts are the same with fair values due to their short term nature. Carrying amounts of trade receivables net of impairments approximate their fair values.

#### Monetary liabilities

The fair values of short term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term. Fair value is calculated by discounting the cash out flows regarding due dates of financial liabilities considering the changing country risk premium and changes in the market interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (Cont'd)

#### Fair value hierarchy

The Group classifies the fair value measurement of each class of financial instruments according to the source, using the three level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

Fair value hierarchy tables as of 31 December 2017 and 31 December 2016 are as follows:

31 December 2017	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial assets	-	13.489	-	13.489
Financial investments	13.117	-	-	13.117
<b>Financial liabilities</b>				
Derivative financial liabilities	-	(163.545)	-	(163.545)
31 December 2016	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial assets	-	150.982	-	150.982
Financial investments	4.776	-	-	4.776
<b>Financial liabilities</b>				
Derivative financial liabilities	-	(235.398)	-	(235.398)

An independent valuation of the Group's land, land improvements and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2017 and 2016. The fair value of land, land improvements and buildings was determined using the inputs other than quoted prices (Level 2).

# INVESTOR INFORMATION

## General Information

**Reporting Period:** 01.01.2017 - 31.12.2017  
**Corporate Title:** Vestel Elektronik Sanayi ve Ticaret AŞ  
**Trade Register No:** İstanbul Ticaret Sicil Müdürlüğü, No: 193621  
**Registered Capital Ceiling:** TL 1,000,000,000  
**Paid-in/Issued Capital:** TL 335,456,275

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## Independent Auditor

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## Financial Data and Company Announcements

Financial statements, auditor reports, material event disclosures and annual reports of Vestel Elektronik Sanayi ve Ticaret AŞ are available on the Company's website at [www.vestelinvestorrelations.com](http://www.vestelinvestorrelations.com).

Additionally, requests for information can be submitted to the Investor Relations Directorate of Vestel Group of Companies via phone and e-mail.

## Investor Relations

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