

## Corporate Governance Rating

This Revised Report has been prepared by JCR-ER in compliance to the regulations of Capital Markets Board of Turkey

**Publication Date:** 27/07/2018

**Sector:** Household Appliances

## İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.

### Ratings

Overall Score	<b>8.38</b>	AA(Trk)/bbb (Positive)
Shareholders	<b>8.25</b>	AA(Trk)/bbb (Stable)
Public Disclosure & Transparency	<b>8.44</b>	AA(Trk)/bbb (Positive)
Stakeholders	<b>8.40</b>	AA(Trk)/bbb (Stable)
Board of Directors	<b>8.42</b>	AA(Trk)/bbb (Positive)

### Company Profile

<b>Trade Name</b>	İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.
<b>Address</b>	Merkez Mah.29 Ekim Cad. İhlas Plaza No:11 B/21 Yenibosna Bahçelievler/ İSTANBUL
<b>Chairman</b>	Mr. Sedat KURUCAN
<b>CEO</b>	Mr. Dr. Ömer KAMBER
<b>Investor Contact</b>	Phone: +90.212.875.35.62 yatirimci@iea.com.tr
<b>Web</b>	<a href="http://www.iea.com.tr">www.iea.com.tr</a>
<b>Investor Relations</b>	Mr. Uğur KURT

### Analyst

**Ceyhun Kır**

+90 212 352 56 73

ceyhun.kir@jcrer.com.tr

Financial Data	2017*	2016*	2015*	2014*	2013*
<b>Total Assets (000 USD)</b>	68,931	72,959	95,127	105,993	125,227
<b>Total Assets (000 TRY)</b>	260,001	256,756	276,592	245,786	267,272
<b>Equity (000 TRY)</b>	184,339	185,498	210,296	191,299	186,435
<b>Net Profit (000 TRY)</b>	-861	-720	12,477	11,329	-23,272
<b>Sales (000 TRY)</b>	140,953	108,725	116,227	98,139	107,859
<b>Net Profit Margin (%)</b>	-0.61	-0.66	10.74	11.54	-21.58
<b>ROAA (%)</b>	-0.58	0.16	4.15	5.27	-9.98
<b>ROAE (%)</b>	-0.81	0.22	5.40	7.16	-14.09
<b>Equity / Total Assets (%)</b>	70.90	72.25	76.03	77.83	69.75
<b>Net Working Capital / T. Assets (%)</b>	47.42	55.54	59.51	57.61	36.27
<b>Debt Ratio (%)</b>	29.10	27.75	23.97	22.17	30.25
<b>Asset Growth Rate (%)</b>	1.26	-7.17	12.53	-8.04	-12.15

\*The End of Year

### Company Overview

**İhlas Ev Aletleri İmalat Sanayi ve Ticaret A.Ş. (İHEVA or the Company)** was incorporated on December 5, 1975 under the name of Hizmet Gazetecilik ve Matbaacılık Ltd. and began operating under its current name on July 5, 1995. The Company produces cleaning robots, water purification systems and water heaters at the facility covering 12,900 m2 within the Beylikdüzü organized industrial zone. Products are sold on the domestic market through İhlas Pazarlama A.Ş.'s widespread distribution channels and are exported to over 60 countries, including those of the European Union and Turkic Republics.

The separate, specialist-managed Shareholder Relations Unit conducts shareholder relations, organizes General Assembly meetings and is responsible for public disclosures.

Company shares have been listed on the BIST under the code of İHEVA since September 26, 1996 and are included in the BIST 100 Index. 77,97% of shares are publicly traded as of July 2018. The Company's equity stood at TL188 mn, and asset size and sales reached TL264 mn and TL45mn as of March 31, 2018, respectively.

The Board of Directors is composed of 7 members, 3 of which are independent, five members are non-executive. Additionally, Audit, Corporate Governance and Risk Committees have been established within the Board and are chaired by independent board members.

### Strengths

- Comfortable, safe and healthy working environment
- A female member existing in the Board
- An effective transparency platform in Turkish through the Company's website
- Innovative and technological research and development center
- Increase in the environmental protection activities

### Constraints

- The vote of privileged shareholders in determining the Board of Directors
- Absence of regulations in the articles of incorporation for the invitation of stakeholders and the media to the General Meeting
- No liability insurance for board members and top managers

## 1. Rating Methodology and Executive Summary

This revised report was prepared in light of JCR Eurasia Rating's original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Market Board (CMB) and states the Company's level of compliance with corporate governance principles as of July 2018.

The Capital Market Board's Corporate Governance Principles were first published in 2003. Important revisions and changes were made at the beginning of 2012 and again in January 3, 2014, as detailed in communiqué II-17.1 (accessible on [www.spk.gov.tr](http://www.spk.gov.tr))

An additional important change regarding the method of calculation of compliance notes was made in the beginning of 2014. Based on the recent CMB legislation, the new scoring methodology consists of two stages in which companies given a base and full score. In the new system, companies are first assigned a base score of a maximum of 85 points determining their compliance with the rules and practices outlined in the Code. In the second stage, an additional 15 points may be awarded depending on the efficient implementation and value creation achieved through practices exceeding those in the articles. Practices not stated in the Code but determined by JCR Eurasia Rating as best governance practices are also considered as criteria in assigning the additional points.

The code consists of four main section; Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections' coefficients, which were determined by the CMB, have been recently changed as below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%
- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, in the previous reports.

Subject to the preservation of integrity of regulations by the CMB and compliance with the limitations thereof, this report also covers such topics as implementations regarding "Outlook" determinations and "Financial

Efficiency" analyses all of which exist in JCR Eurasia Rating's original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Company to the public through various channels and also submitted to JCR Eurasia in writing and verbally, as well as reports and statistics by the CMB and Central Registry Agency (CRA).

Last year, through a comprehensive review done in July 2017, the conclusions reached by JCR ER and corresponding notation are shown in the following table:

July 27, 2017

Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	80.75	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Public Disclosure and Transparency	81.10	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Stakeholders	80.61	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Board of Directors	84.16	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
<b>Overall</b>	<b>81.99</b>	<b>AA(Trk) (Merit)</b>	<b>(bbb) (Outstanding)</b>	<b>Stable</b>

This year, at the end of previous monitoring period, a comprehensive review was performed in July 2018. The Company's overall compliance note has been increased to 8.38 from 8.20.

- Effective activities carried out by the Investor Relations Unit have facilitated the accessing to information and using of the shareholders' rights.
  - Enriching the contents of the "2017 Annual Report" which increased The Company's level of transparency.
  - The training activities which increased the qualifications and productivity of the employees.
- are factors behind this increase in compliance.

The general compliance level of IHEVA with the Code as of July 2018 and the corresponding levels within the JCR Eurasia's notation have been determined as follows;

- Numerical value of **8.38**
- Convergence Level **AA(Trk)** representing the category of "Merit Compliance",

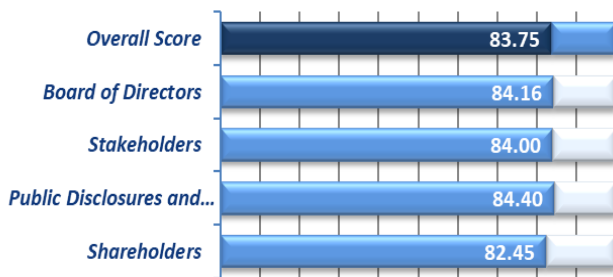
- Notch degree (**bbb**) representing the category of “**Outstanding**”,
- Outlook (**Positive**)

Distinct levels of 4 main categories regarding compliance with the corporate governance principles are exhibited in the following table. Overall score has been assigned based on weightings assessed for these 4 categories by CMB regulations.

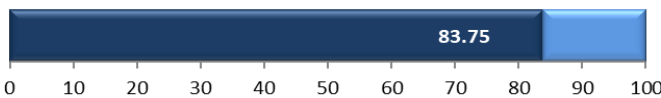
July 27, 2018				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	82.45	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Public Disclosure and Transparency	84.40	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
Stakeholders	84.00	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Board of Directors	84.16	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
<b>Overall</b>	<b>83.75</b>	<b>AA(Trk) (Merit)</b>	<b>(bbb) (Outstanding)</b>	<b>Positive</b>

JCR Eurasia Rating’s notation system may be viewed at: [http://www.jcra.com.tr/Upload/Files/Reports/538\\_kydr\\_notation\\_oct2010.pdf](http://www.jcra.com.tr/Upload/Files/Reports/538_kydr_notation_oct2010.pdf)

**Corporate Governance Score %**



**Overall Score %**



**Overall Result**

<b>8.38</b>
AA (Trk) / bbb
Positive

**Outlook**

With the opinion that the high compliance level of the Company will be maintained during the 12-month monitoring period. Furthermore,

- Due to the activities for the establishment of the Information Security Management System and the Protection of Personal Data, Public Disclosure and Transparency’s outlook has been determined to “**Positive**”
- Due to the expectation that the effectiveness of the Board will increase along with the new members elected to the Board of Directors, Board of Directors’ outlook has been determined to “**Positive**”.

**2. Company Overview**

**IHEVA** was incorporated on December 5, 1975 under the name of Hizmet Gazetecilik ve Matbaacılık Ltd. Şti and, following changes in name on May 2, 1990, July 30, 1990, and January 01, 1994, began operating under its current name on July 5, 1995. The Company produces cleaning robots, water purification systems, water heaters, and their plastic components at a facility in the Beylikdüzü organized industrial zone. IHEVA is also the widespread dealers and marketing channels of its distributor İhlas Pazarlama A.Ş.

The Company offers its products mainly on the domestic market and exports to over 60 countries, including those of the European Union and Turkic Republics.

Company shares have been listed on the BIST under the code of IHEVA since December 26, 1996. As of July 2018, 77.97% of shares are publicly traded. Additionally, the Company has been listed on in the BIST National Index since October 1, 2007 and the Corporate Governance Index since December 29, 2010.

Information on the Company’s affiliates and subsidiaries is given in Table 2 in the Appendix. Beginning in 2006, the Company focused on and made important investments in the mining and energy sectors.

According to March 31, 2018 financial statements, the Company’s equity stood at TL188M and its asset size and sales reached TL264M and TL45M, respectively. Balance sheet items and ratios that reflect the Company’s financial structure are exhibited in Table 3 of the Appendix.

As of July 2018, a total of 158 workers were employed by the Company, 40 of which were administrative staff members. The Board of Directors is composed of 7 members, three of which are independent and one of which is female. Furthermore, the five members have non-executive position in the Company. The qualifications of the Board members are detailed in Table 4 of the Appendix.

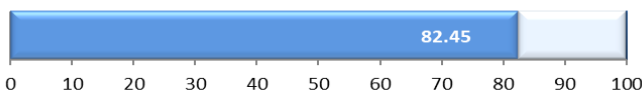
### 3. Shareholders

The Company’s Shareholders’ note has been raised to 8.25 from 8.08. The primary reason behind this increase is effective activities carried out by the Investor Relations Unit have facilitated the accessing to information and using of the shareholders’ rights.

The Company’s level in this field and their corresponding notes are outlined below;

- Numerical value is **8,25**,
- Convergence Level **AA(Trk)** representing the category of **“Merit Compliance”**,
- Notch degree **(bbb)** representing the category of **“Outstanding”**,
- Outlook **(Stable)**

Shareholders Score %



### Shareholders Result

**8.25**

AA (Trk) / bbb

Stable

### Activities carried out during the monitoring period in the Shareholder field:

- ✓ IHEVA’s 2017 general meeting was held on April 21, 2018 at 10:00 at İhlas Holding’s Headquarters located at Merkez Mahallesi 29 Ekim Caddesi İhlas Plaza No: 11 Yenibosna Bahçelievler/İstanbul. However, the meeting was postponed due to lack of quorum. The second meeting was held on May 29, 2018 at 10.00 in the same address. Both meetings were observed by a JCR-ER analyst and the works undertaken by the Company were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Code. Within the framework of democratic principles, all shareholders were treated equally, the Company’s 2017 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands during the meeting. Following the meeting, the relevant documents were disclosed to investors on the Company’s internet site.
- ✓ The Company also held extraordinary general meeting on September 11, 2017 in order to extend the duration of the registered capital system. This change was submitted to the shareholders before the meeting.
- ✓ No shareholders have canceled any agreement or opened any lawsuit against the Company.
- ✓ The Investor Relations Department received 29 inquiries through email and telephone during the monitoring period. The Company has declared that all inquiries were answered.
- ✓ Any investor information meeting was not held with the Investor Relations Department and senior management during the monitoring period.
- ✓ The company realized a loss figure of TL1,500,649 based on CMB regulations and a profit of TL2,800,340 according to the TPL (Tax Procedure Law). No dividend was distributed due to the fact that the previous years’ losses were deducted from current year profit. After approval of it by the Shareholders at the general meeting, the dividend distribution table was disclosed to the public via the company’s website and the PDP following the general meeting.

## Outlook

JCR-ER is of the opinion that during the monitoring period the Company maintained its level of compliance with the Code in the Shareholders field. For this reason, the Outlook for this section has been determined as **“Stable”**.

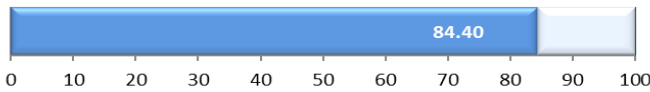
## 4. Public Disclosure and Transparency

The Company’s Public Disclosure and Transparency’ note has been raised to 8.44 from 8.11. The primary reason behind this increase is enriching the contents of the “2017 Annual Report” which increased the Company’s level of transparency.

The Company’s level in this section and their corresponding notes are outlined below;

- Numerical value of **8,44**,
- Convergence Level **AA(Trk)** representing the category of **“Merit Compliance”**,
- Notch degree (**bbb**) representing the category of **“Outstanding”**,
- Outlook (**Positive**)

**Public Disclosures and Transparency Score %**



### Public Disclosure and Transparency Result

<b>8.40</b>
AA (Trk) / bbb
Positive

**Activities carried out during the monitoring period in this field:**

- ✓ The Company disclosed a total of 51 notifications to the PDP in the monitoring period. Following these disclosures not further information was requested. A link to the PDP is available on the Company’s internet site.
- ✓ The Company was not delisted on the BIST.

- ✓ The company’s website is kept up to date in Turkish. Significant improvements in the Company’s organizational structure and operations are published in a timely manner.
- ✓ The 2017 annual report was also published with high compliance level with the code.
- ✓ The Company’s quarterly financial statements were regularly disclosed on its internet site.
- ✓ Annual figures for 3rd-party commercial and financial relations were disclosed to the public via the Company’s internet site.
- ✓ The Company was audited in 2017 by İrfan Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. Same firm was elected by the shareholders in general meeting as independent audit firm for 2018.

## Outlook

JCR-ER is of the opinion that the Company will maintain its level of compliance with Code in the Public Disclosure and Transparency field during the upcoming monitoring period. Additionally, due to the activities for the establishment of the Information Security Management System and the Protection of Personal Data, this main section’s outlook has been determined to **“Positive”**.

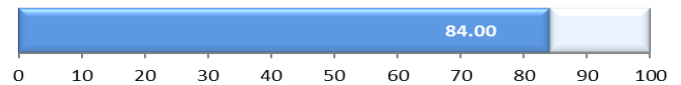
## 5. Stakeholders

The Company’s Stakeholders’ score has been raised to 8.42 from 8.06. The primary reason behind this increase is the training activities which increased the qualifications and productivity of the employees.

The Company’s level in this field and their corresponding notes are outlined below;

- Numerical value of **8,40**
- Convergence Level **AA(Trk)** representing the category of **“Merit Compliance”**,
- Notch degree (**bbb**) representing the category of **“Outstanding”**,
- Outlook (**Stable**)

**Stakeholders Score %**





## Stakeholders Result

<b>8.40</b>
AA (Trk) / bbb
Stable

### Activities carried out during the monitoring period in the Stakeholders field:

- ✓ The Company hired 31 new employees, 29 employees left the company for various reasons and 2 employees retired in the monitoring period.
- ✓ İHEVA products reach the final customer through İhlas Pazarlama A.Ş. For this reason, customer complaints are received by the marketing company, although İHEVA plays an active role in the resolving of these complaints. During the monitoring period 12.795 complaints were received by the call center. Of these, 90% have been resolved.
- ✓ No remarkable lawsuit was opened against the Company by stakeholders.
- ✓ No donations were made during monitoring period.
- ✓ The Company has maintained to report its carbon footprint in 2016 in scope of the Carbon Disclosure Project (CDP).
- ✓ The company also participated to the reporting of water program voluntarily in 2016 in scope of CDP.
- ✓ The contract through TÜKÇEV for the Company's recycling is ongoing.

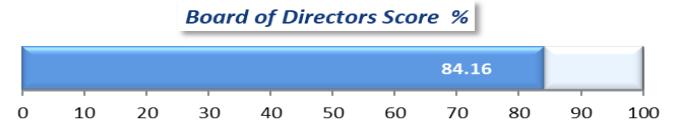
### Outlook

JCR-ER is of the opinion that the Company will maintain its level of compliance with Code in the Stakeholders main section during the upcoming monitoring period. For this reason, the Outlook for this section has been determined as **"Stable"**.

## 6. Board of Directors

The company maintains its previous level of compliance with the code in this main section in the monitoring period. The Company's level in this section and their corresponding notes are outlined below;

- Numerical value is **8,42**,
- Convergence Level **AA(Trk)** representing the category of **"Merit Compliance"**,
- Notch degree (**bbb**) representing the category of **"Outstanding"**,
- Outlook (**Positive**)



## Board of Directors Result

<b>8.42</b>
AA (Trk) / bbb
Positive

### Activities carried out during the monitoring period in this field:

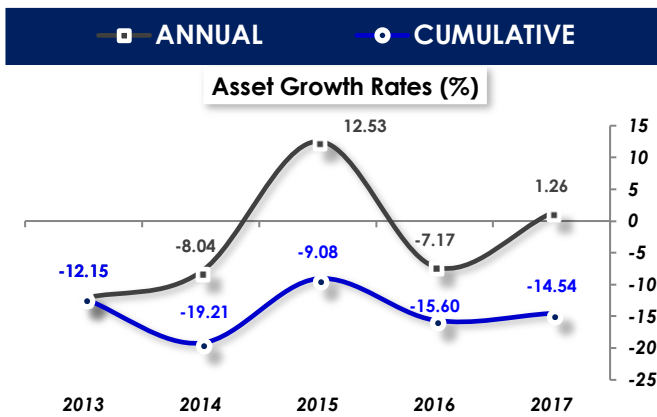
- ✓ The Board of Directors was acquitted at the general meeting held on May 29, 2018.
- ✓ Mr. Selman ÇİFTÇİ and Mr. Murat MEMİOĞLU ended their duties as independent member in the Board in 2018. Mr. Hüsnü KURTİŞ and Mr. Ziya BURCUOĞLU were elected as new independent board members in the shareholders meeting. These changes were disclosed in a timely manner to the PDP.
- ✓ The Board of Directors held 24 meetings as of 31.05.2018. All votes and decisions made during these meetings were recorded in the minute book and archived in accordance with the Code.
- ✓ The Audit Committee held 3 meetings in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.
- ✓ The Corporate Governance Committee held 3 meetings in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.
- ✓ The Risk Committee held 3 meeting in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.

## Outlook

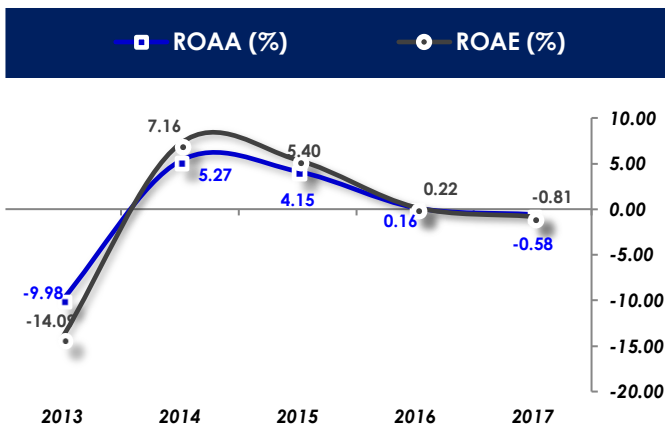
JCR-ER is of the opinion that the Company will maintain its level of compliance with Code in the Board of Directors main section during the upcoming monitoring period. Additionally, due to the expectation that the effectiveness of the Board will increase along with the new members elected to the Board of Directors, Board of Directors' outlook has been determined to **"Positive"**.

## 7. Financial Efficiency

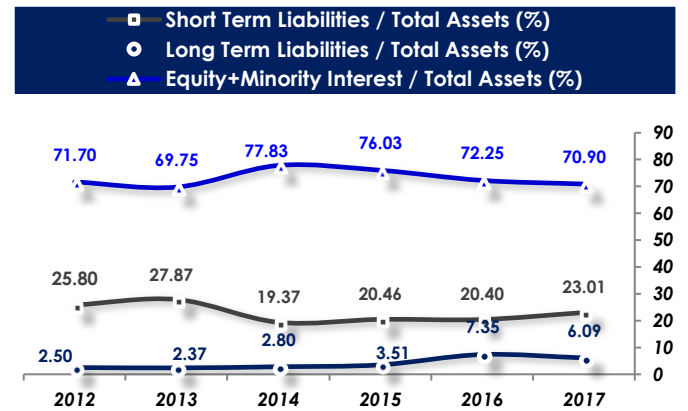
The graph below reveals annual and cumulative growth rates of IHEVA. The annual asset growth rate of the Company has increased by 1.26% in 2017.



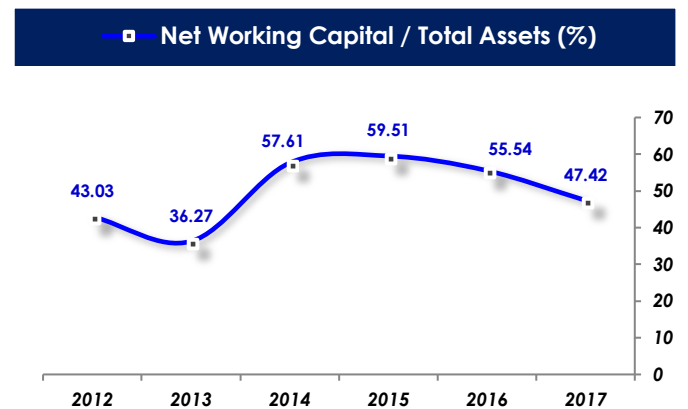
ROAA and ROAE can be seen below graph. The Company recorded very low profitability in 2013. Then it has been a sharp increase in both profitability ratios in 2014. From 2014 onwards, there is a declining trend in profitability.



The graph below reveals liabilities of the company. In line with the increase in the share of short term liabilities since 2011, further years present constant trends until 2016 and the constant trend is also monitored in the share of long term liabilities from FYE2011 to FYE2016.



Net Working Capital/Total Asset ratio can be seen below graph. It reveals that there is no problem about this ratio in the Company.



**TABLE:1**

**SHAREHOLDING STRUCTURE**

<b>Years</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Paid Capital (000TRY)</b>	<b>191,370</b>	<b>191,370</b>	<b>191,370</b>	<b>191,370</b>	<b>191,370</b>
<b>Shareholders</b>					<b>Share %</b>
İhlas Holding A. Ş.	4.43	4.43	4.43	4.43	4.43
İhlas Pazarlama A.Ş.	17.60	17.60	17.60	17.60	17.60
Public	77.97	77.97	77.97	77.97	77.97
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



Table: 2

**AFFILIATES AND SUBSIDIARIES as of July 2018**

<b>Consolidated Subsidiaries</b>	<b>Sector</b>	<b>Paid Capital (TL)</b>	<b>Interest Share %</b>
İhlas Gayrimenkul Proje Geliştirme ve Ticaret A.Ş.	Real Estate	140,000,000	12.21
Detes Enerji Üretim A.Ş.	Energy	6,500,000	99.84
İhlas Gazetecilik A.Ş.	Media	120,000,000	1.03
İhlas Madencilik Enerji ve Tic. A. Ş.	Energy	7,700,000	0.63
Şifa Yemek ve Gıda Üretim Tesisleri Ticaret A. Ş.	Catering	860,000	100
KPT Lojistik Taşımacılık Paz. İç ve Dış Tic. A. Ş.	Logistic	1,200,000	100

**TABLE: 3**

<b>Financial Data</b>	<b>2017*</b>	<b>2016*</b>	<b>2015*</b>	<b>2014*</b>	<b>2013*</b>
<b>Total Assets (000 USD)</b>	68,931	72,959	95,127	105,993	125,227
<b>Total Assets (000 TRY)</b>	260,001	256,756	276,592	245,786	267,272
<b>Equity (000 TRY)</b>	184,339	185,498	210,296	191,299	186,435
<b>Net Profit (000 TRY)</b>	-861	-720	12,477	11,329	-23,272
<b>Sales (000 TRY)</b>	140,953	108,725	116,227	98,139	107,859
<b>Net Profit Margin (%)</b>	-0.61	-0.66	10.74	11.54	-21.58
<b>ROAA (%)</b>	-0.58	0.16	4.15	5.27	-9.98
<b>ROAE (%)</b>	-0.81	0.22	5.40	7.16	-14.09
<b>Equity / Total Assets (%)</b>	70.90	72.25	76.03	77.83	69.75
<b>N. Working Cap. / T. Assets (%)</b>	47.42	55.54	59.51	57.61	36.27
<b>Debt Ratio (%)</b>	29.10	27.75	23.97	22.17	30.25
<b>Asset Growth Rate (%)</b>	1.26	-7.17	12.53	-8.04	-12.15

\*The End of Year

**TABLE: 4**  
**BOARD OF DIRECTORS**

Name	Task	Expertise	Date Elected	Experience (Year)	Education	Executive/Non-Executive	Independent/Not Independent	Committee Membership
Sedat KURUCAN	Chairman	Mechanical Engineer	17.12.2002	35	Master	Non-Executive	Not Independent	
Ömer KAMBER	Deputy Chairman and General Manager	Mechanical Engineer	16.03.2017	30	Ph.D.	Executive	Not Independent	
Mehmet KÜSMEZ	Member	Financial Officer	16.03.2001	30	University	Executive	Not Independent	
H. Alev VOLKAN	Member	Accountant	31.05.2012	48	University	Non-Executive	Not Independent	Corp. Gov. Committee Member, Risk Committee Member
Mehmet Remzi ESEN	Member	Accountant	28.03.2014	42	University	Non-Executive	Independent	Risk Committee Chairman, Audit Committee Member
Hüsnü KURTİŞ	Member	Chartered Accountant	29.05.2018	43	University	Non-Executive	Independent	Audit Committee Chairman
Ziya BURCUOĞLU	Member	Retired Colonel	29.05.2018	53	War Academy	Non-Executive	Independent	Corp. Gov. Committee Chairman