

## **Corporate Governance Principles Compliance Report**

In compliance with the Corporate Governance Principles published by the Capital Markets Board (CMB) during the 2010 operating year, ending December 31, 2010, our Company has a five-member Board of Directors with executive and non-executive members and two independent members.

One of the two independent members is the chairman of the Auditing Committee, and the other is the chairman of the Corporate Governance Committee.

The chairman of the Board of Directors is also the general manager and CEO of the Company.

Our Board of Directors consists of three non-executive members (the chairman and two independent members) and two executive members (the general manager and the chief financial officer).

The Corporate Governance Committee focuses on public disclosures, transparency and the organization of the stakeholders and Board of Directors.

Accordingly, the Ethics Principles and Public Disclosure Policy are presented in the relevant section of this compliance report. In accordance with these principles, which are integral to public disclosure and transparency, pertinent information and documents are published in a timely manner on the Company's website.

One person is employed in the Investor Relations unit.

An Internal Auditing Department was established, and internal auditors were hired according to a decision of the Board of Directors and recommendations of the Auditing Committee.

Both nationwide and regional corporate social responsibility projects are evaluated in line with our policy on corporate social responsibility. At the Ihlas Group, our primary principle is based on the maxim, "Valuable people are those who serve others." Accordingly, we perform all of our services for the greater benefit of humanity, irrespective of religion, language, race, gender, or age.

Instances of non-compliance discussed in the report have been identified by the Corporate Governance Committee within the framework of these principles. However, the committee has complied with the majority of these principles, and there are ongoing projects to ensure compliance with all of these principles. No conflicts of interest have resulted from non-compliance with these principles.

Prepared with the results of rating studies conducted by JCR Avrasya Derecelendirme A.Ş., the report has evaluated the Corporate Governance Principles Implementation within the scope of CMB regulations and determined the CMB Corporate Governance Principles Compliance Note as 7.12 and its outlook as Positive. Digitized compliance values of the four main divisions were determined as follows:

- 5.77 for shareholders
- 8.11 for Public Disclosure and Transparency
- 6.63 for stakeholders
- 7.36 for the Board of Directors and Executives.

## **SECTION I - SHAREHOLDERS**

### **1. Shareholder Relations**

Structured according to the CMB Corporate Governance Principles, the Corporate Governance Committee recommendations, and the Board of Directors decision, the Shareholder Relations department surveys and monitors all matters regarding exclusive public disclosures; responds to

requests from investors, financial analysts, journalists, and people from similar industries; and actively employs the Company's website for public disclosures.

**Contact Information:**

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Ahmet İmir was charged with fulfilling obligations stemming from the Capital Market legislation stated in paragraph 1 of Article 8 of the Communiqué on Principles to Be Observed by Anonymous Partnerships Subject to the Capital Market Law of the Capital Market Board Series IV, No:41. He holds the Capital Market Activities Advanced Level License and Corporate Governance Rating Expertise License certificates.

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Shareholders generally ask questions about the price performance of stocks, the Company's new investments, and the operations of subsidiaries.

**2. The Use of Shareholders Rights to Obtain Information**

The required statement regarding information requested by shareholders is stated above. Information requests from shareholders are evaluated by the relevant departments, according to law and the Articles of Association.

Developments affecting shareholders' use of rights are discussed in the Company Information Disclosure Policy.

Although the Articles of Association do not contain regulations regarding a special auditor, there have been no requests to appoint a special auditor for this reporting period or any previous reporting periods.

**3. Information on the General Shareholders Meeting**

The 2009 Ordinary General Shareholders Meeting of our Company was postponed on March 30, 2010, as the required quorum was not present, but held on Wednesday, April 21, 2010 at 10:30 a.m., at the headquarters of our company.

The invitation to the meeting was announced with a Special Case Disclosure to the ISE on March 30, 2010, and published in issue no. 7331, dated March 31, 2010, of the *Turkish Trade Registry Gazette*, and in the daily newspaper, *Türkiye*, issue no. 10573, dated April 1, 2010, and in the daily newspaper, *Dünya*, in issue no. 10573-9095, dated April 1, 2010, according to law and the Articles of Association.

Attendance quorum in Turkish Commercial Code, Article 372, was implemented, with 17.87 percent of stakeholders in attendance at the meeting on April 21, 2010.

Prior to the meeting, shareholders were provided with the Board of Directors report, the auditors' report and the summary of the independent auditors report, the financial statements, and the profit distribution proposal for 2009. Shareholders did not present questions outside the agenda nor were any proposals submitted.

The Articles of Association do not include provisions that allow the General Shareholders Meeting to take important decisions on matters, such as the divestiture, sale, purchase, or lease of assets.

The Company's Board of Directors acts in accordance with current legislation and the Articles of Association for matters pertinent to non-divestiture of assets in order to perform the responsibilities outlined in the Articles of Association regarding purpose and subject. The Board announces matters requiring a special case disclosure through the ISE, according to CMB legislation.

Although the law requires only a two-week notification prior to the meeting, shareholders were notified three weeks beforehand in order to facilitate participation in the General Shareholders Meeting. The relevant announcements were also published on the Company's website.

According to the Turkish Ministry of Industry and Commerce, General Directorate of Domestic Trade, Permit No. 3808, dated July 30, 2008, and CMB Communiqué No. 12478, dated July 25, 2008, a decision was taken at the Extraordinary General Shareholders Meeting, held on July 31, 2008, to insert the following statement in the Articles of Association, Article 6 (Description of Capital Shares): "Moreover, the Board of Directors is authorized to limit the transfer of shares above their nominal value and to limit shareholder rights to buy new shares."

#### **4. Voting Rights and Minority Rights**

VOTE: (*Turkish Trade Registry Gazette*, Issue No.3821, published July 5, 1995)

Article 21: Shareholders or their proxies have one vote for each of the shares they have or represent at the Company's Ordinary and Extraordinary General Shareholders Meetings.

DISALLOWED TO VOTE: (*Turkish Trade Registry Gazette*, Issue No.3821, published July 5, 1995)

Article 22: Shareholders cannot vote in the meetings on personal cases or circumstances among themselves, their spouses, or relatives of Company employees.

Companies that have mutual ownership may cast their votes through representation provided that these votes lead to shareholder sovereignty; there were no requests to represent minority shares in management. The Articles of Association do not contain any cumulative voting procedures.

#### **5. Profit Distribution Policy and Deadline**

The Company's dividend policy is as follows:

- Annual distribution of profits from the previous year and payment of annual dividends are based on a proposal prepared by the Board of Directors and subject to approval at the General Shareholders Meeting.
- The Board of Directors may decide whether distribution of profits, if any, may be proposed according to the amount of dividends according to law to include the Turkish Commercial Code, Capital Markets Law and principle decisions, the Tax Procedure Law, and the Articles of Association; shareholders may accept or reject this proposal at the General Shareholders Meeting.
- If the Board of Directors proposes to distribute the dividends at the General Shareholders Meeting, the basis of this proposal should be explained to the shareholders and also included in the annual report.
- The Company's profit distribution policy is included in the annual report and disclosed to the public on the Company's website.

Privileges are not granted that allow participating in the Company's decisions as described in the Articles of Association as follows:

PROFIT DISTRIBUTION: (*Turkish Trade Registry Gazette*, Issue No.4720, published January 29, 1999)

Article 29: Upon deducting the Company's common expenses and mandatory expenses such as various depreciations calculated at the end of the fiscal year, the remaining net profit shown on the annual balance sheet is distributed as follows:

Legal Reserves:

a. 5 percent is set aside as legal reserves. (Turkish Commercial Law, Article 466/1)

Financial Liabilities:

b. The amount for the current legal entity taxes for the Company is set aside.

Primary Dividend:

c. The primary dividends at a rate and an amount determined by the CMB are set aside from the remaining sum.

Secondary Dividends:

d. After the items in paragraphs a, b, and c above are deducted from the net profits, the General Shareholders Meeting is authorized to distribute all or part of the remaining sum as secondary dividends or recognize this sum on the balance sheet as end-of-quarter profits. (Turkish Commercial Code, Article 466/3 reserved.)

e. Unless reserves required by law and shareholder primary dividends are set aside according to the Articles of Association, no other reserves may be allocated and no profits may be carried over to the following year. In addition, members of the Board of Directors, officers, employees, or laborers may not receive shares from the profit, unless primary dividends are distributed.

DEADLINE FOR PROFIT DISTRIBUTION: (*Turkish Trade Registry Gazette*, Issue No.4359, published August 21, 1997)

Article 30: Upon receiving the proposal from the Board of Directors, a decision is taken at the General Shareholders Meeting as to when and how profits will be distributed to shareholders. When distributing profits to shareholders, the Capital Markets Law applies.

Profits will be distributed within the legal timeframe.

## **6. Transfer of Shares**

Transfer of shares is described in the Company's Articles of Association as follows:

TRANSFER OF SHARES: \_\_\_\_ (*Turkish Trade Registry Gazette*, Issue No.3821, published July 5, 1995)

Article 8:

In order for shares registered to shareholders to be transferred, the founding shareholders are given the option to buy the shares at their current value; if none of the founding shareholders buys the shares within a month, the shares may be sold to a third party. Any appropriation made to the contrary is invalid and will not be registered in the share ledger.

The items included in Article 8 apply in instances of pledging, seizure, or other similar rights pertinent to the shares. Preferential rights in Article 8 are reserved in the event of foreclosure sales. If these preferential rights are infringed, the administration commission is authorized to register the sale and transfer or transfer the rights to the share ledger.

However, the shares to be sold, transferred or inherited obligatorily due to seizures, foreclosures, inheritances, or the rights of others in kind arising from the application of Turkish laws, are first offered to founding shareholders at the current market value. If no response is given to the offer within 30 days, the shares may be sold to third parties.

## **SECTION II – PUBLIC DISCLOSURE AND TRANSPARENCY**

### **7. Company Information Disclosure Policy**

**Objective:**

The objective of Ihlas Ev Aletleri İmalat San. ve Tic. A.Ş. (IHEVA) is to pursue a transparent and effective disclosure policy to inform shareholders in a simultaneous, complete, transparent, and accurate manner, according to related laws and the CMB Corporate Governance Principles. All information that is not within the purview of trade secrets must be disclosed to the public by law. The objective of the disclosure policy is to share the Company's past performance, future expectations, strategies, targets and vision (not pertaining to trade secrets) with the public, related authorized entities, existing and potential investors, and shareholders through active and open communications. In all the public disclosures, IHEVA complies with the CMB legislation and all ISE regulations. Moreover, IHEVA aims to implement the most effective communications policy according to the CMB Corporate Governance Principles.

**Authority and Responsibilities:**

IHEVA's Disclosure Policy has been established by the Board of Directors. At IHEVA, the pursuance, observance and development of the public disclosure policy is under the authority and responsibility of the Board of Directors, which has appointed the executive director of Investor Relations and Financial Affairs for the coordination of the disclosure function. Authorized persons fulfill their responsibilities in close cooperation with the Corporate Governance Committee, Auditing Committee, and Board of Directors.

**Methods and Tools:**

Information disclosures are made through various tools, such as material events disclosures, financial statements and reports, annual reports, Company website, presentations, investor meetings and information notes, and press releases. The key public disclosure methods and tools are as follows:

- Disclosures of material events forwarded to the ISE and international stock exchange markets where the Company is listed;
- Financial statements and their footnotes, independent audit reports and declarations periodically forwarded to the ISE and international stock exchanges where the Company is listed (These reports are also available on the Company's website, if desired. Annual reports and financial statements are periodically disclosed both in print and in electronic environments through the Company's website.);
- Annual reports (These reports are presented to the related parties both in print and in electronic environments through the Company's website.);
- Corporate website(<http://www.iea.com.tr>);
- Notices and announcements through the *Turkish Trade Register Gazette* and national and local newspapers with high circulation, if necessary;
- Press releases issued on important developments occurring throughout the year through print and visual media;
- Meetings and contacts with investors and analysts, either face-to-face or through telephone, electronic mail, fax, etcetera; and
- Disclosures made to data distribution organizations.

**Material Events Disclosures:**

IHEVA's material events disclosures are prepared by the Investor Relations unit, under the supervision of the executive director of Financial Affairs. The disclosures are signed by signatory executives and announced according to CMB and ISE regulations.

The Company takes the following measures to ensure the confidentiality of this information until the material events are disclosed to the public:

The Company places great importance on all company employees adhering to the rules on the use of insider information in order to ensure that the balance between transparency and protection of the

Company's interests is maintained. Various types of measures are taken to prevent the illegal use of insider information. Documented and disseminated throughout the organization, the "Rules of Ethics" expressly state the code of conduct that must be adopted by IHEVA employees in their business life.

Information that may be classified as trade secrets, which is acquired during the employment term and belongs to the Company, whose policy precludes anyone other than authorized parties to have knowledge of this information, is classified as "Company Information." All employees protect and do not use, either directly or indirectly, company information during and beyond their employment periods.

**Confirmation of News or Rumors:**

If any news or rumors from media organizations contain any information that has already been made public in material events disclosures, registration statements, circulars, announcements approved by the Board of Directors, and financial statements, and that does not provide any additional information, a material events disclosure is not required.

On the other hand, though the related official information may not require a material events disclosure, should the Company request an explanation of the news or rumor in question, this matter is brought forward by the executive director of Financial Affairs and made public through a material events disclosure.

If the news or rumor in question contain any issue that requires a material events disclosure according to the related official information, diligent attention is given to forwarding the required disclosure to the related stock exchange before the start of the opening session, no later than 09.00 a.m., without waiting for a warning, statement or request from the Board of Directors or the related stock exchange, to ensure the uninterrupted continuity of market transactions and sessions.

**Public Disclosure of Financial Statements:**

The financial statements of IHEVA are prepared according to the provisions specified by the CMB and disclosed to the public after having been audited independently according to the International Standards of Auditing (ISA). Before public disclosure, financial statements and their footnotes are submitted to the Board of Directors for approval with assent obtained from the Auditing Committee according to the Capital Markets Law. After the authorized persons have signed the accuracy statement, then the financial statements and their footnotes and the independent auditing report are sent to the ISE according to the Capital Markets Law and ISE regulations. The financial statements and their footnotes are retroactively accessible on the Investor page of IHEVA's website. Moreover, the Investor Relations unit prepares periodic presentations on information notes or financial data and ratios, and places them on the corporate website to ensure a better understanding of financial affairs.

**Annual Report:**

The content of the annual report is prepared according to international standards, Capital Markets legislation, and CMB Corporate Governance Principles. The annual report is then submitted for approval to the Board of Directors. The annual report is made public on the corporate website. Capital markets participants may obtain the printed version of the annual report in Turkish or English from the Investor Relations unit, if requested.

**Appointment of Employees with Administrative Responsibility:**

Employees with access to internal information are given administrative responsibility according to the scope of the information.

However, managers and other staff members with detailed information on the Company's business activities in part and restricted information in whole are not considered employees with access to internal information as noted above.

However, members of the Board of Directors, the general manager, some of the department directors, and most top managers working in the headquarters, who have both detailed information on current

business affairs and also on future plans are considered employees having access to internal information.

A list of employees is prepared in line with these criteria and sent to the Capital Markets Board and the related stock exchanges, if requested, according to the applicable CMB communiqué.

#### **The Company Web Site and Contents:**

All mandatory information in the Company's corporate governance principles may be accessed on the Corporate, Human Resources, and Investor pages on IHEVA's website. Most of the information on the website is both in Turkish and English.

The main content of the website is as follows:

- Corporate Profile
- History
- Mission & Vision
- Quality Management
- Human Resources Policy
- Annual Reports
- Company Information Disclosure Policy
- Profit Distribution Policy
- Ethics Rules
- Corporate Social Responsibility
- List of Employees with Access to Internal Information
- Operations of Company Insiders
- Corporate Governance Principles Compliance Report
- Partnership Structure
- Preferred Shares
- Subsidiaries and Affiliates
- Board of Directors and Committees
- Senior Management
- Organization Chart
- General Shareholders Meeting
- Financial Information
- Material Events Disclosures
- Frequently Asked Questions
- Presentations
- Share Performance
- Articles of Association
- Articles of Association
- Representation
- Public Offering Circulars
- Share Information

#### **Notices and Announcements through the Turkish Trade Registry Gazette and Daily Newspapers:**

According to the Capital Markets Law, Turkish Commercial Code and the Articles of Association, the announcements of the General Shareholders Meetings, capital increases, and dividend payments are announced through the *Turkish Trade Registry Gazette* as well as through daily newspapers.

Questions or information requests in writing from the media on various developments and on general business affairs are reviewed and given either positive or negative responses.

#### **Meetings and Contacts with Investors and Analysts:**

An Investor Relations unit has been established at IHEVA to maintain well-organized relations with both existing and potential shareholders, to answer investors' questions productively, and to work for the improvement of corporate values. Relations with shareholders are managed by this unit in coordination with the executive director of Financial Affairs.

The shareholders and the analysts may also closely follow developments at IHEVA through the website regularly updated by the Investor Relations Unit and the information notes disseminated to the shareholder via Internet.

#### **Disclosures on Anticipatory Declarations:**

Authorities of Ihlas Holding A.Ş. or IHEVA may release anticipatory declarations from time to time on information disclosure policies. The anticipatory declarations in written documents of the Company are released according to certain assumptions; therefore, investors must be advised that realized results may differ significantly from expected results in anticipatory declarations due to risks, uncertainties, and other factors.

### **8. Material Events Disclosures**

In accordance with CMB regulations, the Company issued 16 material events disclosures during the 2010 operating period, while the CMB did not request any additional disclosure statements.

The Company's shares are not traded on foreign stock exchanges.

The CMB did not impose any sanctions for failure to disclose material events on time.

### **9. The Company Web Site and Its Contents**

The Company's website is [www.iea.com.tr](http://www.iea.com.tr).

In addition to commercial and promotional information, the website includes all the information mentioned in the CMB Corporate Governance Principles, Section II, and Article 1.11.5.

### **10. Disclosure of the Company's Controlling Individual Shareholder or Shareholders (Beneficial Ownership)**

The information about the Company's controlling individual shareholder or shareholders determined after eliminating the effects of indirect and mutual ownership is not disclosed to the public; however, this information has been announced in relevant articles of registration statements issued to the CMB for capital increases.

As of December 31, 2010, the status of real and legal entities owning shares in the Company indirectly is as follows:

Shareholder	Share (%)	Share Amount (TL)	Indirect Shareholder (*)	Share (%)	Share Amount (TL)
Ihlas Pazarlama Yatırım Holding A.Ş.	17.60	33,681,000	Ihlas Pazarlama A.Ş.	10.56	20,208,600
Open to the Public	82.15	157,205,723	Ihlas Holding A.Ş.	6.51	12,461,969.95
Other	0.25	483,278	Other	0.53	1,190,780
<b>TOTAL</b>	<b>100</b>	<b>191,370,001</b>	<b>TOTAL</b>	<b>17.60</b>	<b>33,681,000</b>

Individual Shareholder	Share (%)	Share Amount (TL)
Ihlas Holding A.Ş.	16.88	32,302,834
Open to the Public	82.15	157,205,723
Other	0.97	1,861,444
<b>TOTAL</b>	<b>100</b>	<b>191,370,001</b>

Our company had signed an options contract with Lehman Brothers Finance S.A., and within the scope of this contract, a lot of 8 million shares of Ihlas Holding A.Ş. in the portfolio of our Company were given as collateral.

We determined that Lehman Brothers Holding Inc-New York had filed for bankruptcy and that Lehman Brothers Finance S.A., with whom our Company had signed the options contract, was in a state of insolvency.

Accordingly, Ihlas Holding A.Ş. officially initiated the process for the return of the lot of 8 million Ihlas Holding A.Ş. shares issued to Lehman Brothers Finance S.A. as a collateral deposit on November 28, 2008.

In the hearing dated April 22, 2010, of the lawsuit filed for the return of this lot of 8 million Ihlas Holding A.Ş. shares given as collateral as part of the an options contract with Lehman Brothers Finance S.A., it was unanimously decided to accept the lawsuit and to take a lot of 8 million extrajudicial Ihlas Holding A.Ş. shares subject to the lawsuit from the defendant (Lehman Brother Finance S.A.) and return them to the claimant (Ihlas Ev Aletleri), as it was understood that the defendant will not be able to fulfill its obligations stemming from the contract. It was also decided to continue the decision of temporary injunction until finalization of the verdict, subject to appeal to the Supreme Court.

Parent Company Ihlas Holding A.Ş. declared on the material events disclosure dated July 22, 2010, that it decided during the Board of Directors meeting dated July 20, 2010, to sell 17.60 percent of shares owned in Ihlas Ev Aletleri İmalat San. ve Tic. A.Ş., with a nominal value of 33,681,000 TL, to Ihlas Pazarlama Yatırım Holding A.Ş with a price of 1.05 TL for one share, for a total price of 35,365,050 TL, out of the stock exchange.

## 11. Disclosure of Company Insiders

The list of individuals who are classified as insiders is not disclosed to the public. According to the Auditing Committee and the Articles of Association, the list of individuals classified as insiders is as follows:

Name Surname	Title
Abdullah Turalı	CBD, Member of the Auditing and Corporate Governance Committees
Sedat Kurucan	VCBD, General Manager
Mehmet Küsmez	MBD, Chief Financial Officer
Yasin Yılmaz	IMBD, Chairman of the Auditing Committee
Ümit Güney	IMBD, Chairman of the Corporate Governance Committee
Mahmut Kemal Aydın	Main Partnership Financial Affairs Coordinator
Ali Tubay Gölbaşı	Main Partnership Finance Coordinator
Ömer Şaban Kamber	R&D Supervisor
Bülent Kaya	Supply Supervisor
Erkan Adıgüzel	Operation Supervisor
Mustafa Salih Yazıcı	Human Resources Representative
Metin Cahit Koyu	IT Supervisor
Uğur Kurt	Member of the Strategic Planning and Corporate Governance Committee
Ahmet İmir	Investor Relations Unit Supervisor

Mehmet Ercan Akgün	Internal Auditing Manager
Turgut Sayar	Controller
Muhammet Muammer Gürbüz	Affiliate General Manager
Abdullah Tuğcu	Affiliate Financial Affairs Manager
Zafer Karshoğlu	Lawyer
Salim Akgül	İrfan YMM A.Ş. Responsible Partner, Lead Auditor
Şükrü Yavuz	Pür Bağımsız Denetim, Responsible Partner, Lead Auditor
Hüseyin Perviz Pür	Pür Bağımsız Denetim, Responsible Partner, Lead Auditor
Ercan Çardak	Pür Bağımsız Denetim, Lead Auditor
Uğur Yıldırım	Pür Bağımsız Denetim, Lead Auditor
Nilgün Karataş	Pür Bağımsız Denetim, Auditor
Şeref Özçelik	Pür Bağımsız Denetim, Auditor
Faruk Çardak	Pür Bağımsız Denetim, Assistant Auditor
Funda Songül Mantarcı	Pür Bağımsız Denetim, Assistant Auditor
Mustafa Tunca	Pür Bağımsız Denetim, Assistant Auditor
Özkan Yavuz	Pür Bağımsız Denetim, Assistant Auditor
Şükrü Fehim Demiray	Board of Directors Secretariat
Şevket Güleç	JCR Avrasya Derecelendirme A.Ş. Rating Committee Member

**CBD** : Chairman of the Board of Directors

**VCBD** : Vice-Chairman of the Board of Directors

**MBD** : Member of the Board of Directors

**IMBD** : Independent Member of the Board of Directors

## 12. Notifying Stakeholders

Stakeholders of the Company will be notified of relevant issues if requested, according to law and the Articles of Association.

Accordingly, employees, suppliers, dealers, and after sales technical service employees are notified of relevant issues regularly and frequently through training seminars and newsletters, all of which contribute to establishing synergy within the organization.

The rights of the Company stakeholders are preserved according to law and relevant contracts.

## 13. Participation of Stakeholders in Management

Extensive weekly quality meetings are attended by teams from production, supply, after sales, and management. Stakeholders are encouraged to participate in management in examining the quality of products and the after sales services and to participate in evaluating the latest developments of ongoing projects.

We anticipate establishing models that encourage the participation of stakeholders (who are primarily the employees of the Company) in management without interfering with the Company's operations. As a start, we have taken steps towards the effective involvement of employees in management by providing them with training seminars. These seminars are conducted by experts on topics that include

learning about the organization, developing learning skills, dealing with change, human relations, and business, among others. Our vocational education activities for employees are ongoing.

#### **14. Human Resources Policy**

Based on the belief that investment in people is always rewarded, our Company's human resources policy is to create a productive, knowledgeable, and optimally-performing team, open to continuous improvement.

Moreover, our Company's Board of Directors adopts and implements the following principles in full, as per the CMB Corporate Governance Principles, Section III, Article 4:

- Providing equal opportunities for employees;
- Informing employees of their employee rights, career and company opportunities;
- Providing a safe work environment for employees;
- Showing no discrimination among employees and preventing maltreatment of employees.

As part of our human resources policy, Mr. Mustafa Salih Yazıcı acts as the Human Resources Representative, to manage employee relations.

There have been no specific complaints from employees with regard to discrimination.

On December 22, 2010, the Board of Directors evaluated a draft study prepared by the Human Resources unit on revising the existing personnel guidelines and drawing up an updated set of guidelines, defining such matters as appointments, promotion, advancement, reward, motivation and punishment (warning, condemnation, discharge, etc.) and including them in the guidelines. This study has been incorporated into the Company Quality Manual and put it into force as from the date of decision.

#### **15. Information on Relations with Customers and Suppliers**

Our Company is obliged to take any measure to fulfill customer satisfaction in the marketing of goods and services.

Accordingly,

- Suggestions and complaints from end consumers, relevant non-government organizations, or public organizations are prioritized on our agenda while solutions for customer satisfaction are created for goods and services purchased by consumers.
- Our products comply with international and national quality standards according to TSE, KEMA, KEUR, and UL, among others. Bearing the CE symbol that certifies compliance with mandatory health, safety, environmental, and consumer protection laws, our products are offered to consumers as safe-to-use products that are not harmful to human health and safety, plants, animals, and the environment, if used for relevant purposes.
- Necessary precautions are taken in inter-company procedures to prevent products that are below standard from passing through our manufacturing process and quality control system; and to compensate and repair goods and services that are below standard. Furthermore, we have implemented joint measures with suppliers to ensure that their suppliers comply with these standards.
- Moreover, goods and services that fall below standard, despite all precautionary measures, are repaired and recompensed. Hence, although the legal warranty calls for a two-year period, all of our appliances are under warranty for three years.

#### **16. Corporate Social Responsibility**

Our Company complies with laws and regulations pertaining to public health, the environment, the consumer, and ethical principles when supporting economic development and working towards our goal to improve the quality of life. Our Company employs no child workers, prevents all types of forced labor and labor under pressure, and is non-discriminatory in the recruitment and employment processes.

Our Company promotes an approach of prevention before damage in environment-related matters.

Our Company follows environmental, regional, and public social projects and anticipates leading in this area through supporting appropriate projects.

Our Company separates waste at its source according to the Packaging Waste Regulation and contributes to recycling by giving packaging waste to licensed companies.

Our Company signed a packaging waste utilization contract with TÜKÇEV to promote a more efficient environmental responsibility according to the Packaging Waste Regulation. The obligations of TÜKÇEV (Mercantile Establishment of Consumer and Environmental Education Foundation) per the contract are as follows:

- TÜKÇEV will inform the Company on regulations and legislations published by the Republic of Turkey Ministry of Environment and Forestry, and legislation and studies in the European Union and other developed countries with regard to environmental issues and packaging waste.
- TÜKÇEV will use the revenue obtained from contracts with companies to raise public awareness about decreasing package waste at its source; collecting, recovering and recycling packaging waste; environmental issues; and developing environmental sensitivity. It will also use that revenue to develop projects and carry out training activities regarding recovery. The Company will be informed of all activities.
- According to provisions in the regulation, TÜKÇEV will document for the Republic of Turkey Ministry of Environment and Forestry, on behalf of the Contract party company, that the type and amount of the material agreed upon with the Company has been collected, recycled and recovered within the scope of the regulation regarding packaging waste recovery obligations of the Company.
- TÜKÇEV will work with companies that have obtained an environmental license or temporary operation permit from Republic of Turkey Ministry of Environment and Forestry for the mentioned services.
- As of the end of term, TÜKÇEV will submit documentation on the recovery obligation of the Company to the Republic of Turkey Ministry of Environment and Forestry on behalf of the Contractor party company.

There was no damage to the environment during this period. Our company had no activities that required an environmental impact evaluation report.

## **SECTION IV – BOARD OF DIRECTORS**

### **17. The Structure and Composition of the Board of Directors and Independent Members**

<b>Name Surname</b>	<b>Title</b>
Abdullah Turalı	CBD, Member of the Auditing Committee
Sedat Kurucan	VCBD, General Manager (Executive Member)
Mehmet Kúsmez	MBD, Chief Financial Officer (Executive Member)
Yasin Yılmaz	IMBD, Chairman of the Auditing Committee

Ümit Güney	IMBD, Chairman of the Corporate Governance Committee
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**CBD** : Chairman of the Board of Directors

**VCBD** : Vice-Chairman of the Board of Directors

**MBD** : Member of the Board of Directors

**IMBD** : Independent Member of the Board of Directors

As stated above, our Company's Board of Directors includes executive and non-executive members; more than half of the members are non-executives. Moreover, the chairman of the Board of Directors is not the general manager. In addition, our five-member Board of Directors consists of two independent members. The independence statements of the independent members of the Board of Directors are as follows:

#### **STATEMENT OF INDEPENDENCE**

- *Neither I, my spouse, nor any of my relatives, by blood or marriage (twice removed), have had any direct or indirect interest relations with Ihlas Ev Aletleri Imalat San. Tic. A.Ş. (company) or its subsidiary Ihlas Holding A.Ş. and group companies, in the last two years.*
- *I have not partaken in the independent auditing process at any time during the previous two years.*

*I hereby declare that I have been independent according to law, the Articles of Association, and the CMB Corporate Governance Principles.*

**Yasin Yılmaz**

#### **STATEMENT OF INDEPENDENCE**

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**Ümit Güney**

There were no circumstances in the 2010 operating period that jeopardized the independence of the independent members of the Board of Directors in any way.

The responsibilities carried out by the members of the Board of Directors outside the Company are regulated by the Turkish Commercial Code with no other additional restrictions.

#### **18. Qualification of Members of the Board of Directors**

The minimum qualifications required for the election of the Company's members of the Board of Directors are not regulated in the Articles of Association. Nonetheless, according to the qualifications stated in the CMB Corporate Governance Principles, Section IV, Articles 3.1.1, 3.1.2, and 3.1.5,

skilled individuals who have a high level of knowledge, competence, and a certain level of experience and who have not been convicted of any corporate crimes and are knowledgeable of the Company's areas of activity and management, preferably with a higher education degree, may be elected to the Board of Directors. All of our board members possess these minimum qualifications.

## **19. The Mission, Vision, and Strategic Goals of the Company**

The mission and vision of the Company are declared to the public on our website and in our activity reports.

### **Our Vision**

Our vision is to establish human resources equipped with knowledge, technology, and vision, who stay abreast of developments and innovations, and take advantage of opportunities, and create an organization with know-how in providing services and products, such as home appliances.

### **Our Mission**

Our mission is to become a global company by expanding our prestige in supplying products, such as home appliances and services, throughout the world and through customer satisfaction-focused activities, thus providing less expensive, faster, and higher quality products and services that improve the quality of life.

### **Strategic Targets**

The Company's Board of Directors approves strategic targets set by managers. Strategic goals are established by managers in each of the relevant departments, discussed and evaluated by all departmental managers at the general directorate, then finalized to present to the Board of Directors and implemented upon the Board's approval.

The Board of Directors regularly reviews whether the Company is meeting the goals and evaluates past performances and activities.

## **20. Internal Control and Risk Management Mechanism**

The Company's Board of Directors has authorized the Auditing Committee to establish the relevant department to prepare the necessary actions and procedures regarding risk management and the internal control system.

Mehmet Ercan Akgün has been appointed as the Internal Auditing department manager according to the Auditing Committee's recommendations and a decision of the Board of Directors, dated December 1, 2006.

Management of various types of risk has gained a significant amount of importance in today's competitive global economy. The government, shareholders, customers, and society expect a reliable and effective control process from businesses.

The Company team, established by the Auditing Committee, will be organized as such to identify significant risks facing the Company, to develop solutions for these risks, and to provide the necessary support crucial to pinpointing opportunities needed to grow and develop in order to meet the risk management expectations of stakeholders and to turn risks into opportunities for the organization.

## **21. Authority and Responsibilities of the Members of the Board of Directors and Executives**

The authority and responsibilities of the board members and Company executives are established by law, ethical principles, and Company procedures; however, they are not specifically regulated in the Company's Articles of Association.

## **22. Principles of the Activities of the Board of Directors**

Matters regarding manner and frequency of Board of Directors meetings, meeting and decision quorum, method of objecting to Board decisions and validity of Board decisions are carried out within the framework of Turkish Code of Commerce, Article 330 provisions.

The agenda of Board of Directors meetings consists of matters decided in the previous meeting to be discussed again in the next board meeting and matters determined by the senior management of the Company. Any board member may add other matters to the agenda by notifying senior management. Matters that need to be discussed by the board are communicated to the Board of Directors secretariat and collected in order to draw up the agenda for the next meeting.

The Board of Directors holds an ordinary meeting at least once a month; however, Members of the Board of Directors may convene upon emergence of extraordinary conditions and to take decisions about important matters on the agenda. The Chairman, Vice Chairman and each Board member is entitled to call the board to meeting and/or add matters he/she wishes discussed to the related meeting, by notifying all other board member at least one (1) day before the meeting. Invitations for these meetings are communicated by mail or telephone by the Board of Directors secretariat. The Board of Directors secretariat is operated by an expert reporting to the Chairman of the Board of Directors. All questions posed and all matters discussed during meetings are recorded to the meeting minutes.

Members of the Board of Directors attend all the meetings as a principle.

However, for important matters pertaining to activities of the Company, all members of the Board of Directors are expected to be present at these meetings in person. The following agenda items can only be approved by members of the Board of Directors who are present, in person, at the Board of Directors meeting.

- Determining areas of activity of the Company;
- Matters related to calling the general assembly to ordinary/extraordinary meeting and organization of the meeting;
- Finalizing the yearly activity report;
- Electing the chairman of the Board of Directors and the acting chairman and appointing new members;
- Establishing or terminating administrative units,
- Appointing or dismissing the chief executive officer/general manager,
- Establishing committees; and
- Determining the dividend policy of the Company and the term profit amount to be paid.
- Capital increase or decrease.

All Members of the Board of Directors, including the Chairman, have one vote and no member has a weighed vote right.

## **23. Prohibition from Engaging in Transactions and Competing with the Company**

No prohibition of carrying out transactions with the Company and prohibition of competing with the Company were implemented during the 2010 operating period; moreover, no conflicts of interest stemmed from this.

## **24. Code of Ethics**

Our Board of Directors proposes that the Company must show that capital markets are reliable above all else; thus, rules of ethics are extremely important. However, the precedence of the law, thus the need to be an advocate of the law, must come first in the principles.

Moreover, Members of our Board of Directors propose that the Company's general manager, chief financial officer, and Accounting and Finance department managers must do the following:

1. Provide complete, fair, accurate, timely, and clear information in all reports and documents disclosed to the public and submitted to the regulators of capital markets where the Company is registered;
2. Act in compliance with all laws, regulations, and principles to which the Company and its shareholders are bound; and
3. Act according to the letter and spirit of these principles of ethics and strive to establish a corporate culture that sets the foundation for compliance with laws and company policies in all business activities of the Company.

Furthermore, individuals who may be considered insiders must maintain the confidentiality of information included in financial statements not disclosed to the public according to the principles of ethics.

A Member of the Board of Directors may not disclose confidential information or information with trade secret status regarding the Company to the public.

Our employees;

- Are honest, reliable, ethical individuals who care about moral values and who do not compromise these values under any circumstance;
- Perform their responsibilities in company's departments or units in a disciplined, attentive, dedicated and objective manner while abiding by the confidentiality principles for the benefit of the Company;
- Fulfill their responsibilities to the best of their abilities in order to help increase profitability and market shares;
- Act, speak, and dress reasonably and properly;
- Interact with others, both within and outside the Company, in a courteous, proper, modest, active, and positive manner; manifesting these characteristics in all relationships;
- Abide by laws, professional principles, and relevant legislation;
- Evaluate different opinions, points of views, and suggestions in an open minded manner to find a middle ground and to decide upon the most effective, sound, and applicable decisions for the Company;
- Forego all types of illegal activities;
- Refrain from engaging in behavior that is contrary to justice, sincerity, integrity, reliability and social responsibility principles;
- Cooperate with other employees for common goals by communicating with them in a respectful and considerate manner, while conducting their duties;
  
- Are obliged to decline offers for personal profit immediately, and report them to relevant authorities and their superiors; and
- Are obliged to decline gifts from existing or potential customers and suppliers, aside from conventions.

As a manufacturing company, it is the common goal of management and all of our employees to remain up to date with global quality standards, to produce green and energy efficient products, to design ergonomic products that ease the everyday lives of people, and to manufacture quality products rather than to control quality.

Checking Accordance with Ethical Principles

- The employees must take the requisite measures to prevent the violation of Ethical Principles in any way.

- The employees must report any situation where they suspect that violation of ethical principles has occurred to executives or the Internal Auditing Manager.
- The Internal Auditing Department ensures accordance with Ethical Principles, policies and procedures of the Company in cooperation with the Legal (or Company Lawyers), Accounting-Finance, Human Resources and other departments.
- The Internal Auditing Manager reports directly to the Audit Committee and offers independent opinion.

#### Sanctions to Be Enforced In Case of Violation of Ethical Principles

As investigating a violation of Ethical Principles is a delicate matter requiring expertise, it is the responsibility of the Audit Committee.

- The Internal Auditing Manager submits regular reports of any violations, and any corrective and preventive actions taken, to the Audit Committee.
- If allegations regarding employees are criminal, the Committee acts in cooperation with the Legal Department or Company Lawyers and conducts the investigation jointly with them.

The e-mail address etik@iea.com.tr, forwarded to the Audit Committee, was created to allow our stakeholders, consisting of shareholders, customers, suppliers and personnel, to report transactions not conforming to the legal or ethical values of our organization. Applicant information is kept confidential. Applications are first evaluated in the Audit Committee, then the required sanctions are enforced and the result is communicated to the applicant.

#### Disciplinary Penalties

- In case of violation of Ethical Principles, our Company will make an effort to determine the most appropriate disciplinary penalty for the violation, within the framework of the Personnel Guidelines.
- Generally, a warning letter will be sent for a first-time and non-indictable offense.
- With more serious violations, penalties, such as issuing a written warning and termination of the employment contract, may be considered.
- Disciplinary penalties are not restricted only to cases of violation of ethical principles. There are also penalties for other matters; these are included in the Personnel Guidelines.

#### **25. Number, Structure, and Independence of Committees Established by the Board of Directors**

- An auditing committee and a corporate governance committee have been established within the Board of Directors, according to corporate governance principles. The committees consist of two members: the chairmen are independent members of the Board while the other members are non-executive members of the Board.
- The Auditing Committee met four times during the 2010 operating period and the proposal decision from these meetings was adopted by the Board of Directors.
- The rationale behind one board member having a role in more than one committee is that there are two committees and three non-executive members, of which two are independent and chairmen of the committees. Since it was proposed that the other member be a non-executive member, the remaining non-executive member was appointed as a member of both committees.

#### **26. Remuneration of the Board of Directors**

- The members of the Board of Directors do not receive any additional remuneration other than the rights and benefits set by the General Shareholders Meeting.
- No performance-based payment system that reflects the Company's performance exists.
- The Company does not lend money to any member of the board or the managers nor does the Company provide them with credit.
- There has been no credit extended under personal credit by means of a third party nor has the Company provided any warranties or guarantees.