


Corporate Governance Rating Report

This report has been prepared by JCR-ER
in compliance to the regulations of
Capital Market Board of Turkey

Non Financial

		<h1>7.12</h1>		
		AA(Trk)/b (POSITIVE)		
Corporate Governance Score & Outlook	Shareholders	<h1>5.77</h1>		
	Public Disclosure & Transparency	<h1>8.11</h1>		
	Stakeholders	<h1>6.63</h1>		
	Board of Directors	<h1>7.36</h1>		
Best Practices of Corporate Governance		Beyond	Comparable	Below
		15%	75%	10%

İHLAS EV ALETLERİ İMALAT SAN.VE TİC.A.Ş.					
Financial Data	Sept.2010	2009*	2008*	2007*	2006*
Total Assets (000 USD)	199,826	191,994	118,340	98,651	44,331
Total Assets (000 TL)	288,429	289,085	178,965	114,898	62,312
Equity (000 TL)	226,306	232,485	111,928	84,004	33,977
Net Profit (000 TL)	3,433	-702	-23,996	5,702	1,205
Net Profit Margin (%)	4.61	-0.78	-31.11	8.00	1.68
ROAA (%)	1.48	0.84	-17.66	8.65	2.41
ROAE (%)	1.50	-0.41	-24.49	9.67	3.61
Equity/Assets (%)	78.46	80.42	62.54	73.11	54.53
Net Working Capital/T.Asset (%)	184.09	258.69	301.90	229.90	88.09
Leverage Ratio (%)	21.54	19.58	37.46	26.89	45.47
Asset Size Growth Rate (%)	-0.23	61.53	55.76	84.39	3.43

*End of year

Analyst: Şevket GÜLEÇ/ +90 212 352 56 73
sevketg@jcrer.com.tr

General Publicity

İhlas Ev Aletleri İmalat Sanayi ve Ticaret A.Ş. (İhlas Ev Aletleri or Company) was incorporated on 05.12.1975 under the name of Hizmet Gazetecilik ve Matbaacılık Ltd. Şti.; henceforth its trade name was changed on the following dates, 02.05.1990, 30.07.1990, 21.01.1994 and its current trade name was registered on 05.07.1995. The Company manufactures cleaning robots, instant water heaters and reverse osmosis systems as well as manufactures plastic injection moulds belonging to manufactured products, all within a 21,000 square meter enclosed area with two separate buildings in the Beylikdüzü organized industrial zone. İhlas Ev Aletleri offers its products under the brands of Aura, Aura Cleanmax, Aura Roboclean, Aura Cebilon and İhlas via its group Company, İhlas Pazarlama A.Ş. with its wide spread dealership and marketing channels. The Company offers its products primarily to local markets but also exports to over 30 countries, including the European Union and Turkic Republics. The company ranked 222, rising 70 places at the end of 2009, while it has ranked 292 in 2008, on the list of Turkey's Second Biggest 500 Industrial Enterprises. The shares of Company have been publicly traded on the ISE National 100 Index since October 1th, 2007, and were listed on the ISE on 26.09.1996 with a Code of "İHEVA". As of FY2010, 82.15% of its shares (in terms of ultimate shareholding 96.72%) are publicly traded. As of FY2009, the Company's asset size and its sales reached TL 289mln and 90.7mln, respectively and its equity increased from TL 95.7mln to TL 191.4mln through a cash injection on July 14th, 2009.

Company Information

Trade Name	İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.
Address	29 Ekim Cad. No:23 Orta Blok Kat:2/B Yenibosna/ İSTANBUL
Chairman	ABDULLAH TURALI
CEO	SEDAT KURUCAN
Investor Relations	Phone: +90.212.875.35.62 aimir@iea.com.tr
Web	www.iea.com.tr
Corporate Governance	AHMET İMİR

Strengths

- Having two independent members on the Board of Directors
- Having Corporate Governance and Audit Committees chaired by independent members of the Board
- Existence of a management very eager to progress in corporate governance field
- Having effective shareholders relation unit
- Sufficient equity structure supporting and maintaining corporate governance level
- Strong staff commitment
- Tradition of collaboration by managers
- Tradition of solving any arising conflicts of interest issues through peaceful methods

Constraints

- Majority of the shares are not equally represented on the Board of Directors and Board of Auditors as only A Group Shares (comprising 0.25% of the total shares) have a right to elect majority of the members of the Board of Directors and Auditors
- Absence of internal regulations to broaden the exercise of minority rights beyond the current legislation
- Unequal opportunity for employment of women
- Non-disclosure of remuneration provided to senior management
- Low participations in annual general meetings
- Absence of any provision to invite stakeholders and media to general meetings
- Absence of a member in the Board to represent the stakeholders

Publication Date: December 28, 2010

"Global Knowledge supported by Local Experience"

1. Executive Summary and Rating Rationale

This report, which has been prepared in light of original methodological procedures developed by JCR-ER in accordance with the Corporate Governance Principles, set out by SPK (CMB-Capital Market Board) and IMKB (ISE-Istanbul Stock Exchange) Corporate Governance Index regulations, states the level of corporate structuring and corporate governance, as of December 2010, reached by İhlas Ev Aletleri operating in Turkey.

The Board, shareholders, stakeholders and practices of the Company in terms of public disclosure and transparency have been assessed within the framework of SPK regulations and information as well as findings ascertained therein has been quantified by assessments regarding weighting factors on which JCR ER has predicated the subcategories.

On the other hand, subject to the preservation of integrity of regulations by SPK and IMKB Corporate Governance Index and compliance with the limitations thereof, the report also covers such topics as “Best Practices” implementations regarding “Outlook” determinations, “Financial Efficiency” analyses, and sectoral differentiations and divergences, all of which exist in JCR ER’s original methodological structure.

Findings and assessments within the content of the report have been based on information and documents disclosed by the Company to the public through various channels and also particularly submitted to JCR ER in writing and verbally, and disclosed data of some companies which are traded in ISE and operating in related sectors.

Through the analysis of JCR ER’s original methodology, the general compliance level of the Company with corporate governance principles has been determined as [71.17/AA (Trk)/b-Positive] where:

- Numerical value is **71,12**,
- Convergence Level **AA(Trk)** representing the category of “Merit Compliance”,
- Notch degree **(b)** representing the category of “Adequate”,
- Outlook (**Positive**)

JCR ER’s notation system may be reached via the following link:http://www.jcrer.com.tr/Administrator/files/436_kyder_notation.pdf

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

The corporate governance principles compliance field that the Company has scored the highest among these 4 categories is ‘Public Disclosures and Transparency’ with a numerical value

of 81.2. And the lowest score is in the ‘Shareholders’ field with a numerical value of 5.77.

Fields	Numerical Value	Convergence Level	Notch Degree	Outlook
Shareholders	57.69	B (Trk) (Insufficient)	(c) (Borderline)	Stable
Public Disclosures and Transparency	81.15	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
Stakeholders	66.27	A (Trk) (Satisfactory)	(ccc) (Average)	Positive
Board of Directors	73.62	AA (Trk) (Merit)	(b) (Adequate)	Positive
Overall	71.17	AA (Trk) (Merit)	(b) (Adequate)	Positive



● **Shareholders;**

- Absence of the right to demand the appointment of a special auditor as an individual right in the articles of association,
- Absence of any provision to invite stakeholders and media to general meetings,
- Absence of any provision to take crucial decisions in the general meeting,
- Absence of any provisions to broaden the exercise of minority rights beyond the current legislation,
- Absence of a cumulative voting system undermines the compliance level,
- Existing “Dividend Policy” does not fully meet the requirements of the principles.

From the information supplied by the Company, planning improvement studies on this field is thought to be limited. Hence, considering the preservation of the current level, JCR-ER determined the outlook for the field of ‘Shareholders’ as “Stable”.

● **Public Disclosure and Transparency;**

The Company has recorded the highest score on the ‘Public Disclosure and Transparency’ category of compliance with corporate governance principles amongst the four subcategories. This situation indicates that no significant deficiencies have been determined.

- Absence of disclosure of future plans and budget,
- Absence of compliance audit of these plans (no such compliance audit tradition exists throughout Turkey),
- Annual reports do not fully meet the requirements of the principles.

Taking into account the Management’s improvement studies on the annual reports and desires of making more compressive disclosed writing documents, it is decided that the outlook for this field is “positive” for the following 12 months.

● **Stakeholders;**

- Absence of a member in the Board to represent the staff,
- Absence of any association of a union among staff
- Absence of Comprehensive Corporate Social Responsibility Policy approved by General Meeting and disclosed to public
- Absence of corporate structure including stakeholders decision making process

JCR-ER has assessed the Company management’s studies planning on this field and determined the outlook as “Positive”.

● **Board of Directors;**

- Nondisclosure of remunerations provided to the top management,
- Part disclosure of the remunerations provided to the Board of Directors,
- Absence of election procedures of candidates for the Board,
- Absence of statements of responsibility and written undertakings by the Board members and managers
- Absence of any clause in the articles of association allowing shareholders and stakeholders to schedule a meeting with the Board members
- Absence of a secretariat serving only the Board of Directors.
- Low levels of transparency in the fields of candidacy and election of Board members

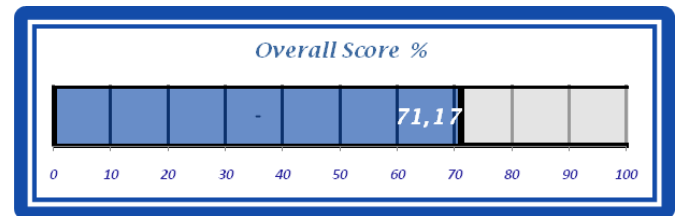
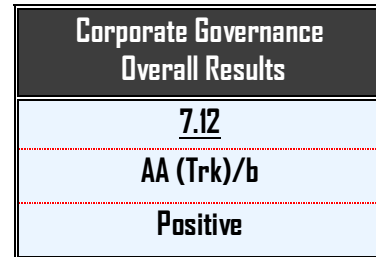
JCR ER has assessed the improvement study planned by the company’s management with respect to this field and determined the outlook as “Positive”.

Regarding the Financial Efficiency, provided that the balance sheet composition of the Company, it is believed that internal sources to be generated and equity injections when it needs will contribute to preservation, maintenance and improvement of the level reached of compliance with the corporate governance principles.

During the corporate governance rating period, BoD of the Company held on 22th December, 2010 and has taken following decisions;

- A secretariat serving only the Board of Directors is set
- According to rule the Committee Members shall serve for only one committee, Abdullah Turalı resigned as the member of Corporate Governance Committee and replaced by Ugur Kurt
- BoD’s Working Principles, Ethical Rules, Social Responsibility Policy and Staff Regulations are rearranged

- JCR ER has determined the outlook of the Company as “Positive” with the opinion that the overall compliance level, the past improvements, approach, motive and desire of the Company managers and the management’s future plans in all fields. The implementations and efforts of the top management of the Company during the rating period are assessed by JCR-ER very positive and purposeful, so that the outlook of the Company is determined as positive.



● **Outlook (Corporate Governance):**

The Company management has expressed future plans as follows;

- **The Issues that cannot be implemented in the future 12 months period;**

- Regulation of shareholders' rights to demand a special auditor as an individual right in the articles of association
- Any provision in the articles of association securing to invite stakeholders and media to general meetings
- Any clause in the articles of association allowing shareholders and stakeholders to call the Board for a meeting
- Any clause in the articles of association allowing a cumulative voting system undermines the compliance level
- Any provision in the articles of association to take crucial decisions in the general meeting Information on future plans and budget not disclosed to public
- The statement of responsibility and written undertaking by the board members and upper-level manager
- Regulation to allow all shareholders equal representation in proportion to their shares in the Board of Directors and auditors

- **The issues that will be assessed in the Committees and Board of the Directors**

- Completion of deficiencies in profit distributing policy
- Any regulation in the articles of association to prohibit transactions and competitions between the Board of Members and the Company

- **The issues that can be implemented in the future 12 months period.**

- Completion of the deficiencies in annual reports
- Making comprehensive staff regulations

The Company's plans on the corporate governance field have been assessed by JCR ER and the outlook of the Company has been determined within this rating period as "Positive".

2. Company Overview

İhlas Ev Aletleri İmalat Sanayi ve Ticaret A.Ş. (İhlas Ev Aletleri or Company) was incorporated in 05.12.1975 under name of Hizmet Gazetecilik ve Matbaacılık Ltd. Şti. and its trade name was changed on the following dates, 02.05.1990, 30.07.1990, 21.01.1994. Its current trade name was registered on 05.07.1995. The Company manufactures cleaning robots, instant water heaters and reverse osmosis systems as well as manufactures plastic injection moulds belonging to manufactured products, all within a 21,000 square meter enclosed area with two separate buildings in the Beylikdüzü organized industrial zone. İhlas Ev Aletleri offers its products under the brands of Aura, Aura Cleanmax, Aura Roboclean, Aura Cebilon and İhlas via its group

Company, İhlas Pazarlama A.Ş. with its wide spread dealership network and marketing channels. The Company offers its products mainly to local market but also exports to over 30 countries, primarily the European Union and Turkic Republics. The company ranked 222, rising 70 places at the end of 2009 while it ranked 292 in 2008 on the list of Turkey's Second Biggest 500 Industrial Enterprises.

The shares of the Company have been publicly traded on the ISE National 100 Index since October 1th, 2007, and were listed on the ISE on 26.09.1996 with a Code of "İHEVA". As of FY2010, 82.15% of its shares are publicly traded. The explanation by ISE dated 17th December 2010, has disclosed that the Company has been placed on the ISE National 50 Index reserve list for the period of 03.01.2011-31.03.2011.

İhlas Pazarlama Yatırım Holding A.Ş. purchased 17.60% shares of the Company, which previously belonged to İhlas Holding A.Ş. and disclosed to the public on 21th July, 2010. This share transfer will not cause any changes in the management and position of the Company as the transaction is within the İhlas Group Companies. The shareholder structure of the Company, on a yearly basis, is given in Table: 1 in the Appendix.

The information of the Company's affiliates and subsidiaries are exhibited in Table: 2 in the Appendix. The Company has concentrated on the mining and energy sectors after 2006 and initiated to investment a sizable amount in this field.

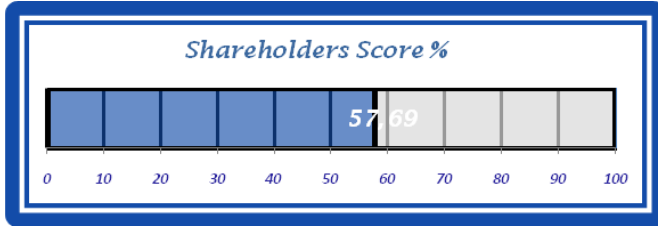
As of FY2009, the Company's asset size and its sales reached TL 289mln and 90.7mln, respectively while its equity increased from TL 95.7mln to TL 191.4mln through a cash injection on July 14th, 2009. Main balance sheet items and ratios which reflect the Company's financial structure are exhibited in Table: 3 in the Appendix.

As of September 30, 2010, a total of 300 employees were on the payroll of the Company and out of these 88 were administrative staff members. PhD degree was held by a single employee, 5 had master's level education, 42 of them bachelor, 11 were pre-graduates, 108 were high school, 32 had obtained secondary education while 101 had primary education. The Board of the Company is composed of 5 members; two of them are independent members. Furthermore 3 of 5 board members have no executive position in the Company. Qualifications of the Board members are provided in detail in Table: 4 in the Appendix.

3. Shareholders

- **Summary**

Shareholders Results
5.77
B (Trk)/c
Stable



Synopsis Table - (Shareholders)	
Plug-Compatible	
1	The existence of a shareholders relations unit established in 2004
2	Adequate measures to facilitate participation of shareholders in general meetings
3	Disclosure of minutes of meeting and related documents in the website of the Company
4	Absence of any regulations complicating share transfers
Not Compatible	
1	Existence privilege on the (A) Group shares
2	Absence of any arrangement for cumulative voting system
3	Absence of any regulation of shareholders' rights to demand a special auditor as an individual right in the articles of association
4	Absence of any provision in the articles of association securing to invite stakeholders and media to general meetings
5	Absence of any provision in the articles of association to take crucial decisions in the general meeting
6	Absence of any regulations in the articles of association to broaden the exercise of minority rights beyond the current legislation
7	Absence of advance dividend implementation
Partially Compatible	
1	Realization of meetings with low participation rates
2	Partial compliance of current Dividend Policy with the principles
3	Stock ledger should be kept align with the rules
4	Although no observing indicating clear discrimination among shareholders but not equal participation on management and auditing.

Within the content of the 'Shareholders' field and in accordance with SPK regulations and original methodological procedures of JCR ER, the findings of levels attained in the following topics have been further highlighted: assurance of individual and minority rights by internal regulations, execution of implementations which facilitate the exercise of these rights, providing flow of exact, timely and accurate information to the shareholders.

Voting right, right to information, dividend right, right to share on balance of liquidation, preferential right, right to transfer of shares and right to sue against decisions of a general meeting have been analyzed as the most important topics among individual rights of the shareholders. Among minority rights, right to call a general meeting, right to raise a point of order in a general meeting, right to demand a special

auditor, right to adjourn balance sheet discussions for 1 month, right to file a liability suit against board of directors and auditors have been analyzed. Through the analyses of the fields in accordance with JCR ER's original methodology, the general compliance level of the Company's implementations in the field of shareholders with corporate governance principles has been determined as **[5,77/B (Trk)/c-Borderline]** where:

- Numerical value is 5.77,
- Convergence Level B(Trk) representing the category of "Insufficient",
- Notch degree (c) representing the category of "Borderline",
- Outlook (Stable)

The Company continues its activities to facilitate the exercise of its shareholders' rights via "Shareholders Relations Unit" which was established in 2004. The shareholders participate in general meetings and exercise their rights without any difficulties through this department. Thus far, the shareholders have not filed any liability or revelatory suit against decisions of general meetings. There are privileges, on the (A) Group shares which comprise 0.25% of the total shares, in terms of electing majority of the Board of Directors and Board of Auditors.

The clause 8 of the Articles of Association stipulates that for registered shares transfer; founding shareholders are given an option to buy the shares at their current value, if none of the founding shareholders buys within a month, the shares can be transferred to the third party. Any appropriation made to the contrary is invalid and will not be registered in the share ledger. However all of the shares of the company are bearer thus this article has no meaning in realty. Transfers of shares are permitted without any approval by the Board.

In the election of board members of the Company, no cumulative voting system is utilized. (A) Group shares, which comprise 0.25% of the total shares of the Company, have a right to elect the majority of the Members of the Board of Directors and Board of Auditors. This situation is a big obstacle in representing all shareholders equally in management. According to the SPK's current legislation, minority rights may only be exercised by shareholders holding more than 5% of the total shares. The Company does not recognize these rights for shareholders holding less than 5% of the total shares as a clause in the Articles of Association. Though there is no regulation about minority rights in the Articles of Association of the Company.

A. Rights of Shareholders

a) Dividend Rights

None of shareholders of the Company has any privilege in terms of dividend right. Affiliate policy of the Company and its affiliate's structure, beside third party relations with Group Company's is thought that it might be pressure on the

profitability level of the Company. In the last three years, the company has not distributed any dividend to the shareholder and the reason of not distributing dividend is disclosed to the public in the annual reports.

The transactions of dividend distribution are performed in accordance with the clauses 29 and 30 of the Articles of Association and the Company's "Dividend Distribution Policy". However, these regulations do not fully meet all the SPK suggestions and comprehensive implementations beside additional facilities existing in general practices. JCR ER suggests that the Board should align this policy with the principles more comprehensively, submit it to the approval of a general meeting and disclose to public in annual reports each year. In a dividend policy to be constituted, inclusion of the following items at least will promote the level of compliance with the principles:

- Methods and terms of calculation in case of profit distribution to managers and staff
- Criteria for donations and grants
- Clause necessitating disclosure of names of individual shareholders receiving significant amounts of dividends and their amounts
- Criteria and methods for distribution of advance dividend
- Dividend per share in terms of defining each group

It has been determined that the Company complies with the rules and implementations in this subsection with a Satisfactory Compliance Level category of **[A (Trk)/cc-Pass]**.

b) Voting Rights

Although, Clause 21 of the Articles of Association of the Company refers to the rule of one-share-one-vote, A Group shares, which comprise 0.25% of the total share of the Company, have a right to elect the majority of the Members of the Board of Directors and Board of Auditors. In this case one-share-one-vote rule is not being implemented in this field. The Company management has established appropriate facilities in order for the shareholders to exercise their voting rights, however low participation level in annual general meetings (last three years participations are about %25) shows the necessity to increase Company's efforts in this field. In general meetings, voting rights may be exercised both by the shareholders themselves or their proxies. Besides, method of exercise of voting right is submitted to the shareholders at the beginning of general meetings. However, voting via remote access without participation in general meetings has not yet been legally possible.

JCR ER has determined that the Company is in full compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/bb- Good]**.

c) Simplifying use of Shareholding Rights

Shareholders Relations Unit of Company runs the relations with shareholders, stakeholders, financial analysts and potential investors with a manager and one staff. It operates to facilitate exercise of shareholding rights. Operating procedures of the department have been put into writing and necessary equipment and space have been provided. However the unit continues its operations in the financial affairs department, having no independent office space.

Through this unit, the Company secures the flow of information to its shareholders, stakeholders and potential investors, facilitates exercise of their rights, replies their reasonable questions and thus strengthens its reliability in the eyes of its shareholders. However as there is no staff member who knows a foreign language (English) to respond to foreign investors it proves a deficiency for the company, which has 82.15% of its shares open to public.

Although, the Company has these deficiencies, JCR-ER has determined that the Company complies in this subsection with a Merit Compliance Level category of **[AA(Trk)/bbb-Outstanding]**

d) Obtaining and evaluating Information Rights

The Company's Shareholders Relations Unit has provided all necessary information and documents requested by shareholders, potential investors and stakeholders via mainly its web page, e-mail and telephone. The Shareholders Relations Unit has necessary facilities and two staff members and manages this function in coordination with the executive director of financial affairs.

As an individual right, the shareholders are not enabled "to demand the appointment of an independent auditor to investigate a special case" in the Articles of Association. In this case, the shareholders may only secure the appointment of an auditor by application to a court and this situation complicates and extends the process of seeking justice. However, as informed there has been no request to appoint a special auditor up to date.

Also we were informed that no law suit filed by the shareholders against the Company has been found. It has been determined that the Management has an approach of resolving issues with the shareholders without resorting to the legal courtroom.

It has been determined that the Company complies with the rules and implementations in this subsection with a Poor level Compliance category **[C (Trk)/ Poor]**.

e) Shares Transfer

Clause 8 of the Articles of Association stipulates that for registered shares transfer: founding shareholders are given an option to buy the shares at their current value, if none of the founding shareholders buys within a month, the shares can be transferred to the third party. Any appropriation made to the contrary is invalid and will not be registered in the share ledger. However all of the shares of the company are bearer thus this article has no meaning in reality. Transfers of shares are permitted without any approval by the board.

JCR ER has determined that the Company is in full compliance in this subsection with a Distinctive Compliance Level category of **[AAA(Trk)/aaa-Exceptional]**.

f) Minority Rights

Cumulative voting is not a method utilized by the Company. Moreover, there are no clauses in the Articles of Association to broaden the exercise of minority rights beyond the current legislation.

It has been determined that the Company complies with the rules and implementations in this subsection within the relatively low level of **[D (Trk)-failure]**.

g) The Principle of dealing fairly and equally with Shareholders

No finding has been observed regarding any clear discrimination against the shareholders by the Company's management in informing the shareholders, answering their requests for information and documents, exercising their rights in general meetings and on any other platform. However, A) group shareholders have the privilege of electing a majority of the Board of Directors and Board of Auditors. This is considered a major obstacle towards providing shareholders with equal representation.

For this reason, JCR ER has determined that the Company is in Insufficient Compliance Level Category in this subsection as of **[B(Trk)/c- Borderline]**.

B. General Meeting

a. Right of Access for General Shareholders' Meeting

The last three ordinary general meetings of the Company have been held in the headquarters and the shareholders were informed by way of invitations three weeks prior to the meetings. The text of invitation has been prepared that closely matches the principles in its form and the documents related to the agenda items have been presented for the examination by the shareholders both in electronic and physical form. However, the ordinary general meetings of the Company have not been held on time, in breach of both the

Articles of Association and SPK's principles. Moreover, the absence of a proper place for the examination of the related documents to the agenda in the invitation text is also a deficiency.

Meetings are governed by a chairman to be elected during the meetings and all Board of Directors and auditor attend the meetings. The agenda items are individually discussed, each shareholder has the opportunity to speak and their proposals and queries are answered by the auditors and managers. Agenda items are individually voted for and votes are counted and minuted before the end of the meeting. At the end of the meeting, minutes of the meeting are signed by all session members and also a government commissioner who is present.

Such documents as list of attendants, minutes of the meeting, text of invitation, agenda of the meeting and proxy form exist on the official website of the Company both in Turkish and English languages. Besides, resolutions in the meeting are disclosed to public via KAP (Public Disclosure Platform).

The Articles of Association of the Company does not include any provision to enable the general meetings to take important decision which may cause significant change in the asset structure of the Company and also stakeholders and media are not invited to meetings. Voting process is not disclosed to the public via the Company's web page. In the last three years period the attendance rates of the general meetings were about 25% (accounting for primarily ihlas Group's shares). Furthermore each share has one vote according to Article 21, (A) group shareholders have the privilege of electing majority of the Board of Directors and Board of Auditors.

The privilege given to A Group shareholders and low attendance in general meetings is an obstacle for equal representation at general meeting.

The Company has not complied with the above mentioned topics in this subsection. It has been determined that the Company is in compliance in this subsection with a Poor Compliance Level category of **[C(Trk)/ Poor]**.

● Outlook (Shareholders):

The company's management informed that although they have a desire to make necessary implementations aligned with the principals of this field, for the next 12 month period, it would not be possible as required. Therefore, JCR ER has determined the outlook of the Shareholder field as "stable".

4. Public Disclosure and Transparency

● Summary

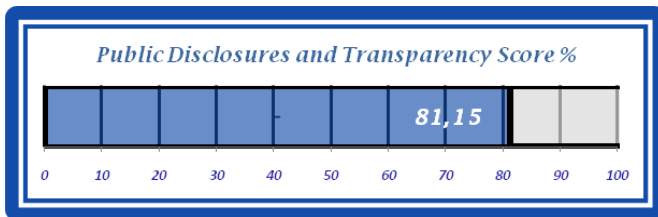
The compliance level of the Company with the rules and implementations in this main section, which provides the

disclosure of information and documents needed by shareholders and stakeholders while protecting trade secrets, has been determined as [8.11/AA (Trk)/bbb-Positive]where:

- Numerical value is 8.11,
- Convergence Level **AA(Trk)** representing the category of “**Merit Compliance**”,
- Notch degree (**bbb**) representing the category of “**Outstanding**”,
- Outlook (**Positive**)

The existence of a comprehensive and publicly disclosed information policy as well as successful practices related with this policy within the responsibility of the Board of Directors and carried out with the director of financial affairs and manager of shareholders relations unit stands out as a factor raising the overall level of transparency of the Company. The audited financial statements prepared in accordance to international standards, general meeting documents, shareholders structure, annual reports, introductory information about the Company and others are given on the official web site which is used as a very good platform of transparency.

Public Disclosures and Transparency Results
8.11
AA (Trk)/bbb
Positive



Synopsis Table-(Pub. Discl. &Transparency)	
No	Plug-Compatible
1	Existence of a comprehensive information policy
2	Official disclosures performed in an exact, accurate and timely manner
3	Utilization of the website as an efficient and transparent platform
4	High compliance level of accounting records and financial statements with international standards provided that they meet the requirements of local regulations
5	Receiving half year and annual independent audit services
6	Necessary measures taken for protection of trade secrets

No	Not Compatible
1	Information on future plans and budget not disclosed to public

No	Partially Compatible
1	Annual reports in terms of content details not in full compliance with the principles

a. Guiding Rules and Facilities for Public Disclosure

In the minutes of the Company’s Board of Directors meeting dated 04.02.2005, an information policy of the company was determined on the proposal of the Corporate Governance Committee. The Company’s information disclosure policy publicly announced that for the pursuance, observance and development of the public disclosure policy it will be under the authority and responsibility of the Board of Directors. For the disclosure function, the shareholders relation unit and director of financial affairs have been appointed. Member of Board of Directors and chief financial officer Mehmet Küsmez and manager of shareholders relation unit’s manager Ahmet Imir have fulfilled this policy in close corporation with the Corporate Governance and Audit Committees. The Company utilizes the visual and written media as well as KAP through the disclosure process. Besides, introductory information about the Company, financial statements, code of conduct, information policy, profit distribution policy, annual reports and general meeting documents are given on the official web site which is used as a very good platform of transparency.

However, pro forma financial statements and strategies are not disclosed to public and the information policy does not include information and documents to be discussed in general meetings. Despite these deficiencies, it has been determined that the Company is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bb-Good].

b. Public Disclosure Procedures of Relations Between the Company and its Shareholders, The Board and Executives

The Company’s management discloses the shareholding ratios whenever exceeding threshold values of 10%, 33% and 50% expressed in the principles via KAP. There is no internal regulation prohibiting trading of Company Shares by Shareholders, members of the Board of Directors and managers. In case of an occurrence, the transactions are disclosed to the public regularly, fully and accurately via its official web site periodically. Commercial and financial relations with the Company’s risk group of people and companies are located in a separate table in the independent audit report.

In addition, the ultimate individual shareholders of the Company are presented in the independent audit report and Corporate Governance Compliance Report. The management informed that this will be available on its website as soon as

possible. The shareholders structure given in the Appendix belong to the (A) Group shares which are Mr. A. MÜCAHİT ÖREN (0.23%) and Ali Tubay GÖLBAŞI (0.02%) and have the privilege of electing majority of the Board of Directors and Board of Auditors.

It has been determined that the Company is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/bb-Good]**.

c. Public Disclosure Procedure of Periodic Financial Statement and Reports

All the Company's accounting records and reports are maintained and prepared in accordance to the international standards, and financial statements are audited by an independent auditing company. In all of the audit reports analyzed, the independent auditors expressed qualified opinion for FY2008 and FY2009, related to the Company's subsidiary Okan Tekstil Sanayi ve Ticaret A.Ş. (trade name of it is changed to Bayındır Madencilik ve Ticaret A.Ş. in FY2010). However the qualified opinion is not related in any way to the Corporate Governance aspect of the Company.

Some shortcomings have been identified in the annual report published by the Company each year. Information about the sector that the Company operates in and its market share thereof, dividend policy, remunerations and amounts of dividends that the board members and managers receive, organization chart, strategies, explanation of foreseeable risks related with operations, top level managers' curriculum vita excluding board of directors constitute these shortcomings.

In JCR ER's methodology, it has been determined that the Company is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/b-Adequate]**.

d. External Audits' Function

Independent audit of the Company is performed by an audit company named İrfan Yeminli Mali Müşavirlik A.Ş. (Full member of Public Company Accounting Oversight Board). The Audit Company audited the financials of İhlas Ev Aletleri for the years between 2003 and 2009 and due to seven years auditing, the Audit Company had been rotated. As a result of analysis of the audit agreement and meetings with auditors, it has been determined that the Company is in full compliance in this subsection with a Distinctive Compliance Level category of **[AAA(Trk)/aaa- Exceptional]**.

e. Trade Secrets Concept and Insider Trading

The Company's ethical rules, which were regulated by the Board of Directors, the business agreements for undetermined period, some internal regulations as well as physical precautions such as passing with cards, securities and cameras, are the tools for protecting trade secrets. However, no

criminal sanctions are determined. The Company management informed that up to date no case has occurred.

The Company publishes an updated list of its staff members having access to important information and other persons and institutions servicing the Company on its website. However, it has not prohibited its staff to trade in company stocks.

JCR ER has determined that the Company is in compliance in this subsection with a Distinctive Compliance Level category of **[AAA(Trk)/a-Excellent]**.

f. Considerable Affairs and Improvements Which Should be Disclosed to the public

Developments in this sub-section are regularly and fully reported by the Shareholders Relation Unit via KAP within the framework of the information policy. Effective operation of the shareholders relations unit and absence of any warning or penalty notices by IMKB and SPK regarding the disclosures are indicators of the Company's success in this subsection.

JCR ER has determined that the Company is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/b-Adequate]**.

• Outlook (Public Disclosure and Transparency):

The shortcomings in the annual report prepared by the Company have been identified. The Company's management has declared the willingness to the rating analysts that during the upcoming 12-month monitoring period they will resolve these deficiencies and that the 2010 annual report will be more consistent with these principles. JCR ER has determined the outlook of this main section as "positive" with the opinion that the Company has the willingness and financial resource to eliminate the above mentioned deficiencies.

5. Stakeholders

• Summary

With the exception of the upper-level managers, the employees, customers, suppliers, creditors, public authorities and the public in general are considered as the stakeholders of an institution. The rules and practices in this main section primarily aim to secure the rights of stakeholders and to facilitate exercise of their rights, thus to maximize their contributions to the institution.

Through the analyses of JCR ER's original methodology, the compliance level of the Company's practices in the field of stakeholders with corporate governance principles has been determined as **[6.63/A (Trk)/ccc-Average]** where:

- Numerical value is **6.63**,
- Convergence Level **A(Trk)** representing the category of "Satisfactory Compliance",

- Notch degree (**ccc**) representing the category of “Average”,
- Outlook (**Positive**)

In the Company, employee-related applications are carried out by the human resources department which is well equipped and has a sufficient number of qualified personnel. Recruitment, assignment, orientation education, conditions of employment and termination are regulated on the “Standard Operation Process”, however promotion, award and punishment policies are not regulated. In this field improvement is needed. All these regulation are gathered under the document of staff regulations.

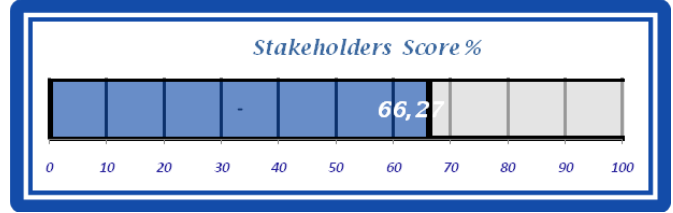
The Business Certificate is taken for workplace safety and Occupational Health and Safety regulations are prepared by the Company. User’s manuals and security applications of machines as well as occupational health and safety instructions are signed by both authorized personnel and laborers to ensure work safety.

Board of Directors of the Company have set out ethical rules and disclosed to the public making them available on the website of the Company. Although, the Company has set the ethical rules, it has not been determined who is responsible for the conduct of ethical rules. Furthermore it is also unclear that in case these rules are not followed then what will be the repercussions and which department or committee will be inspecting unethical activities.

Also, there is no member representing the employees in the Company’s Board of Directors. However, it has been determined that in every weekly meetings being held at the plant, it is attended by production, supply, after sales and management teams. The previous weeks performance, latest development on ongoing projects, quality of the products, after sale services, how to increase performance and other issues are regularly assessed during these meetings Through this method all staff members are given a chance to express themselves. Furthermore the Company also asks the opinions and proposals from its retailers regarding the products than these proposals are assessed by both the management and production processes team.

In the social responsibility field, it has not been observed that financial support is provided by the company for cultural and social projects. In addition this, the Company has no comprehensive social responsibility policy which is approved in the general meeting. The company needs to make improvement in this section.

Stakeholders Results	
6.63	
A (Trk)/ ccc	
Positive	



Synopsis Table (Stakeholders)	
No	Plug-Compatible
1	High loyalty to the institution by the employees
2	Existing and publicly disclosed set of ethical rules
3	No important lawsuit filed by stakeholders against to Company
No	Not Compatible
1	Absence of any board member representing the employees
2	Absence of any union organization among the employees
No	Partially Compatible
1	Absence of comprehensive social responsibility policy, approved by general meeting
2	Partially compliance in human resources management with the principles and standards

a. Company’s Stakeholders Policy

The Company respects the rights of each stakeholder group and endeavors to sustain good relations with all stakeholders. In this context, the rights previously obtained by legislation are compulsorily secured. It has been determined that the Company also respects the rights obtained through various contracts and fulfills its obligations in this respect. These findings have been reached as a result of observations and extensive interviews with officials. In the resolution of conflicts of interest issues and disputes arising between the various stakeholder groups, it is believed that the Company’s management conducts its role of a moderator to solve problems through settlement without resorting to the courts.

JCR ER has determined that the Company is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/a-Excellent].

b. Supporting the Stakeholders to the Participation in the Governance by the Company

There is no member representing stakeholders in the Company’s Board of Directors. However, there is also no private sector organization in Turkey performing such a practice. The most common practice on this issue is to obtain beforehand stakeholders’ ideas while taking decisions concerning them. The ideas of employees in particular are collected through the working groups and weekly quality

meetings and taken into account in the decision-making processes. For evaluating proposals of the staff and other stakeholders, a Proposal Evaluation Committee might be created within the Human Resources Department for increasing corporate governance level.

JCR ER has determined that the Company is in compliance in this subsection with a Failure Level category of **[D(Trk)/]**.

c. Company's Human Resources Policy

The Company's human resources policy is based on four fundamental pillars;

- Providing equal opportunities for employees
- Informing employees of their employee rights, careers and company opportunities
- Providing a safe working environment for employees
- Showing no discriminations amongst employees and preventing maltreatment of the same.

The Company believes that investment in its people never goes unrewarded. With this respect, it gives great emphases to the training and development of its employees. The company has provided a total of 24,541 man hours of training from 2005 up to date. The Human resources department continues its effort according to the master training scheduled program. Recruitment, assignment and dismissal are carried out by experts according to previously determined written rules. However, promotion and reward as well as punishment rules have not been determined yet. All written rules should be gathered and diversified under the staff regulation document. By the decision taken on the Board meeting dated December 22th, 2010, significant steps have been taken for implementations on this issue.

JCR ER has determined that the Company is in compliance in this subsection with a Satisfactory Compliance Level category of **[A(Trk)/cc- Pass]**.

d. Company Relations with Customers and Suppliers

İhlas Ev Aletleri considers its customers and suppliers as its business partners. Therefore it takes great pride in providing necessary precautions to maximize customer satisfaction with the company's productions and after sale services. Suggestions and complaints from the final customer as well as public or non public organizations are initially taken into account and the Company does its best to solve their problems and complaints. In this context; although the legal warranty is valid for a two year period, the Company's productions are under three years warranty, for supporting and maintaining a certain quality level the company takes all precautions, the company's products bearing CE symbol and provided national and international quality standards such as TSE, KEMA, KEUR and others. The Company has sold all its production via its group company İhlas Pazarlama A.Ş. The Company hence does not have any call center facilities. However, for customer satisfaction, it takes suggestions and complaint through its retailer and reflects the feasible

proposals into the production processes. The Company has also assessed its self through the help of after sales services satisfaction forms and incorporated feasible suggestions to enhance its processes.

Through the interviews conducted with the lawyer of the company, it is understood that all obligations as a result of contracts signed with suppliers have been met by the Company and no incidence has yet been taken to the courts. All of these factors show that İhlas Ev Aletleri tries to protect the rights of its customers and suppliers.

JCR ER has determined that the Company is in compliance in this subsection with a Distinctive Compliance Level category of **[AAA(Trk)/a-Excellent]**.

e. Code of Ethics

Board of Directors of the Company agreed upon a set of ethical rules on 07.01.2005 which were recommendation by the corporate governance committee and disclosed to the public and have been made available on the website of the Company. Although, the Company has set the ethical rules, it has not yet determined who is responsible for the implementation of these rules. Furthermore in case these rules are not followed then it is still unclear as to what the procedure will be and which department or committee will be responsible for inspecting these unethical activities. Improvements in this field are required. However, by the decision taken on the Board meeting dated December 22th, 2010, significant steps have been taken for clarification of this issue.

Although the Company has some deficiencies in this subsection, JCR ER has determined that the Company is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/b-Adequate]**.

f. Corporate Social Responsibility

No "Corporate Social Responsibility Policy" in the Company's internal regulations has been found. In the annual report and in the corporate governance compliance reports a similar explanation exists, however these explanations do not require the comprehensive Corporate Social Responsibility Policy. In this field, it has been observed that no financial support has been provided by the company for cultural, health, environmental or any social projects. The Company should prepare a comprehensive Corporate Social Responsibility Policy and for its approval to be submitted to the General Holders meetings. By the decision taken on the Board meeting dated December 22th, 2010, significant steps have been taken for improvements on this issue.

On the other hand, the Company management expressed that No damage has been caused to the environment through the production and operations of the company. Furthermore, the Company has signed a contract with TÜKÇEV (Tüketici ve Çevre Eğitim Vakfı) in the context of evaluation of packaging

waste. Thus, the company indicates a level of sensitivity to the environment.

JCR ER has determined that the Company is in compliance in this subsection with a Poor Level Category of [C(Trk)/Poor].

● **Outlook (Stakeholders):**

During the 12-month monitoring period, the Company's management plans to make more comprehensive ethical rules and staff regulation. Significant steps have already been taken during the rating process by the Board decision dated December 22th, 2010. Therefore, JCR ER has determined the outlook of the 'Stakeholder' field as "Positive".

6. Board of Directors

● **Summary**

Content of this section consists of the functions of the Board including its qualifications, duties, powers and the responsibilities of its members and the higher-level managers as well as the rules and practices related to the established systems for effective supervision and control.

Through the analyses of JCR ER's original methodology, the compliance level of the Company's practices in the field of Board of Directors in accordance to the corporate governance principles has been determined as [7.36/AA (Trk)/b-Adequate] where:

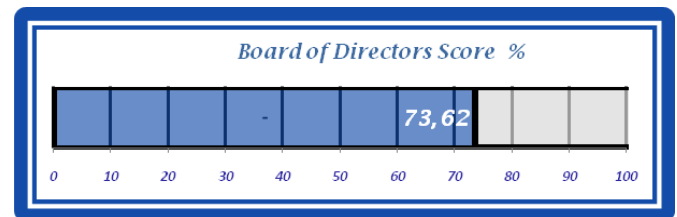
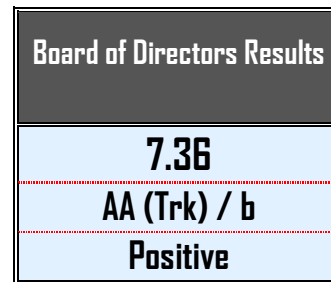
- Numerical value is **7.36**,
- Convergence Level **AA(Trk)** representing the category of "Merit Compliance",
- Notch degree **(b)** representing the category of "Adequate",
- Outlook (positive)

The Company's Board of Directors (BoD) comprise of 5 members, two of them independent and three of them non-executive members. The BoD has established an Audit and a Corporate Governance Committee which is chaired by independent board members. The Board performs the functions of leadership, supervision, oversight and arbitration. The Company's main targets like vision and mission were disclosed to public; however in the context of strategies the same cannot be said. Board members and top level managers are well-educated and have sufficient professional and managerial experience in their respective fields.

As the audit committee and corporate governance committee has been established within the Board, oversight and audit functions are carried out by these committees. An internal auditing department was established and a manager has been appointed by the Board of Directors on proposal of the Auditing Committee. The Auditing department carries out its functions on preset schedules by generally checking items, inventory, assets and etc. with 'yes or no' methods. However it

has been observed that no systematic and periodic reports are submitted to the Audit Committee and Board of Directors regarding results of the auditing activities. In this respect, it is felt that significant improvement is needed in this field.

Statements of responsibility and written undertakings by each Board member and manager do not exist and remunerations awarded to managers is also not disclosed to public. Remunerations for BoD are partly disclosed to public. Moreover election procedures of candidates and decision-making processes were not put into writing; however working procedures of the Board were partly put into writing and disclosed to public.



Synopsis Table (Board of Directors)	
No	Plug-Compatible
1	Existence of two independent members of the 5 member board
2	3 non-executive members of the 5-member board
3	Existence of audit, corporate governance committees
4	Defined and disclosed Vision and mission to public
5	Absence of privileged voting rights among board members
6	Well-educated Board Members and managers with sufficient level of experience
7	Board Members' qualification are align with the principals
No	Not Compatible
1	Absence of statements of responsibility and written undertakings by the board members and upper-level managers
2	Absence of any clause in the articles of association allowing shareholders and stakeholders to call board to a meeting
3	Nondisclosure of remunerations on an individual basis provided for top managers
4	Corporate Governance Committee becoming dysfunctional in proposing a candidate for board
5	Absence of any practice arranging meetings by non-executive members among themselves
6	Candidacy and election of board members not determined and publicly disclosed

No	Partially Compatible
1	Partly efficiencies of internal audit department
2	Partially disclosed remuneration of Board of Members

a. Basic Functions of the Board

The Board of İhlas Ev Aletleri has been performing successfully its three basic functions of leadership, oversight and arbitration. Vision and mission set by the Board have been adopted and disclosed to the public. The basic strategies set by the higher level management have also been approved by the Board. However the strategies have not been disclosed to public.

The Board performs its oversight and supervision functions through the Corporate Governance and Audit committees. Although, these committees carry out their activities effectively, their working principals have not yet been written out. During FY2009, the Audit Committee held four while the Corporate Governance Committee held two meetings and submitted its reports and findings to the Board. It has been determined that the Board performs its independent arbitration role with success for the resolution of disputes and issues related to conflicts of interest of stakeholders among themselves and with the Company.

JCR ER has determined that the Company is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/a-Excellent].

b. Principles of Activities, Mission and Responsibilities of the Board

The duties and responsibilities of the Board are not specified in the Articles of Association and therefore they have been given a greater amount of autonomy to provide their expertise with respect to the subject matter at hand. However the areas which each individual member of the Board is responsible for has been identified and presented to the public via the website and the annual report. The secretariat service of the BoD is given by shareholders relations unit. According to the principals, this duty is run by the secretariat which serves only the BoD. Based on the Board decision dated December 22th, 2010, a secretariat is set to solely serve the BoD. The shareholders relations unit enables communications with members, organizes meetings, and delivers agendas and relevant information and documents in detail to the members at least 7 days prior to the meeting and archives related documents. Shareholders relations unit's success with these tasks has been observed through analyses and interviews with the members.

The Board has held 19 meetings during 2009. Every Board member was present for each one of the meetings. The agenda of the meeting is determined by the President and the General Manager while agenda proposals by the

members are also considered. Agenda proposals are collected by the Shareholders relations unit until a certain period of time before the meeting and following the evaluation by the general manager, the ones that are deemed appropriate are included in the agenda. Regarding interviews with the members and examination of the minutes of meetings, all members express their views in meetings and each agenda item is discussed separately. However, decisions are taken by the affirmative vote of all members. During the meetings, minutes are maintained and archived in accordance to the legislation but discussed issues are not kept.

On the other hand, no written regulation has been found within the Company on the issues of how to arrange the meetings and how decisions will be taken. Conditions of unanimity in all voting decisions unnecessarily extends decision making processes, and the fact that members may not express their dissenting opinions on the items they oppose has been evaluated as contrary to democratic understanding. In addition, Members did not pledge in writing at inception of their assignments to comply with laws and to compensate for losses arising from their mistakes. Another deficiency is that there is no internal regulation providing shareholders and stakeholders with the means to call the BoD for a meeting and to propose agenda items therein.

JCR ER has determined that the Company is in compliance in this subsection with a Satisfactory Compliance Level category of [A(Trk)/ccc-Average].

c. Formation and Election of the Board of Directors

The Company's Board of Directors (BoD) comprise of 5 members, two of them independent and three of them non-executive members. The number of members has been evaluated as adequate. Qualifications of members meet the terms expressed in the principles. As can be seen on the resumes found on the website, the members possess necessary qualifications in terms of education, professional and managerial experience.

In the election of the members of the Board, no cumulative voting system is utilized. (A) Group shares, which comprise of 0.25% of the total shares of the Company, have a right to elect the majority of the Members of the Board of Directors and Board of Auditors.

Although, the Company's "operating principles of the Board of Directors" are regulated and disclosed to the public however the issues of how one will become a candidate, who may propose remaining candidates, how the candidates are determined and how the election processes is carried out have not been determined and disclosed to the public.

In addition to this, privileges given to A group shares, mentioned above, hinders in presenting all shares with an equal share in the management and auditing structure of the company.

JCR ER has determined that the Company is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bb-Good].

d. Financial Rights Derived to the Board Members

In the general shareholders meeting of the Company, held on 21st April 2010, it had been determined that a payment of TL 1,000 will be made each month for each of the board members and TL 2,000 as an annual payment for the Auditor for the ongoing year. Except this, our analyst was informed that no salary, no bonuses, no attendance fees and no other financial resources were provided to members of the Board of Directors as well as no performance-based payment system exists. As also informed there are no commercial and financial relationship between the Company and the members of the Board. The Company does not provide debt nor does it extend credit to members neither does it provide any guaranties on their behalf.

All of the remunerations provided to the board members are not disclosed to public. JCR ER has determined that the Company is in compliance in this subsection with a Satisfactory Compliance Level category of [A(Trk)/ccc-Average].

e. The Committees established by the Board of Directors in terms of its numbers, structures and independence levels

Within the Board of Directors of the Company, there are two committees, one of audit and the other of corporate governance. Based on the examinations of these committees, it has been observed that they have fulfilled their duties; however they have no written operating principles. The Committees are provided with adequate technical and financial facilities with expert staff members who generate regular reports to be submitted to the BoD.

The principals indicate that committees or at least chairmen of committees must be independent members. In the Company, the committees formed by one member and a chairman and the Chairmen are independent members, however one committee member is a member of other committee at the same time. However, based on the BoD decision dated December 22nd, 2010, a member of the two committees, Abdullah Turalı resigned as the member of Corporate Governance Committee and was replaced by Ugur Kurt. Thus, the structure of the committees has been aligned with the principles. In addition, the corporate governance committee does not perform the function of determining candidates with appropriate qualifications for the board and proposing them to general meeting. Based on these findings, it can be noted that the committees have a high level of compliance with the principles.

JCR ER has determined that the Company is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/a-Excellent].

f. Executives

The Company's higher-level management and its organization chart can be seen on the company's website. As also seen from the website, division and executives are defined. Department and unit's responsibilities and other process are regulated in the Quality Manual of the Company which was published in 2005.

As can be seen from their resumes, the general manager in particular and department managers are well-educated and experienced in their fields. It can be said that the qualifications of the managers comply with the standards expressed in the principles.

In the Company, a performance incentive system associating financial facilities is provided to the top level management such as salaries, bonus and dividends but demonstrated efforts and achievements have not been regulated in the written document nor has it been observed. Communication between departments and managers is effectively realized via meeting, email and telephone.

On the other hand, none of the managers have pledged in writing to compensate for losses arising from their mistakes and to be incurred by the Company or any third party. The responsibilities of the managers in this topic are limited by the extent of provisions of the Turkish Commercial Code and Labor Laws.

Despite this deficiency, JCR ER has determined that the Company is in compliance in this subsection with a Satisfactory Compliance Level category of [A(Trk)/cc- Pass].

• Outlook(Board of Directors):

During 12-month monitoring period, the Company's management plans to make some improvements in this section and some initial steps have been taken during the rating process. Therefore, JCR ER has determined the outlook of the 'Board of Directors' field as "Positive".

7. Best Practices

In this section of the report, İhlas Ev Aletleri and the sample companies which are operating in metal products and machinery building sector and traded on ISE are compared with respect to compliance with corporate governance principles. Thus İhlas Ev Aletleri and others regarding the managerial and supervisory corporate governance practices chosen by JCR ER are outlined in the following table. According to the results obtained from these comparisons, the ones over the sector average are shown with the symbol

"Beyond", the ones about average "Comparable", while those below average are marked as "Below".

Sequence Number	Selected administrative and supervisory practices	Sectoral Comparison Level		
		Beyond	Comparable	Below
1	Shareholders' right to request a special auditor to be included in the articles of association		x	
2	Important decisions taken by general Meeting		x	
3	Privileged voting rights			x
4	Minority rights		x	
5	Cumulative voting system		x	
6	Transfer of shares		x	
7	Disclosure of the ultimate individual Shareholders	x		
8	Independent member in the board of directors	x		
9	Non-executive member in the board of directors		x	
10	Corporate governance committee	x		
11	Disclosure of remuneration for upper level management		x	
12	Information policy		x	
13	Ethical rules		x	
14	Human resources policy		x	
15	Secretariat of the board of directors			x
16	Risk management system		x	
17	Advance dividend implementation		x	
18	Internal audit unit		x	
19	Audit committee		x	
20	Investor Relations Department		x	
Total Number		3	15	2
The percentage level of compliance		15.00%	75.00%	10.00%

- **Shareholders' right to request a special auditor to be included in the articles of association**

Shareholders owning at least 10% of capital according to the Turkish Commercial Code and 5% according to the Capital Market Law are considered as being minority shareholders. Shareholders in the position of minority may request a general meeting with a special auditor to inspect an activity carried out by the company management. In case the general meeting does not take this request into account they have the right to resort to a court. In SPK Corporate Governance Principles, the recognition of this right for all shareholders as a provision in Articles of Association is recommended.

In the Articles of Association of the Company, there is no clause providing the shareholders with the right to appoint a special auditor. However, none of the sample Companies have this provision in their Articles of Association either. In comparison to this practice, the Company is located in "Comparable" level.

- **Important decisions taken by general meeting**

In SPK Corporate Governance Principles, the following is recommended: "Articles of association of the company includes a provision to maintain that decisions, regarding the division and allocation of shares which changes the capital and management structure of the company and the composition of the company's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favor of a third person are adopted in general shareholders' meeting and the shareholders are encouraged to participate in the decision-making process thereby."

There is no clause in the articles of association of the Company to meet this recommendation. Only one of the sample Companies which operates in metal products and machinery building sector and traded on ISE, has included this recommendation as a clause in its articles of association. However it has deficiencies. Therefore, in the comparison with this practice, the Company is located in "Comparable" level.

- **Privileged voting rights**

Although, Clause 21 of Articles of Association of the Company installs to the rule of one-share-one-vote, A Group shares, which comprise 0.25% of the total share of the Company, have a right to elect to the majority of the Members of the Board of Directors and Board of Auditors. In this case one-share-one-vote rule is not being effectual. For others fields, the rule of one-share-one-vote are applied.

In comparison with other 7 companies, only two of them allow privileges on some of its shares and the remaining 5 have no privileges. In comparison with this practice, the Company is located in "Below" level.

- **Minority rights**

According to the Capital Market Law, the minority rights may be exercised by shareholders owning at least 5% of capital. However, in the SPK Corporate Governance Principles, it is recommended that the recognition of this right should be provided for the shareholders owning shares less than this ratio as a provision in articles of association. The Company's articles of association do not include any clause which extends the minority rights further than the legislation required. In comparison to this practice, the Company is located in "Comparable" level.

- **Cumulative voting system**

The cumulative voting is an election system which provides small shareholders with the opportunity of electing members to represent them in the board. It requires separate voting for each member in the board and utilization of unused voting rights cumulatively for one candidate. There is no internal

regulation in İhlas Ev Aletleri that allows this system. However, none of the other sample companies which are operated in metal products and machinery building sector and traded in ISE, like the Company has any internal regulation that allows the cumulative voting system. Therefore, the Company is located in **"Comparable"** level in this practice.

- **Transfer of shares**

The clause 8 of the Articles of Association stipulates that for registered shares transfer; founding shareholders are given an option to buy the shares at their current value, if none of the founding shareholders buys within a month, the shares can be transferred to the third party. Any appropriation made to the contrary is invalid and will not be registered in the share ledger. However all of the shares of the company are bearer thus this article has no meaning in realty. Transfers of shares are permitted without any approval by the board.

In this case, In comparison with other 7 companies, four of them allow share transfers and the remaining 3 have same restriction for the share transfers. With comparison to the practice, the Company is located in **"Comparable"** level.

- **Disclosure of the ultimate individual shareholders**

The ultimate individual shareholder has been disclosed both in the Company's Corporate Governance Compliance Report and in the independent auditing reports. In this case, In comparison with other 7 Sample companies, five of them have not disclosed the ultimate individual shareholders while the remaining 2 have disclosed. With comparison to the practice, the Company is located in **"Beyond"** level.

- **Independent member in the board of directors**

There are two independent members in the Company's BoD. The situation of sample companies, which are operated in metal products and machinery building sector and traded in ISE, in terms of independent members, can be summarized as follows: two of them have independent members while remaining five companies have no independent members. In this case, in comparison with this practice, the Company is located in **"Beyond"** level.

- **Non-executive member in the board of directors**

Three members of the five members' board of directors are non-executive members. In order for the board to adequately fulfill its leadership, oversight and arbitration functions, it is considered to be the ideal situation that at least half of the members do not have any executive function. In this context the company's Board of Directors' structure fulfills the requirements.

In this case, the Company has a **"Comparable"** level in the comparison with this practice.

- **Corporate governance committee**

Corporate governance committee was established within the BoD of the Company and operates effectively. In comparison with other sample companies, five of them have no corporate governance committee while remaining three companies including İhlas Ev Aletleri have this committee. Consequently, in the comparison with this practice, the Company is located in **"Beyond"** level.

- **Disclosure of remuneration for upper level management**

Remuneration provided to top level managers of the Company is neither disclosed to the public collectively nor on individual basis. However remuneration provided to board members are partly disclosed like other sample companies. Remuneration disclosure to public is not a common practice in Turkey. In this case, in the comparison with this practice, the Company is located in **"Comparable"** level.

- **Secretariat of the Board of Directors**

Shareholders relations unit of the Company has served the BoD as a secretariat. However, the principals indicate that the secretariat should only be serving the BoD exclusively. In this case, comparison with other 7 sample companies, four of them have a secretariat which exclusively serves the BoD while the remaining 3 do not. With comparison to the practice, the Company is located in **"Below"** level.

- **Other Practices**

In Comparison with the sample companies with these following selected 8 practices, the Company is located in **"Comparable"** level.

- **Information policy**
- **Ethical rules**
- **Human resources Policy**
- **Risk management**
- **Internal audit unit**
- **Audit committee within the board**
- **Investor relations department**
- **Advance dividend implementation**

8. Financial Efficiency

Foreign Capital has still retained its appetite to date for companies which have activities in manufacturing and trading of small household appliances in Turkey. The sector’s investment in the field of R&D activities is sufficient. However, the levels of the clerical discipline and after sales services of the sector, which has been operating in the destructive competition conditions, have not yet reached the TSE (Turkish Standards Institute) and International quality norms.

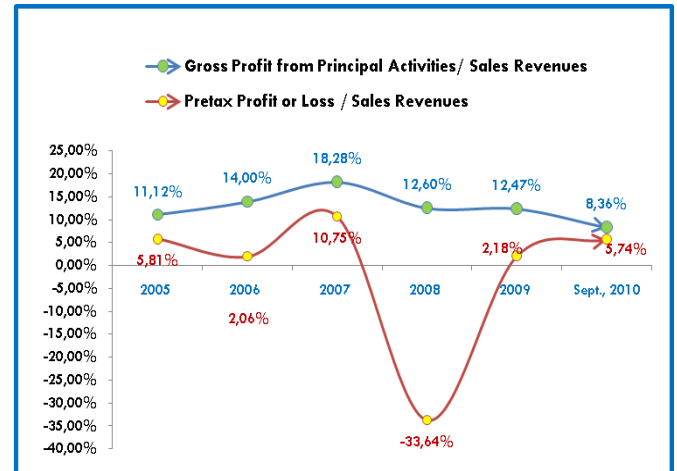
“Electrical small household appliances” sector comes first among those with highest growth rates in all economies since 2000s for reasons such as comfort, lifestyle, culture, fashion, beauty, fitness and entertainment. The size of this market in Turkey has reached nearly USD3 bn. Around 60 brands operate in the sector and nearly 65% of this figure consists of local and subgroup brands and 35% is shared by the upper segment brands. A fierce competition prevails in the sector. According to statistics, vacuum cleaners and steam irons are the two products groups which are sold most in all markets. Besides, epilators, hair care products and water heaters are among the staple merchandise products. According to GfK (The GfK Group is one of the largest market research companies in the world. The Group has a staff complement of 10,000+ employees working in 150 operating companies covering more than 100 countries of the world) figures, these products which improve the quality of life and make living easier constitute a market worth approximately USD46 bn around the world. The biggest part of this market amounting to USD39 bn is the European countries.

Continuous renewal and diversification of products listed are amongst the factors that make the market of small household appliances grow and attract dynamism in the sector in terms of technology. One of the other most important factors is R & D activities of well-established firms operating in this field in order to increase the comfort of usage and reflection of the results on the products. Besides, electrical small household appliances sector is also one of the sturdiest sectors through an economic crisis. Compared to the white goods and larger electronic products, this sector’s contraction has been limited during the crisis as affordable price levels do not lead to abandonment of comfort or postponement of purchase decision and with longer payment terms in the Turkish market despite the high price sensitivity. Turkish population density, the realization of 500 thousand new marriages in a year and shorter renewal durations of these products are the other factors that provide the sector with durability in the crisis.

With the anticipation of continuing growth in the sector during the future periods and further increase in the demand for quality products, JCR-ER is of opinion that the sector will have a positive outlook.

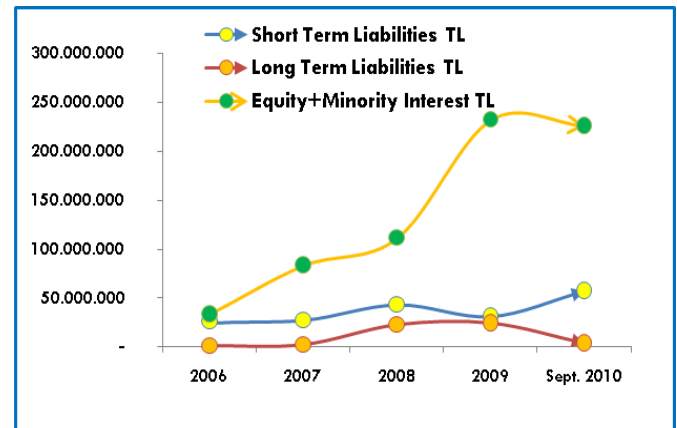
In the last five years period, absolute and relative amounts of profit generated by İhlas Ev Aletleri and resulting profitability ratios thereof are sufficient to meet funding requirements

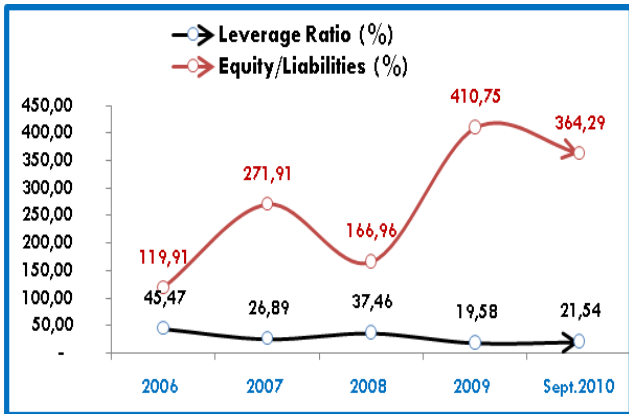
necessary for sustainability and extensibility of the Company’s compliance level with the corporate governance principles. However, as seen in the graph below, though positive values of gross profit from principal activities to sales revenues have had continuity in the last 6 years period, ratios of pretax profit to sales revenues have decreased on some occasions and transformed into negative values.



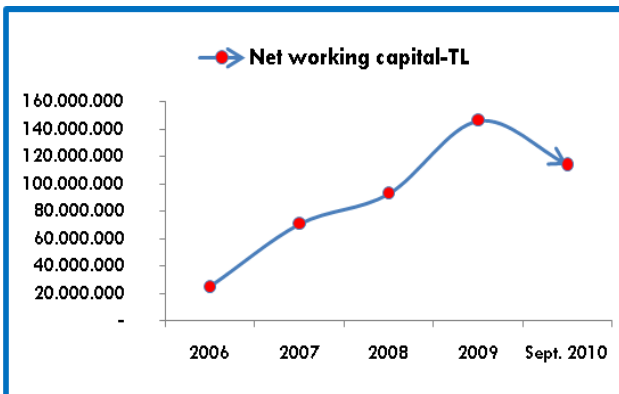
In FY2008, the Company’s pretax profit or loss to sales revenues ratio decreased to -33.64% due to; provision expenses for tax, social security premiums, lawsuits and overdue interest of Okan Tekstil San. Ve Tic A.Ş. as well as other expenses incurred during acquisition of Okan Tekstil San. Ve Tic. A.Ş.; high depreciation expenses; provision expenses for unfulfilled obligations of its affiliate named Detes Enerji Üretim A.Ş.; foreign exchange loss caused by foreign currency position. Though the resulting negative pressure on the gross profit, which had prevailed for one year, eased off in FY2009 and FY2010, the pressure of high activities expenses and financial expenses still continues.

Within the balance sheet composition, it has been understood that the company has sufficient capital structure. Because, in the current structure, the Company’s biggest and fastest growing source is its equity.

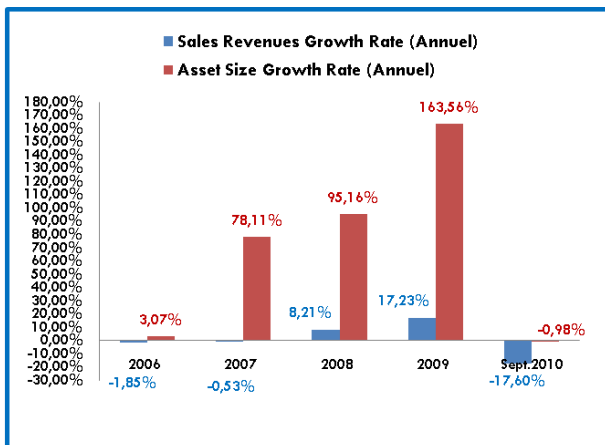




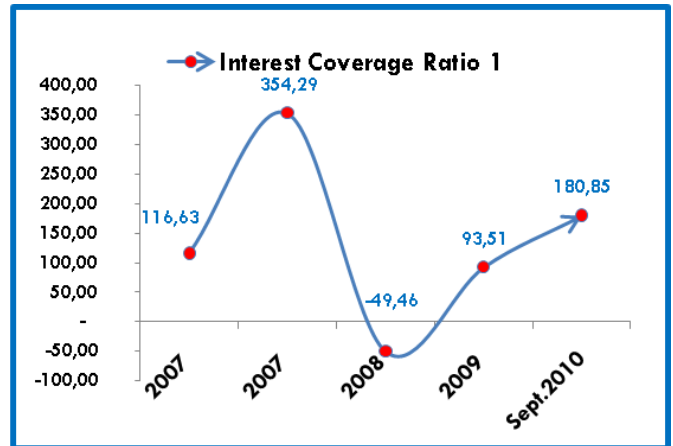
From FY2006 onwards, the Company's leverage ratio decreased from 45.47% to 21.54% and equity to liabilities ratio increased from 119.01% to 364.29% in the same term. Rapid growth in equity has caused improvement in liquidity ratios and liquid assets within the balance sheet and hence steady increases in the working capital of the Company.



However, as seen in the graph below, rapid growth rates in the asset size of the Company are not proportionately reflected in its sales growth rates. Thus, expected contribution by the Company's rapid growth in asset size during the last six years period on sales growth has not been realized either.



High amount of cash in the balance sheet of the Company, mainly generated by equity injection, is given as collaterals for the group companies' credits. This situation prevents reflection of real level of interest coverage ratio and improvement, although extremely sufficient.



Commitment and contingencies risks resulting from transactions within and off balance sheet are extremely high. Although the levels of currency and interest rate risks are compatible with the sector averages, profitability is of crucial importance in terms of stability.

As a result,

- The level of internal funds generated and increase in equity in the last 6 years,
- Existing balance sheet composition securing this profitability,
- Risk components within the balance sheet composition

of the Company have attributions and are adequate to contribute to the sustainability of the Company's compliance level with the corporate governance principles.

9. Appendix

(4 Tables)

Table: 1				
İHLAS EV ALETLERİ İMALAT SANAYİ VE TİCARET ANONİM ŞİRKETİ				
SHAREHOLDING STRUCTURE				
Years	2007	2008	2009	September 2010
TL (000)	72.900	95.685	191.370	191.370
USD (000)	62.591	63.271	127.097	132.583
Shareholders	Share %	Share %	Share %	Share %
İhlas Holding A.Ş.	38,61	25,96	17,60	-
İhlas Pazarlama Yatırım Holding	-	-	-	17,60
A. Mücahid Ören	-	-	0,23	0,23
Ali Tubay Gölbaşı	-	-	0,02	0,02
Other	1,70	0,25	-	-
Public	59,69	73,79	82,15	82,15
Total	100,00	100,00	100,00	100,00

Table: 2**AFFILIATES AND SUBSIDIARIES as of September 2010**

No	AFFILIATES AND SUBSIDIARIES	Head Quarter	Total Assets TL(000)	Net Profit TL(000)	Capital TL(000)	Interest Share %	Acquisition Date
1	İhlas Gazetecilik A.Ş.	Turkey-İstanbul	242.933	4.875	80.000	1,00%	13.08.2004
2	İhlas Madencilik A.Ş.	Turkey-İstanbul	44.839	- 354	55.000	83,00%	12.07.2007
3	Detes Maden Enerji ve Çev.Tek.Sis.Ltd.Şti	Türkey-İstanbul	219	- 8	50	20,00%	12.05.2008
4	Detes Enerji Üretim A.Ş.	Turkey-İstanbul	6.060	- 7	6.500	90,00%	12.05.2008

Table:3

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

Financial Data	Sept.2010	2009*	2008*	2007*	2006*
Total Assets (000 USD)	199,826	191,994	118,340	98,651	44,331
Total Assets (000 TL)	288,429	289,085	178,965	114,898	62,312
Equity (000 TL)	226,306	232,485	111,928	84,004	33,977
Net Profit (000 TL)	3,433	-702	-23,996	5,702	1,205
Net Profit Margin (%)	4.61	-0.78	-31.11	8.00	1.68
ROAA (%)	1.48	0.84	-17.66	8.65	2.41
ROAE (%)	1.50	-0.41	-24.49	9.67	3.61
Equity/Assets (%)	78.46	80.42	62.54	73.11	54.53
Net Working Capital/T.Asset (%)	184.09	258.69	301.90	229.90	88.09
Leverage Ratio (%)	21.54	19.58	37.46	26.89	45.47
Asset Size Growth Rate (%)	-0.23	61.53	55.76	84.39	3.43

Table: 4
BOARD OF DIRECTORS

Name	Task	Profession	Elected Date	Experience (Year)	Education	Executive/Non Executive	Independent/Not Independent	Committee Membership
Abdullah TURALI	Chairman	Chartered Accountant	21.04.2010	33	University	Executive	Not Independent	Audit Committee
Sedat KURUCAN	Vice -President	Mechanical Engineer	21.04.2010	28	University	Executive	Not Independent	
Mehmet KÜSMEZ	Member	Financial Officer	21.04.2010	20	University	Executive	Not Independent	
Ümit GÜNEY	Member	Computer Engineer	21.04.2010	16	University	Non-Executive	Independent	Corp.Gov.Committee
Yasin YILMAZ	Member	Chartered Accountant	21.04.2010	13	University	Non-Executive	Independent	Audit Committee