



Corporate Governance Rating Report



20 July 2018

CONTENTS

Rating and Executive Summary	3
Rating Methodology	5
Company Overview	6
SECTION 1: SHAREHOLDERS	8
Facilitating the Exercise of Shareholders' Statutory Rights	8
Shareholders' Right to Obtain and Evaluate Information	9
Minority Rights	9
General Shareholders' Meeting	9
Voting Rights	10
Dividend Rights	10
Transfer of Shares	11
SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY	12
Corporate Web Site	12
Annual Report.	13
External Audit.	14
SECTION 3: STAKEHOLDERS.	15
Company Policy Regarding Stakeholders	15
Stakeholders' Participation in the Company Management	15
Company Policy on Human Resources	15
Relations with Customers and Suppliers	16
Ethical Rules & Social Responsibility	17
Sustainability	17
SECTION 4: BOARD OF DIRECTORS.	18
Functions of the Board of Directors	18
Principles of Activity of the Board of Directors	18
Structure of the Board of Directors	19
Conduct of the Meetings of the Board of Directors	19
Committees Established Within the Board of Directors	19
Remuneration of the Board of Directors and Managers With Administrative Responsibility	21
Rating Definitions	22
Disclaimer	23

Rating and Executive Summary

ARÇELİK A.Ş.

 **SAHA**
Corporate Governance Rating:

9.53



MAIN SECTIONS: Avg. 95.35

Shareholders: 95.17



Public Disclosure & Transparency: 97.22



Stakeholders: 99.13



Board of Directors: 92.52



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

The Corporate Governance Rating of Arçelik A.Ş. (Arçelik) is hereby revised as **9.53**. Our rating methodology is based on the Capital Markets Board's (CMB) "Corporate Governance Principles" issued on January of 2014.

The Company's corporate governance rating is revised as above in consideration with the importance given by Arçelik to corporate governance principles, its willingness to carry out the continuous and dynamic process and improvements which had been initiated in this direction since July 2017.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Arçelik is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 can be accessed at <http://www.saharating.com>.

Arçelik is rated with **9.52** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Arçelik carries out the investor relations obligations through Investor Relations Department. There is no upper limit or privileges on voting rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed and consistent dividend policy of the Company. There are no restrictions on transfer of shares. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the Company's articles of association as prescribed for public joint stock companies (%5).

Arçelik attained **9.72** under the **Public Disclosure and Transparency** chapter. There is a comprehensive web site that includes all information listed in the Corporate Governance Principles pertinent to "Public Disclosure". Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. In addition, only the names of the Company's ultimate controlling individual shareholders as identified after being released from indirect or cross shareholding relationships between co-owners are disclosed to the public. A comprehensive web site is also prepared in English for the benefit of international investors. Declarations of independence of the independent board members are included in the annual report.

On the topic of **Stakeholders**, Arçelik scored **9.91**. Arçelik guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy for the employees is established and disclosed to the public on the corporate web site. Models have been partially developed to support the participation of stakeholders in the management of the Company, but not included in the articles of association. The Company has a written human resources policy and there is an active labor union within. Arçelik complies with quality standards concerning its goods and services and takes measures to ensure these standards. Specific guarantees are provided for this purpose. Code of ethics is publicly available through the Company's web site. During the rating period, the Company was not held liable by any public authorities for any sanctions, and was not subject to any adverse notice for any damage to the environment.

From the perspective of the principles regarding the **Board of Directors**, Arçelik's tally is **9.25**. There is a well communicated Company mission and vision, and the board fulfills all duties regarding Company needs. Chairman of the board of directors and the chief executive officer is not the same person. The board consists of 12 members, 4 of whom are independent and one member is executive. CMB criteria are complied with and the opinion of the Corporate Governance Committee is received for the appointment of independent members who have each signed a declaration of independence. There are two female members on the board. Corporate Governance, Audit, and Risk Management Committees are established within the board of directors. The working principles of the Committees are disclosed to the public. Our observations will continue in order to have a more precise view of the activities and the degree of functionality of the Committees. Principles of remuneration of board members and senior executives are available on the Company's web site. The Company does not provide any loans or extend any credit to the board members or to senior executives.

Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in future should be mentioned in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.


SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.22).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

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

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

Company Overview

Arçelik A.Ş.	
	Chairman of the Board Rahmi M. Koç General Manager Hakan Hamdi Bulgurlu
Karaağaç Cad. No: 2-6 Sütlüce, 34445 İstanbul Tel: (0212) 314 34 34 www.arcelikas.com	Assistant General Manager, Finance and Accounting Polat Şen Tel: (0212) 314 31 00 polat.sen@arcelik.com

Arçelik is the durable consumer goods arm of Koç Holding A.Ş. (Koç Group), Turkey's leading group of companies which has been operating since 1930 in energy, automotive, finance, and consumer durables sectors.

Koç Group operates mainly in areas of energy, automotive, finance, durable consumer goods, as well as food industry, retail, tourism, information technology, and the construction sector.

Arçelik A.Ş. offers products and services around the world with its 30,000 employees, 18 different production facilities in 7 countries (Turkey, Romania, Russia, China, South Africa, Thailand and Pakistan), its 34 sales and marketing companies in 32 countries all over the world with its 11 brands (Arçelik, Beko, Grundig, Blomberg, Elektribregenz, Arctic, Leisure, Flavel, Defy, Altus and Dawlance) in more than 145 countries.

The Company shares are traded under "ARCLK" code at BIST National Market and Arçelik is a constituent of BIST Stars (XYLDZ), BIST 100 (XU100), BIST 50 (XU050), BIST 30 (XU030), BIST Dividend (XTMTU), BIST Dividend 25 (XTM25), BIST All Shares (XUTUM), BIST National (XULUS), BIST Industrials (XUSIN), BIST Metal Products, Machinery (XMESY), BIST Istanbul (XSIST), BIST Corporate Governance (XKURY) and BIST Sustainability (XUSRD) indices.

As per the resolution reached at the Ordinary General Shareholders' meeting held in 2017, Arçelik decided to distribute a total cash dividend of TL 435 million starting from March 26, 2018 on the following terms:

- Shareholders who are full or limited taxpayer institutions obtaining dividend payment through a workplace or permanent representatives in Turkey would receive a dividend payment at the rate of 64.375% and TL 0.64375 gross=net cash for shares at the nominal value of TL 1.00.
- Other shareholders would receive a dividend payment at the rate of 64.375% (TL 0.64375) gross and %54.719 (TL 0.54719) net cash for shares at the nominal value of TL 1.00.

Legal entities with 5% or more share or voting rights directly in the capital as of the date of the report are as follows:

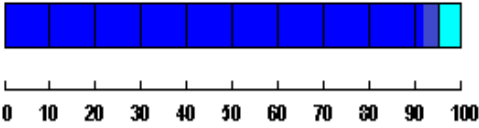
Capital Structure of the Company		
Shareholders	Share Value (TL)	Share %
Koç Holding A.Ş.	273,742,027.02	40.51
Teknosan Büro Makine ve Levazımı Tic.ve San. A.Ş.	81,428,336.95	12.05
Burla Ticaret ve Yatırım A.Ş.	37,571,663.05	5.56
Koç Holding Emekli ve Yardım Sandığı Vakfı	34,721,920.21	5.14
Others	248,264,257.78	36.74
	675,728,205.00	100.00%

As of the date of the report, the Board of Directors is composed as follows:

BOARD of DIRECTORS of ARÇELİK	
Name	Title
Mustafa Rahmi Koç	Chairman of the Board
Mehmet Ömer Koç	Vice-chairman
Semahat Sevim Arsel	Board Member
Yıldırım Ali Koç	Board Member
Levent Çakıroğlu	Member of the Board and the Corporate Governance Committee
Robert Sonman	Board Member
Fatih Kemal Ebiçlioğlu	Member of the Board and the Risk Management Committee
Hakan Hamdi Bulgurlu	Board Member
Kadri Kaynak Küçükpınar	Independent Board Member / Corporate Governance Committee Chairman / Risk Management Committee Chairman
Kamil Ömer Bozer	Independent Board Member and Audit Committee Chairman
Müzeyyen Münire Gülay Barbarosoğlu	Independent Board Member and Audit Committee Member
Mehmet Cem Kozlu	Independent Board Member

SECTION 1: SHAREHOLDERS

SHAREHOLDERS: **95.17**



SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	No upper limits or privileges on voting rights
+	Voting rights are facilitated
+	General shareholders' meetings are conducted in compliance with the legislation
+	No restrictions on transfer of shares
+	Detailed dividend distribution policy
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The tasks of the Investor Relations Department regarding the communication between the Company and investors are carried out by Mr. Polat Şen, Assistant General Manager of Finance and Accounting.

Employees of this department are active and willing on exercise of corporate governance principles at the Company.

Along with other units of the Company, the "Investor Relations Department" plays an active role in protecting and facilitating

shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- To respond to the queries of the shareholders requesting written information on the Company.
- To ensure the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights is available up to date on the corporate web site.

Additionally, the manager of the Investor Relations Department is holder of licenses stated in the Corporate Governance Principles Communiqué.

The rate of shares belonging to other registered shareholders disclosed at PDP (Public Disclosure Platform) is around 37%.

1.2. Shareholders' Right to Obtain and Evaluate Information:

We did not come across to any hindering process or application within the rating period regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The Company has established a disclosure policy and submitted to the general shareholders' meeting and disclosed it to the public on its corporate web site.

1.3 Minority Rights:

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the Company.

1.4. General Shareholders' Meeting:

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the ordinary general shareholders' meeting of the year 2017 is performed through all means of communication available to the Company in

accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Furthermore, the Company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting;

- a. the annual report,
- b. financial statements and reports,
- c. all other related documents pertaining to the agenda items

are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Company, and the electronic media.

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

- a. The total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure, that there are no privileged share groups within the Company capital,
- b. Grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of the

relationship of the Company and related parties, whether it has the quality of independence and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

Agenda of the general shareholders' meeting included the proposal for the permission to be granted to shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives to execute transactions and compete with the Company and/or its affiliates, to make a commercial business transaction for himself or on behalf of others or to join to another company dealing with the same type of commercial business as a partner with unlimited responsibility.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

Company's policy on donations and grants is regulated by the articles of association and submitted to the approval of the general shareholders' meeting. In addition, shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries.

The provisions of the articles of association of the Company allow the attendance to the general shareholders' meetings of those including stakeholders and media with no voting rights.

General shareholders' meeting is attended by the representative of the independent auditor.

1.5. Voting Rights:

At Arçelik, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately. There are no voting privileges and the Company avoids applications that make it difficult to exercise voting rights.

1.6. Dividend Rights:

The dividend policy of Arçelik is clearly defined and disclosed to the public on the Company's web site. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

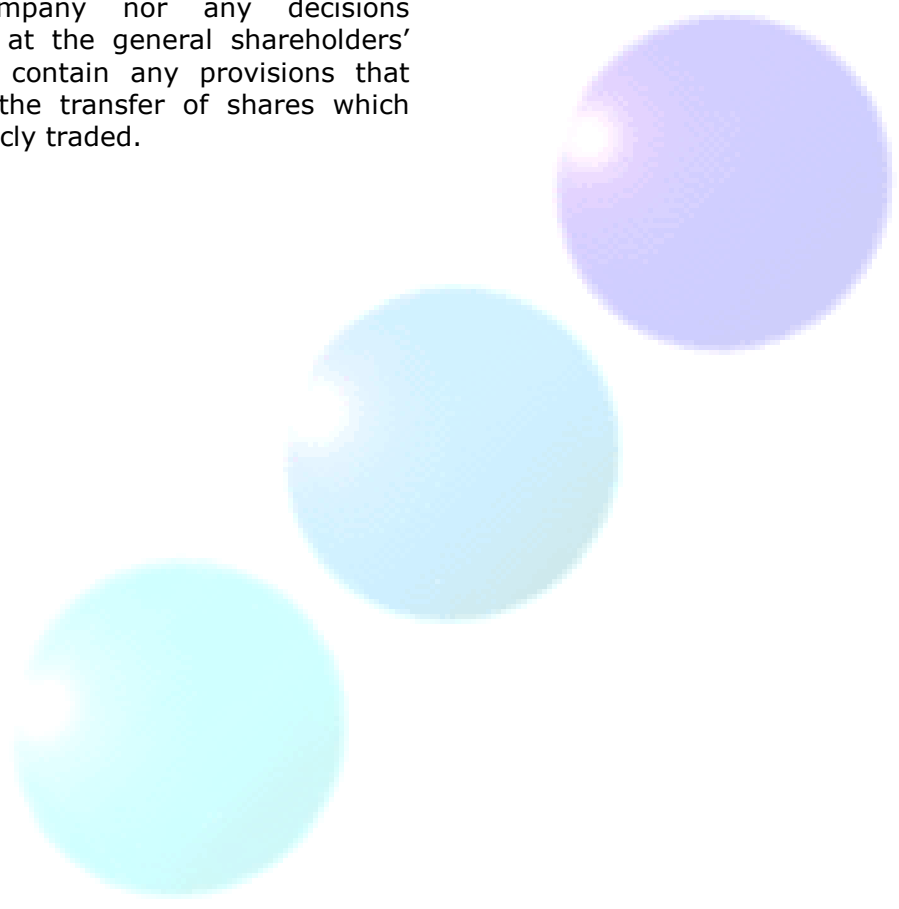
The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and that of the Company.

Besides, the articles of association contain a provision on advance dividend payments.

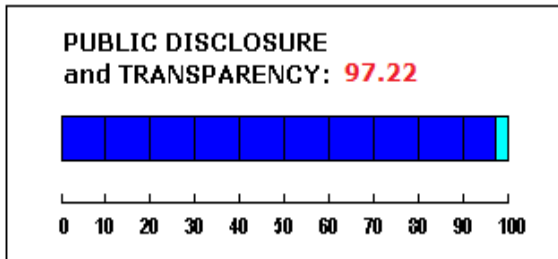
The dividend distribution proposal to be submitted to the general shareholders' meeting of 2017 specifies the source and amount of the dividend to be distributed for the period, dividends per share by specifying the group distinctions, and timing and terms of payment.

1.7. Transfer of Shares:

Neither the articles of association of the Company nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares which are publicly traded.



SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS

+	There is an Investor Relations Department
+	Sufficient Disclosure Policy
+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	List of insiders disclosed to the public
+	Important events and developments disclosed in accordance with the legislation
+	English version of the web site for international investors
+	List of ultimate controlling individual shareholders are disclosed to the public
-	Benefits provided to board members and senior management not listed on individual basis in the annual report

2.1. Corporate Web Site:

Company's web site is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the Company's web site includes; trade register information, information about latest shareholder and management structure, detailed

information on privileged shares, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, annual reports, periodical financial statements, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, policy on donations, ethical rules of the Company, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last five years can be reached on the web site.

The Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is disclosed to the public along with the privileges they hold and updated every 6 months as per minimum requirement.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the Company also discloses financial statements on PDP and simultaneously in English.

The information contained on the web site exists also in English (exactly

same with Turkish content) for the benefit of international investors.

The Company's web site also includes; investor presentations, working principles of the Committees, the donation policy, important board decisions under the heading of material disclosures, the vision/mission of the Company established by the board, information on capital increases, news, general shareholders' meeting internal guidelines, social responsibility activities, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, and the human resources policy.

2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and covers information such as;

- a. Period covered by the report, the title of the Company, trade register number, contact information.
- b. The names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates).
- c. The sector in which the entity operates and information on its position in the sector.
- d. Qualifications of the production units, capacity utilization rates, explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years.

- e. Progress on investments, the eligibility status on incentives, and to what extent.
- f. The Corporate Governance Principles Compliance Report.
- g. Information on related party transactions.
- h. Other issues not included in the financial statements, but are beneficial for users.
- i. The Company's organization, capital and ownership structure and any changes in the related accounting period.
- j. All benefits provided to staff and workers, information on number of personnel.
- k. Explanation on privileged shares and their amount.
- l. Information on board members' transactions with the Company on their behalf or someone else within the framework of permission granted by general shareholders' meeting along with their activities within the scope of restraint of trade.
- m. Research and development activities.
- n. The dividend distribution policy.
- o. Basic ratios on the financial position, profitability and solvency.
- p. Company's financing resources and risk management policies.
- q. Information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- a. External duties of board members and executives.
- b. Members of the Committees within the board.

- c. The number of board meetings held during the year.
- d. Changes in legislation which could significantly affect the Company's operations.
- e. Major court cases against the Company and possible consequences.
- f. Information on direct contributions to capital ratio with cross shareholding investments in excess of 5%.
- g. Benefits and vocational training of employees, and other Company activities that give rise to social and environmental results.
- h. Rating results.

during the audit period. No consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis. Also the capacity utilization rate of the Company and assessment of the board of directors on the efficiency of the Committees can also be included in the annual report.

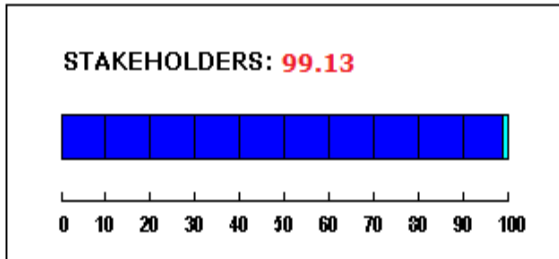
2.3. External Audit:

The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared that there has been no legal conflict between the Company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge

SECTION 3: STAKEHOLDERS



SYNOPSIS	
+	Measures to safeguard stakeholders' rights are facilitated
+	Efficient Human Resources Policy
+	Strict quality standards for goods and services
+	Stakeholders' views are taken on important decisions
+	Code of ethics disclosed to the public
+	Measures are taken to ensure customer satisfaction on sale of goods/services
+	Company is socially and environmentally sensitive and respectful
+	Existence of a labor union
=	No provision in the articles of association regarding the participation of stakeholders in the management of the Company despite the existence of certain incentive models

3.1. Company Policy Regarding Stakeholders:

Arçelik recognizes the rights of stakeholders established by law or through any other mutual agreements. In case the rights of the stakeholders are not regulated by the relevant legislation and protected by contracts, the Company protects the interest of stakeholders under good faith principles and within the capabilities of the Company. Effective and

expeditious compensation is provided in case of violation of the rights.

The web site of the Company is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

The corporate governance structure of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions.

3.2. Stakeholders' Participation in the Company Management:

Arçelik has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company and they are mentioned in the Corporate Governance Compliance Report. However, these models and mechanisms are not included in the articles of association.

3.3. Company Policy on Human Resources:

The primary function of the Company's Human Resources Policy is based on training and improvement perspective focusing on supporting employees' and Company's performance with the principle of continuous development in parallel with corporate vision and business goals. While planning current and future development needs of the employees, internal resources are used efficiently and productively, in line with the business requirements. Arçelik has a written Human Resources Policy which had been determined in accordance with the strategies of the

Company, common values and business ethics, has been documented and shared with the employees working in Turkey and at subsidiaries abroad. The Human Resources Director is responsible for determination and management of the principles of the Company's Human Resources Policy, management of the relations with the employees and managing and implementing human rights principles.

Issues such as recruitment policies, career planning, improvement and training policies for the employees established within this framework are dealt with under the Human Resources Policy. The Company's recruitment and placement process aims to meet current and future business needs of the employees. In accordance with the ethical principles, all candidates with appropriate training, knowledge, skills, competency and experience are provided with equal opportunities. All stakeholders, including employees and representatives are allowed to deliver their concerns on legally improper and unethical transactions to the management.

In accordance with human resources policies, the rights and working conditions of both white collar and blue collar employees have been guaranteed so as to ensure that no employee is subject to any discrimination or ill treatment. No complaint has been received in this regard during the period.

Arçelik gives importance to the impact of the employee commitment on the Company's business results and monitors the employee commitment regularly through the independent researches, and develops improvement activities according to the research results. Annual employee loyalty survey was conducted online for all employees in 2017. Favorable practices that were engaged in

previous years have been continued and projects were developed on fields of improvement. Based on the survey results, the focus is on recognition of the achievements of employees, supporting their career improvement, diversification of additional benefits, increasing the level of communication with the employees and training. Benefits management, award management, communication, career management, orientation, training and improvement processes were reviewed and regular meetings were held to meet the top management with the employees.

Union representatives carry out relations with the employees under collective bargaining. The Company is a member of Turkish Employers' Association of Metal Industries (MESS). The blue collar workers are members of the Turkish Metal Workers Union.

3.4. Relations with Customers and Suppliers:

Arçelik is taking all necessary precautions to attain customer satisfaction in the sales and marketing of its products and services. Among them are review and filing of suggestions and complaints from customers and suppliers, and organizing training programs and seminars.

Information exchange with customers and suppliers is ensured by periodic dealer meetings as well as on-site meetings held by individuals in charge in relevant locations. Furthermore, customers and suppliers are capable of transmitting their problems to Arçelik via the dealer meetings and through oral or verbal applications submitted to the management.

Primary and essential goal of the Company is the satisfaction of customers and suppliers. Customer

satisfaction is monitored and reported on a regular basis. Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

3.5. Ethical Rules & Social Responsibility:

Ethical rules of Arçelik aims to ensure customer satisfaction, offer universal quality products and services by using limited natural resources efficiently, and contribute to economic and social development.

In 2017, Arçelik continued to support its social contribution activities with voluntary participation of its employees and products in order to support social progress. Details on these activities are included in the annual report.

The Company has not been subject to any sanctions during the course of last year by the public administrations. Relations with non-governmental organizations and social institutions are at a good level.

3.6. Sustainability:

Generating significant social, environmental and economic spheres of influence in its operational geography, Arçelik aims to manage its influence on these fields with a responsible and efficient sustainability approach. Arçelik, operating in line with its vision of "Respects the Globe, Respected Globally" and focusing on respect for society and nature in all its operations, considers stakeholder expectations its primary guide.

With its effective sustainability structure, Arçelik extends the policies in sustainability areas to the whole organization from the senior

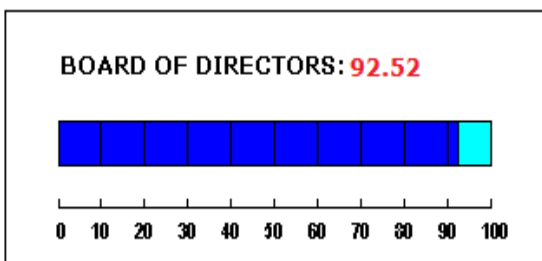
management to the lowest levels and to the value chain. It does not limit sustainability performance to the organization and considers the performance of value chain elements as binding. With concrete objectives, strong communication and efficient control mechanisms, it ensures the continuous improvement of the sustainability performance.

The Sustainability Council, the highest-level authority in sustainability management at Arçelik, is established to determine corporate sustainability and climate change policies and strategies, ensures their integration with corporate business processes and tracks sustainability performance. Members of the Council, formed with the participation of Arçelik Senior Management, control and coordinate sustainability activities in their areas of responsibility and they chair Sustainability Working Groups.

The Working Groups, ensuring the implementation and dissemination of the decisions taken by the Sustainability Council are formed on the basis of specialization and responsibility. Working Groups, formed by executives and/or experts responsible for sustainability issues, report performance results and developments in their areas to the Sustainability Council. The Sustainability Council convenes twice a year, evaluates performance results for year-end and determines the objectives for the forthcoming year with Arçelik Sustainability Activities year-end Report. Sustainability Council is responsible with reporting critical issues to Board of Directors.

Greenhouse gas emissions, emission reductions, and emission reduction targets are shared by the stakeholders via the Company's Sustainability Reports.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	The Company's vision, mission and strategic goals are defined
+	The board works efficiently and staffed with qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Four independent members on the board
+	Audit, Corporate Governance and Risk Management Committees established
+	Conduct of the board meetings is specified by internal regulations and included in the articles of association
+	Two female board members
+	Any potential losses incurred by the Company and third parties as a result of misconduct by executives are insured
-	Remuneration and benefits provided to board members and to managers with administrative responsibility is not explained on individual basis

4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the Company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to

the long-term interests of the Company. The board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

4.2. Principles of Activity of the Board of Directors:

Board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the Committees. In this context, the board reviews the effectiveness of risk management and internal control systems at least once a year.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman of the board and chief executive officer/general manager's executive powers are clearly separated and this separation is documented in the articles of association.

The board of directors plays a leading role in maintaining effective

communication between the Company and the shareholders and settling any disputes which may arise.

On the other hand, any losses incurred by the Company or third parties as a result of misconduct by board members are insured with an amount exceeding 25% of the capital of the Company, but no disclosure is provided to the PDP in this regard.

4.3. Structure of the Board of Directors:

The Company's board of directors is composed of twelve members, including one executive member. Among the non-executive board members there are four independent members who have the ability to execute their duties without being influenced under any circumstances.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are two female members on the board. In addition, there is a study on suggestion of establishing a policy to achieve corporate governance principles' advisory target of 25% female board membership rate and Company officials declared that annual progress is reported.

4.4. Conduct of the Meetings of the Board of Directors:

Ordinary board meetings take place with sufficient frequency and board members also convene upon any extraordinary situation and negotiate and render resolutions on critical agenda issues.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive officer. In 2017, two meetings were held and all of the members attended the meetings.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member of the board has a right to one vote.

The conduct of the board of directors meetings is defined in internal regulations and meeting and decision quorums have been included in writing in the articles of association of the Company.

Company officials have stated that the board members allocate necessary time for Company affairs and there are no limitations taking on additional duties outside the Company. Especially since the business experiences and sector specific knowledge of independent members have a significant contribution to the board of directors, such a restriction is not deemed necessary.

4.5. Committees Established Within the Board of Directors:

Corporate Governance, Audit, and Risk Management Committees are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the Committees, their working principles, and members are designated by the board of directors and disclosed to the public on the Company's web site.

All members of the Audit Committee are elected among the independent board members. Also the chairmen of the all three Committees are elected among the independent board members. The chief executive officer/general manager is not on the Committees. There are no executive members on the Committees. Care is taken to avoid appointment of a board member on multiple Committees.

All necessary resources and support needed to fulfill the tasks of the Committees are provided by the board of directors. Committees can invite any manager as they deem necessary to their meetings and obtain their views.

The frequency of Committee meetings is found sufficient.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the investor relations department.

The Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external and internal audit systems.

The Audit Committee also reviews complaints that are received by the Company regarding Company

accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them.

In addition, the Committee immediately notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations. Following taking the opinion of responsible managers of the Company and the external auditor, notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate.

Furthermore, we have come to the conclusion that the members of the Audit Committee possess the qualifications stated in the Corporate Governance Principles Communiqué.

The annual report contains information on working principles of the Audit Committee and number of written notices given to the board of directors within the fiscal year. In addition, meeting resolutions are included in the annual report.

The external audit of the Company is conducted by PwC Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş. The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the Audit Committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

The Risk Management Committee reviews risk management systems at least once a year. The Committee has convened seven times to carry out certain studies towards early detection of risks which may jeopardize the

Company's assets, its development and progression, and measures taken to mitigate and manage those risks, and presented its reports to the board of directors.

The Corporate Governance Committee carries out the duties of the Nomination Committee and Remuneration Committee, since they are not established. It has made its proposal on suitable candidates for the board of directors, on creation of a transparent system of evaluation and training, on determination of the relevant policies and strategies, and remuneration principles of the senior executives. However, we need further observation to assess the degree of efficiency and functionality of the Committee, particularly with regard to its reviews on the structure and efficiency of the board of directors. Also, whether the Committee submits its recommendations to the board members on changes that can be realized on these matters; whether it ensures that a system with regards to the principles and practices regarding career planning and rewarding of the board members is implemented; and by taking into account the degree of achievement of the criteria, whether it makes proposals to the board on remuneration of the board members and senior executives will need to be monitored further.

4.6. Remuneration of the Board of Directors and Senior Management:

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item at the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the Company's web site. Stock options or performance based payments are not

included in the remuneration package of the independent board members.

Arçelik does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

We have come to conclusion that the executives have the required professional qualifications in order to perform the assigned duties.

The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There is a regulation on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

There have been no cases where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the Company's affairs, and provided unfair advantage. There is a regulation on compensation for losses incurred by the Company, and third parties, as a result of not performing the executives' duties duly.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the Company.

The orientation process for newly appointed managers is documented in the Human Resources Policy of the Company which has been presented to us in its entirety.

Rating Definitions

Rating	Definition
9 - 10	The company performs very good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The company performs good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the ISE Corporate Governance Index on the highest level.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the ISE Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs weakly as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

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