



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report



23 July 2014

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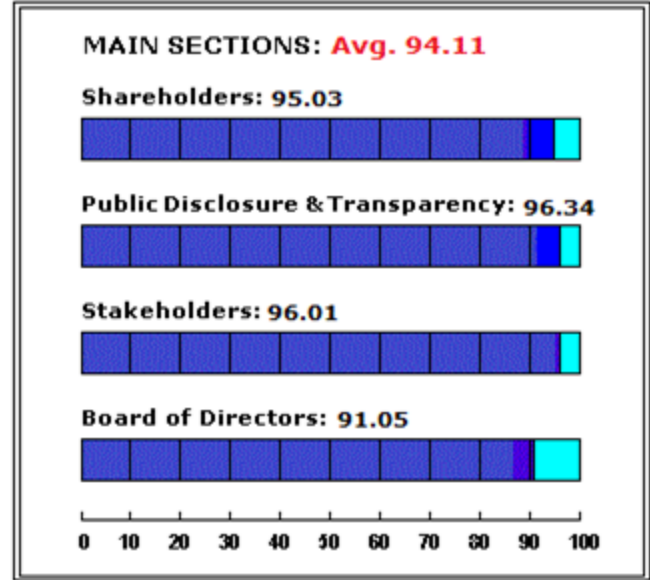
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## Rating and Executive Summary

### ARÇELİK A.Ş.

 SAHA  
Corporate Governance Rating:

**9.41**



### EXECUTIVE SUMMARY

This report on rating of Arçelik A.Ş.'s (Arçelik) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Arçelik is rated with **9.41** as a result of the Corporate Governance study done by SAHA. 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.

Additionally, Arçelik takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 4, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Arçelik is rated with **9.50** 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 Shareholder Relations Unit. 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 consistent dividend policy of the company and it is disclosed to the public. 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 **9.63** under the **Public Disclosure and Transparency** chapter. There is a comprehensive website 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. 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. Company's web site is also prepared in English for international investors.

On the topic of **Stakeholders**, Arçelik scored **9.60**. 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 effectuated 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 mentioned in the articles of association. The company has a written human resources policy and there is a union in the company. Arçelik comply 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 **9.11**. 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 is one female member on the board. Necessary changes on the articles of association were made to comply with the CMB regulations on related party transactions of a significant nature. 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 website. The company does not provide any loans or extend any credit to the board members or 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, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, Istanbul Stock Exchange 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 the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of these Principles is advisory and its application is optional. 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 the public.

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

Based on these Principles, 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.23).

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.	
	<b>CHAIRMAN</b> Rahmi M. Koç <b>GENERAL MANAGER</b> Levent Çakıroğlu
Karaağaç Cad., No: 2-6 Sütlüce, 34445 İstanbul <a href="http://www.arcelikas.com.tr">www.arcelikas.com.tr</a>	<b>Finance and Accounting Assistant General Manager</b> Dr. Fatih Kemal Ebiçlioğlu Tel: (0212) 314 31 00 <a href="mailto:fatih.ebiclioglu@arcelik.com">fatih.ebiclioglu@arcelik.com</a>

Arcelik 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.

Having operations in durable consumer goods industry with production, marketing and after-sales services, Arçelik A.Ş. offers products and services around the world with its 23,000 employees, 14 different production facilities in five countries (Turkey, Romania, Russia, China and South Africa), its sales and marketing companies all over the world and its 10 brands (Arçelik, Beko, Grundig, Blomberg, ElektraBregenz, Arctic, Leisure, Flavel, Defy and Altus).

The company shares are traded under "ARCLK" code at BIST and Arçelik is a constituent of 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) and BIST Corporate Governance (XKURY) indices.

Arçelik decided to distribute a total cash dividend of TL 300,000,000 at the general shareholders' meeting held on 27 March 2014.

- Shareholders who are full taxpayer institutions or limited taxpayer institutions obtaining dividend through a workplace or permanent representatives in Turkey would receive a dividend at the rate of 44.4% and TL 0.44396 gross=net cash for shares at the nominal value of TL 1.00.
- Other shareholders would receive a dividend with a ratio of 37.7% (gross TL 0.44396 and net TL 0.37737).

The distribution would start on 01 April 2014.

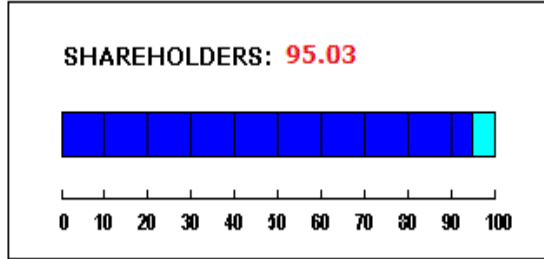
As of 27 March 2014 the company's capital structure consisted as:

<b>Capital Structure of the Company</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
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 Pension Fund Foundation	34,721,920.21	5.14
Temel Ticaret ve Yatırım A.Ş.	18,576,870.00	2.75
Vehbi Koç Foundation	893,043.14	0.13
Other Shareholders	228,794,344.64	33.86
	<b>675,728,205.00</b>	<b>100.00</b>

As of the general shareholders' meeting held on 27 March 2014, the board of directors is composed as follows:

<b>Arçelik Board of Directors</b>	
<b>Name</b>	<b>Title</b>
Mustafa Rahmi Koç	Chairman
Mustafa Vehbi Koç	Vice-chairman
Semahat Sevim Arsel	Member
Mehmet Ömer Koç	Member
Yıldırım Ali Koç	Member
Osman Turgay Durak	Member of the Board and the Risk Management Committee
Robert Sonman	Member
Levent Çakıroğlu	Member
Kutsan Çelebican	Independent Member and Audit Committee Chairman
Tunç Uluğ	Independent Member and Corporate Governance Committee Chairman
Mehmet Barmanbek	Independent Member and Member of Corporate Governance and Risk Management Committees
Kadri Kaynak Küçükpınar	Independent Member and Risk Management Committee Chairman

## SECTION 1: SHAREHOLDERS



### 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 company carries out the investor relations obligations through Shareholder Relations Unit established under the directorship of Finance and Accounting Department and managed by Fatih Kemal Ebiçlioğlu, Doğan Korkmaz, Faik Bülent Alagöz, Turhan Sarı and Fulya Kirayoğlu.

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

Along with the members of the partnership 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 assembly 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 required by the Capital Markets Board.

The share of other shareholders registered at KAP (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 is provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The company has constituted a disclosure policy and submitted to the general shareholders' meeting and disclosed it to the public on the 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 general shareholders' meeting

held on 27 March 2014 is performed through all means of communication available to the company on 3 March 2014 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.

Besides, the company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting; the annual report, financial statements and reports, and 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 at this meeting.

The provisions of the articles of association of the company allow the attendance 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.

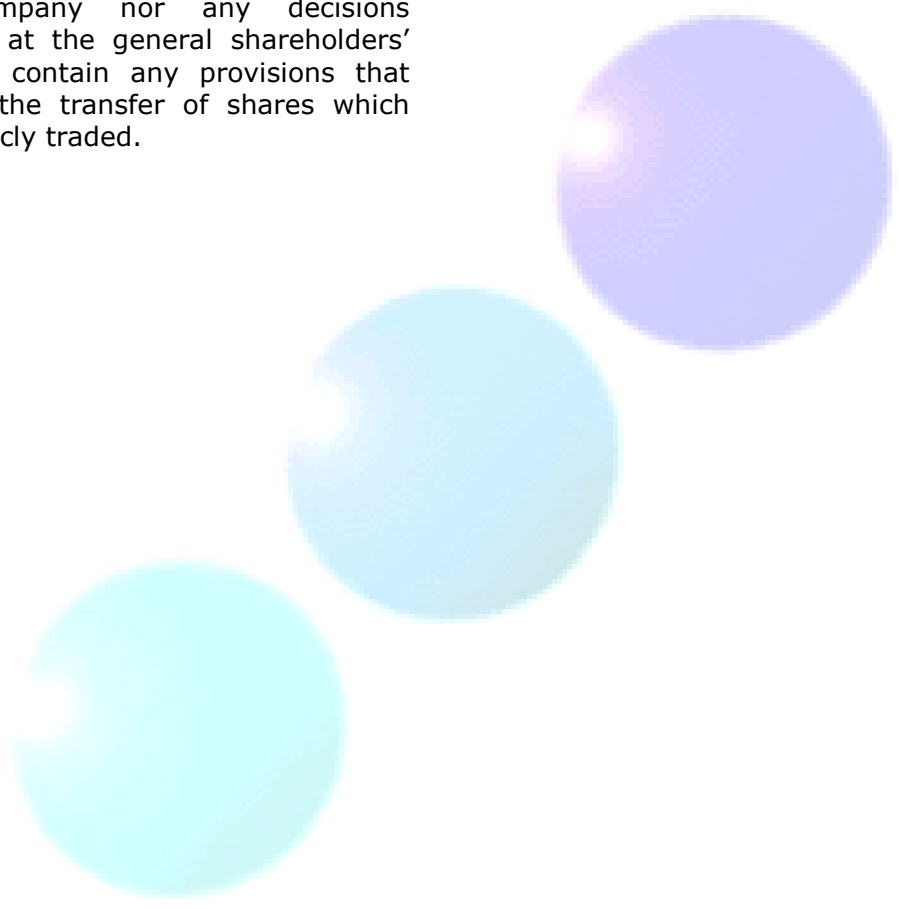
The company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles. A balanced policy is followed between the interests of the shareholders and that of the company.

In addition, the articles of association of the company contain a provision on advance dividend payments.

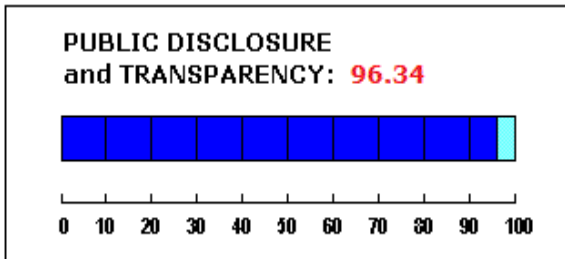
The dividend distribution proposal to be submitted to the general shareholders' meeting of 2013 specifies the source and amount of the profit to be distributed for the period, dividends per share by specifying the group distinctions, and timing and terms of dividend payments.

**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 a Shareholder Relations Unit
+	Sufficient disclosure policy
+	Comprehensive web site, actively used for public disclosure, English version exists
+	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 website ([www.arcalikas.com](http://www.arcalikas.com)) 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 website 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 website.

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 KAP and simultaneously in English.

The information contained on the website 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, disclosure area, 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 it 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, general 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. changes and justifications on the articles of association during the period,
  - g. Corporate Governance Principles Compliance Report,
  - h. information on related party transactions,
  - i. other issues not included in the financial statements, but are beneficial for users,
  - j. the company's organization, capital and ownership structure and any changes in the related accounting period,
  - k. all benefits provided to staff and workers, information on number of personnel,
  - l. explanation on privileged shares and their amounts,
  - m. 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,
  - n. research and development activities,
  - o. dividend distribution policy,
  - p. basic ratios on the financial position, profitability and solvency,
  - q. the company's financing resources and risk management policies,
  - r. 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, assessment of their working principles,
- 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 in terms of Corporate Governance Principles it is essential that this information is given on an individual basis. Attendance status of the members to the meetings can also be included in the annual report.

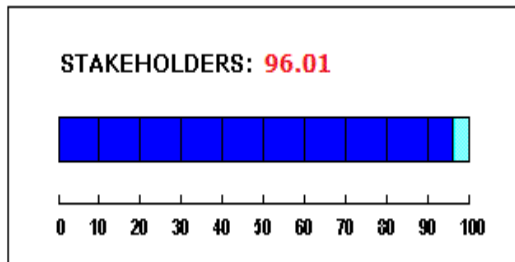
### **2.3. External Audit:**

The external audit of the company is conducted by Güney 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 by the company officials 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 trade 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 agreement. 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 ([www.arcelikas.com](http://www.arcelikas.com)) 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. These are described 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. Company has a documented human resources policy. Human resources policy of Arçelik 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 in abroad affiliates.

Issues such as recruitment policies, career planning, improvement and training policies for the employees established within this framework are dealt with under Human Resources Policies. 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, competencies 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.

The employee engagement survey was renewed in 2013. Areas open for improvement are identified in line with the survey results and successful applications commissioned in previous years were continued.

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 grievances 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 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.

Authorized services render 15 million service visits per year for products with brands owned by Arçelik. Quality standards for goods and services are complied with and care is taken to protect those standards. Certain guarantees relating to quality are provided for this purpose.

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.



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:**

The company identifies environmental management overview with the "environmental approach throughout the product life cycle" principle. For this reason, it aims to reduce the environmental impact of the whole process from raw materials to production, from production to disposal of the product produced.

Environmental management is administered by "Center for Energy and Environmental Management". The company operates under the leadership of this unit's monthly meetings. Environmental Coordination Committee is composed of environmentally responsible staff for production and non-production processes. Objectives established in line with the Environmental Policy and business strategy is reflected to the individual performance indicators by the environmental management and active participation of all employees is provided.

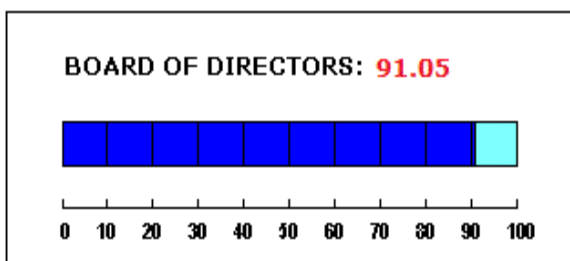
Arçelik Environmental Coordination Committee provides the implementation of the targets, controls and monitors the compliance with national and international laws and regulations, systems and standards, creates new action plans with the results obtained and executes the necessary legal procedures. The effectiveness of environmental management systems and continuity is guaranteed by external audits performed by independent

organizations along with regularly conducted internal audits. All environmental activities and performance results obtained are reported to senior management and relevant stakeholders in the Environmental Performance Reports. Reporting outside the company is realized by Sustainability Reports.

The basis of the strategy established under Arçelik's Environmental Policy is generated by the integration of ISO 14001 Environmental Management System with ISO 9001 Quality Management System and ISO 50001 Energy Management System.

Greenhouse gas emissions, greenhouse gas emissions reductions, and of greenhouse gas emissions reduction targets are shared by the stakeholders through 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 the company's internal regulations and indicated in the articles of association
+	One female member on the board
+	Directors & Officers insurance is provided to compensate any losses incurred by the company or third parties
=	The level of functionality and effectiveness of the committees will be monitored further
-	No target, not less than 25% of the board, is established for the number of female members

#### 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'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 caused by board members are not insured with a coverage exceeding 25% of the paid-in capital of the company, and thus no explanation is given to KAP in this regard.

#### **4.3. Structure of the Board of Directors:**

The company's board of directors is composed of twelve members. There is only 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 signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There is one female member on the board. In addition, the company has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of 25% of the number of board members.

#### **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 2013, four meetings were held and majority of 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 declared that the board members allocate necessary time for the company's affairs and there are no limitations taking on additional duties outside the company. Such a limitation is not deemed necessary due to the important contribution of the independent members to the board with their professional and sector experience.

#### **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 its 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 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 sufficient.

In line with the new corporate governance principles published on 3 January 2014, Investor Relations Department manager must be a member of the Corporate Governance Committee. Arçelik adapted to the principle in question.

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

In addition, audit committee members possess the qualifications mentioned 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 in the fiscal year. In addition, meeting resolutions are included in the annual report.

The external audit of the company is conducted by Güney 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 Corporate Governance Committee is established in order to determine whether or not 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 imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

The Risk Management Committee reviews risk management systems at least once a year. The Committee held seven meetings in 2013 and submitted

reports to the board of directors on tasks carried out towards early detection of risks which may jeopardize the Group's assets, its development and progression, and measures taken to mitigate and manage those risks.

The Corporate Governance Committee carries out the duties of the Nomination Committee and Remuneration Committee, since they are not established yet. 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 their remuneration principles. 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.

Whether the committee submits its recommendations to the board members on changes that can be done 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 in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on

company's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

The company 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 has 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.

Orientation process for newly appointed managers is determined in writing in the Human Resources Policy.

## Rating Definitions

Rating	Definition
9 - 10	The bank performs <b>very good</b> 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 bank's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The bank performs <b>good</b> 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 BIST Corporate Governance Index.
6	The bank performs <b>fair</b> 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 BIST 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 bank performs <b>weakly</b> as a result of poor corporate governance policies and practices. The bank 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 bank performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The bank 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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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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