

Corporate Governance Rating Report

Revised Report NON-FINANCIAL

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

		8,20 AA(Trk)/bbb (Stable)
Corporate Governance Score & Outlook	Shareholders	8,08 AA(Trk)/bbb (Stable)
	Public Disclosure & Transparency	8,11 AA(Trk)/bbb (Stable)
	Stakeholders	8,06 AA(Trk)/bbb (Stable)
	Board of Directors	8,42 AA(Trk)/bbb (Stable)

İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.					
Financial Data	2016*	2015*	2014*	2013*	2012*
Total Assets (000 USD)	72,959	90,831	105,993	125,227	171,142
Total Assets (000 TRY)	256,756	256,592	245,786	267,272	304,223
Equity (000 TRY)	185,498	203,967	191,299	186,435	218,127
Net Profit (000 TRY)	-720	12,477	11,329	-23,272	20,546
Sales (000 TRY)	108,725	116,627	98,497	108,097	101,540
Net Profit Margin (%)	-0.67	12.80	11.54	-21.58	20.30
ROAA (%)	0.17	4.28	5.27	-9.98	9.05
ROAE (%)	0.22	5.52	7.16	-14.09	12.58
Equity / Total Assets (%)	72.25	77.23	77.83	69.75	71.70
Net Working Capital / T. Assets (%)	55.54	60.10	57.61	36.27	43.03
Debt Ratio (%)	27.75	22.77	22.17	30.25	28.30
Asset Growth Rate (%)	-2.78	7.45	-8.04	-12.15	8.03

Analyst:

Ceyhun KIR/ +90 212 352 56 73

ceyhunk@jcr.com.tr

*End of year

Overview

Company Information	
Trade Name	İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.
Address	Merkez Mah.29 Ekim Cad. İhlas Plaza No:11 B/21 Yenibosna Bahçelievler/ İSTANBUL
Chairman	Mr. SEDAT KURUCAN
CEO	Mr. Dr. ÖMER KAMBER
Investor Relations	Phone: +90.212.875.35.62 yatirimci@iea.com.tr
Web	www.iea.com.tr
Corporate Governance	Mr. UGUR KURT

İhlas Ev Aletleri İmalat Sanayi ve Ticaret A.Ş. (IHEVA or the Company) was incorporated on December 5, 1975 under the name of Hizmet Gazetecilik ve Matbaacılık Ltd. Şti and began operating under its current name on July 5, 1995. The Company produces cleaning robots, water purification systems and water heaters at two facilities covering 12,900 m² within the Beylikdüzü organized industrial zone. Products are sold on the domestic market through İhlas Pazarlama A.Ş.'s widespread distribution channels and are exported to over 50 countries, including those of the European Union and Turkic Republics.

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

Company shares have been listed on the BIST under the code of IHEVA since September 26, 1996 and are included in the BIST 100 Index. 77,97% of shares are publicly traded as of July 2017. The Company's equity stood at TL186 mn, and asset size and sales reached TL257 mn and TL109mn as of December 31, 2016, respectively.

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

Strengths

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

Constraints

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

Publication Date: July 27, 2017

"Global Knowledge supported by Local Experience"

Copyright © 2007 by JCR Eurasia Rating. 19 Mayıs Mah., 19 Mayıs Cad., Nova Baran Plaza No:4 Kat: 12 Şişli-İST Tel: +90.212.352.56.73 Fax: +90 (212) 352.56.75
 Reproduction is prohibited except by permission. All rights reserved. All information has been obtained from sources JCR Eurasia Rating believes to be reliable. However, JCR Eurasia Rating does not guarantee the truth, accuracy and adequacy of this information. JCR Eurasia Rating ratings are objective and independent opinions as to the creditworthiness of a security and issuer and not to be considered a recommendation to buy, hold or sell any security or to issue a loan. This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Turkey), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations. <http://www.jcr.com.tr>

1- Executive Summary and Rating Rationale

This revised report was prepared in light of JCR Eurasia Rating's original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Market Board (CMB) and states the Company's level of compliance with corporate governance principles as of July 2017.

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

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

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

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

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

Subject to the preservation of integrity of regulations by the CMB and compliance with the limitations thereof, this report also covers such topics as implementations regarding "Outlook" determinations and "Financial Efficiency" analyses all of which exist in JCR Eurasia Rating's original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Company to the public through various channels and also

submitted to JCR Eurasia in writing and verbally, as well as reports and statistics by the CMB and Central Registry Agency (CRA).

In compliance with changes in the Corporate Governance Ratings Methodology was made by CMB, JCR Eurasia Rating has revised and announced the compliance notes and outlooks of IHEVA in March 3, 2014. Details of the adjusted notes can be seen in the table below.

03.03.2014				
Fields	Numerical Value	Convergence Level	Notch Degree	Outlook
Shareholders	73,14	AA (Trk) Merit	b Adequate	Stable
Public Disclosures and Transparency	83,80	AA (Trk) Merit	bbb Outstanding	Stable
Stakeholders	73,77	AA (Trk) Merit	b Adequate	Stable
Board of Directors	79,00	AA (Trk) Merit	bb Good	Stable
Overall	77,96	AA (Trk) Merit	bb Good	Stable

Last year, through a comprehensive review done in July 2016, the conclusions reached by JCR ER and corresponding notation are shown in the following table:

July 27, 2016				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	80,75	AA (Trk) Merit	bbb Outstanding	Stable
Public Disclosures and Transparency	81,10	AA (Trk) Merit	bbb Outstanding	Stable
Stakeholders	75,63	AA (Trk) Merit	bb Good	Positive
Board of Directors	82,90	AA (Trk) Merit	bbb Outstanding	Positive
Overall	80,82	AA(Trk) Merit	bbb Outstanding	Positive

Finally, the general compliance level of IHEVA with the Code as of July 2017 and the corresponding levels within the JCR Eurasia's notation have been determined as follows;

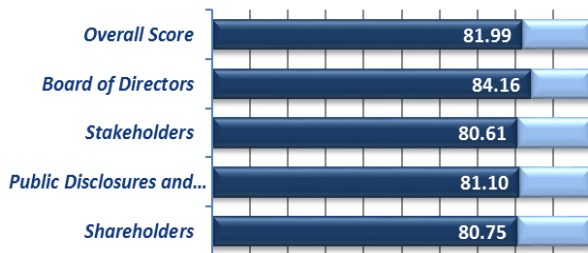
- Numerical value is **8,20**,
- Convergence Level **AA(Trk)** representing the category of "Merit Compliance",
- Notch degree (**bbb**) representing the category of "Outstanding",
- Outlook (**Stable**)

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

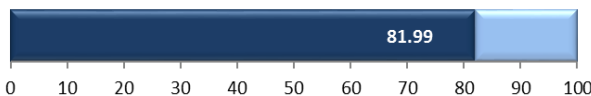
July 27, 2017				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	80,75	AA (Trk) Merit	bbb Outstanding	Stable
Public Disclosures and Transparency	81,10	AA (Trk) Merit	bbb Outstanding	Stable
Stakeholders	80,61	AA (Trk) Merit	bbb Outstanding	Stable
Board of Directors	84,16	AA (Trk) Merit	bbb Outstanding	Stable
Overall	81,99	AA(Trk) Merit	bbb Outstanding	Stable

JCR ER's notation system may be viewed at: http://www.icrer.com.tr/Administrator/files/436_kyder_notation.pdf

Corporate Governance Score %



Overall Score %



Corporate Governance Overall Results
8,20
AA (Trk)/bbb
Stable

Outlook

JCR-ER believes that the Company will maintain its level of compliance during the next monitoring period following the publication of the revised report. For this reason, the Company's Outlook has been determined as "**Stable**" for this rating period.

2- Company Overview

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

The Company offers its products mainly on the domestic market and exports to over 50 countries, including those of the European Union and Turkic Republics.

Company shares have been listed on the BIST under the code of IHEVA since December 26, 1996. As of July 2017, 77.97% of shares are publicly traded. Additionally, the Company has been listed on in the BIST National Index since October 1, 2007 and the Corporate Governance Index since December 29, 2010.

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

According to December 31, 2016 financial statements, the Company's equity stood at TL186M and its asset size and sales reached TL257M and TL109M, respectively. Balance sheet items and ratios that reflect the Company's financial structure are exhibited in Table 3 of the Appendix.

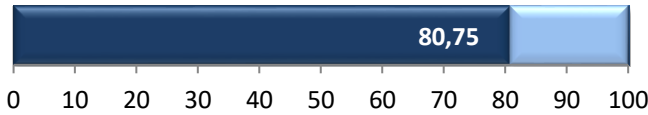
As of May 31, 2017, a total of 156 workers were employed by the Company, 38 of which were administrative staff members. The Board of Directors is composed of 7 members, three of which are independent and one of which is female. Furthermore, the five members have non-executive position in the Company. The qualifications of the Board members are detailed in Table 4 of the Appendix.

3- Shareholders

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

- Numerical value is **8,08**,
- Convergence Level **AA(Trk)** representing the category of "**Merit Compliance**",
- Notch degree (**bbb**) representing the category of "**Outstanding**",
- Outlook (**Stable**)

Shareholders Score %



Shareholders Results
8,08
AA(Trk)bbb
Stable

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

- ✓ IHEVA's 2016 general meeting was held on April 14, 2017 at 10:00 at İhlas Holding's Headquarters located at Merkez Mahallesi 29 Ekim Caddesi İhlas Plaza No: 11 Yenibosna-Bahçelievler/İstanbul. However, the meeting was postponed due to lack of quorum. The second meeting was held on June 23, 2017 at 15.30 in the same address. Both meetings were observed by a JCR-ER analyst and the works undertaken by the Company were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Code. Within the framework of democratic principles, all shareholders were treated equally, the Company's 2016 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands during

the meeting. Following the meeting, the relevant documents were disclosed to investors on the Company's internet site.

- ✓ No shareholders have canceled any agreement or opened any lawsuit against the Company.
- ✓ The Investor Relations Department received 28 inquiries through email and telephone during the monitoring period. The Company has declared that all inquiries were answered.
- ✓ Any investor information meeting was not held with the Investor Relations Department and senior management during the monitoring period.
- ✓ The company realized a profit figure of TL720.019 based on CMB regulations and a profit of TL353.769 according to the TPL (Tax Procedure Law). No dividend was distributed due to the fact that the previous years' losses were deducted from current year profit. After approval of it by the Shareholders at the general meeting, the dividend distribution table was disclosed to the public via the company's website and the PDP following the general meeting.

Outlook

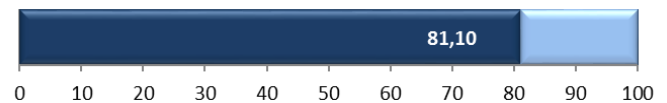
JCR-ER is of the opinion that during the monitoring period the Company maintained its level of compliance with the Code in the Shareholders field. For this reason, the Outlook for this section has been determined as "**Stable**".

4- Public Disclosure and Transparency

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

- Numerical value of **8,11**,
- Convergence Level **AA(Trk)** representing the category of "**Merit Compliance**",
- Notch degree (**bbb**) representing the category of "**Outstanding**",
- Outlook (**Stable**)

Public Disclosures and Transparency Score %



Public Disclosures & Transparency Results
8,11
AA (Trk)/bbb
Stable

Activities carried out during the monitoring period in the Public Disclosure and Transparency field:

- ✓ The Company disclosed a total of 40 notifications to the PDP in the monitoring period. Following these disclosures not further information was requested. A link to the PDP is available on the Company's internet site.
- ✓ The Company was not delisted on the BIST.
- ✓ The company's website is kept up to date in Turkish. Significant improvements in the Company's organizational structure and operations are published in a timely manner.
- ✓ The 2016 annual report was also published with high compliance level with the code.
- ✓ The Company's quarterly financial statements were regularly disclosed on its internet site.
- ✓ Annual figures for 3rd-party commercial and financial relations were disclosed to the public via the Company's internet site.
- ✓ The Company was audited in 2016 by İrfan Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. Same firm was elected by the shareholders in general meeting as independent audit firm for 2017.

Outlook

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

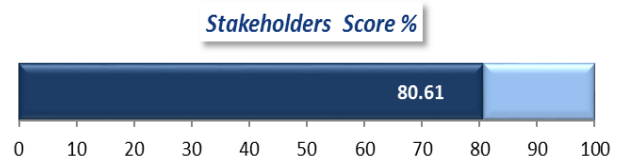
5- Stakeholders

The Company's Stakeholders' score has been raised to 8.06 from 7.56. The primary reasons behind this increase are;

- The management provided the employees with a more comfortable, safe and healthy working environment by making considerable improvements in their workplace.
- The company's research and development center is officially approved by the government. The innovative and technological products that have higher quality and lower cost are designed in this center.
- Noteworthy investments have been undertaken regarding the digitalization of production processes and control mechanisms, with improvements made.

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

- Numerical value of **8,06**
- Convergence Level **AA(Trk)** representing the category of "**Merit Compliance**",
- Notch degree (**bbb**) representing the category of "**Outstanding**,"
- Outlook (**Stable**)



Stakeholders Results
8,06
AA (Trk)/bbb
Stable

Activities carried out during the monitoring period in the Stakeholder field:

- ✓ The Company hired 3 new employees, 13 employees left the company for various reasons and 2 employees retired in the monitoring period.
- ✓ IHEVA products reach the final customer through İhlas Pazarlama A.Ş. For this reason, customer complaints are received by the marketing company, although IHEVA plays an active role

in the resolving of these complaints. During the monitoring period 24.561 complaints were received by the call center. Of these, 80% have been resolved.

- ✓ No remarkable lawsuit was opened against the Company by stakeholders.
- ✓ No donations were made during monitoring period.
- ✓ The Company has maintained to report its carbon footprint in 2016 in scope of the Carbon Disclosure Project (CDP).
- ✓ The company also participated to the reporting of water program voluntarily in 2016 in scope of CDP.
- ✓ The contract through TÜKÇEV for the Company's recycling is ongoing.

Outlook

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

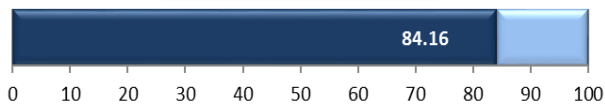
6- Board of Directors

The Company's Board of Directors' score has been raised to 8.42 from 8.29. The primary reason behind this increase is that the Company's General Manager became a member of the Board at the same time, thus an opinion was reached that the Board carried out its activities more efficiently.

The Holding's level in this section and their corresponding notes are outlined below;

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

Board of Directors Score %



Board of Directors Results
8,42
AA (Trk) /bbb
Stable

Activities carried out during the monitoring period in the Board of Directors field:

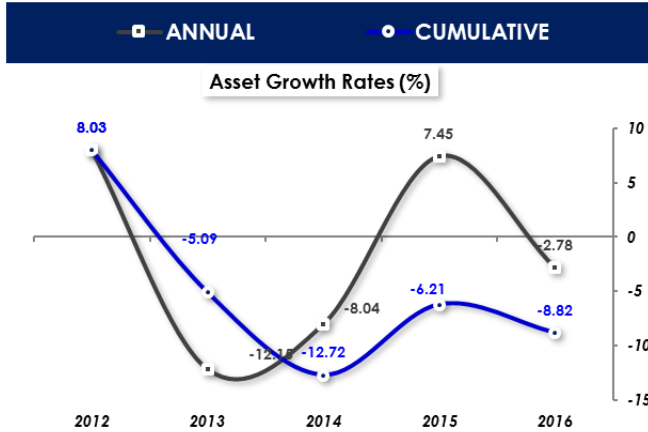
- ✓ The Board of Directors was acquitted at the general meeting held on June 23, 2017.
- ✓ General manager Mr. Ömer Şaban KAMBER was appointed as the board member instead Mr. Kubilay Gökçe KILIÇ in 16.03.2017 and this appointment was approved by shareholders in the general meeting. Mr. KAMBER also serves as the deputy chairman in the board. These changes were disclosed in a timely manner to the PDP.
- ✓ The Board of Directors held 23 meetings as of 31.05.2017. All votes and decisions made during these meetings were recorded in the minute book and archived in accordance with the Code.
- ✓ The Audit Committee held 3 meetings in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.
- ✓ The Corporate Governance Committee held 4 meetings in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.
- ✓ The Risk Committee held 2 meeting in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.

Outlook

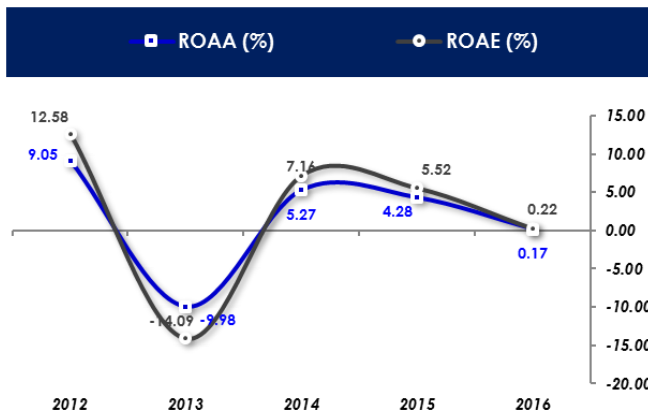
JCR-ER is of the opinion that the Company will maintain its level of compliance with Code in the Board of Directors main section during the upcoming monitoring period. For this reason, the Outlook for this section has been determined as "**Stable**".

7- Financial Efficiency

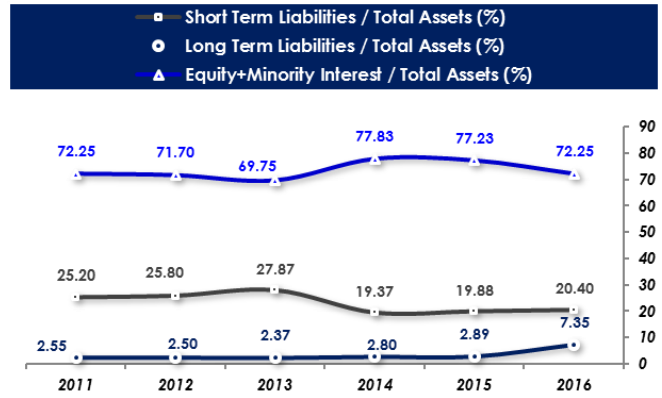
The graph below reveals annual and cumulative growth rates of IHEVA. The annual asset growth rate of the Company exhibited a horizontal trend since 2011, and resulted by -2,78% decrease in 2016.



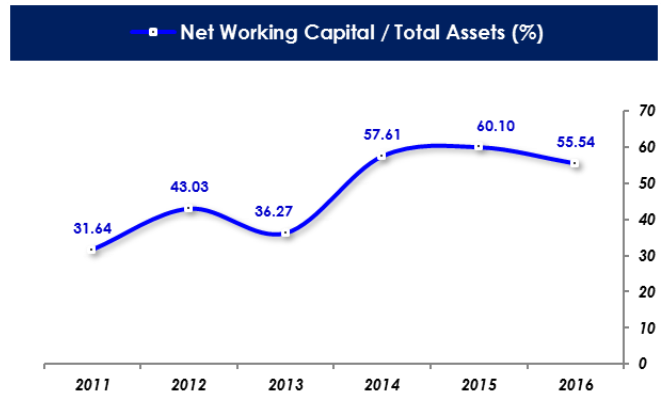
ROAA and ROAE can be seen below graph. The Company recorded a high profitability in 2012. It has been a sharp drop in both profitability ratios in 2013. From 2014 onwards there is a declining trend in profitability.



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



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



8- Appendices
(4 Tables)

SHAREHOLDING STRUCTURE				
	2014	2015	2016	2017
TL (000)	191.370	191.370	191.370	191.370
USD (000)	89.845	71.410	62.890	54.215
Shareholders	Share %	Share %	Share %	Share %
İhlas Holding A. Ş.	4,43%	4,43%	4,43%	4,43%
İhlas Pazarlama A.Ş.	17,60%	17,60%	17,60%	17,60%
Public	77,97%	77,97%	77,97%	77,97%
Total	100,00%	100,00%	100,00%	100,00%

TABLE: 2- AFFILIATES AND SUBSIDIARIES

As of July, 2017	Sector	Paid Capital(TL)	Share %
İhlas Gayrimenkul Proje Geliştirme ve Ticaret A.Ş.	Real Estate	79.542.538	16%
Detes Enerji Üretim A.Ş.	Energy	6.500.000	99,85%
İhlas Gazetecilik A.Ş.	Media	120.000.000	1,03%
İhlas Madencilik Enerji ve Tic. A. Ş.	Energy	7.700.000	0,63%
Şifa Yemek ve Gıda Üretim Tesisleri Ticaret A. Ş.	Catering	860.000	100%
KPT Lojistik Taşımacılık Pazarlama İç ve Dış Ticaret A. Ş.	Logistic	1.200.000	100%

İHLAS EV ALETLERİ İMALAT SAN. VE TİC. A.Ş.					
Financial Data	2016*	2015*	2014*	2013*	2012*
Total Assets (000 USD)	72,959	90,831	105,993	125,227	171,142
Total Assets (000 TRY)	256,756	256,592	245,786	267,272	304,223
Equity (000 TRY)	185,498	203,967	191,299	186,435	218,127
Net Profit (000 TRY)	-720	12,477	11,329	-23,272	20,546
Sales (000 TRY)	108,725	116,627	98,497	108,097	101,540
Net Profit Margin (%)	-0.67	12.80	11.54	-21.58	20.30
ROAA (%)	0.17	4.28	5.27	-9.98	9.05
ROAE (%)	0.22	5.52	7.16	-14.09	12.58
Equity / Total Assets (%)	72.25	77.23	77.83	69.75	71.70
Net Working Capital / T. Assets (%)	55.54	60.10	57.61	36.27	43.03
Debt Ratio (%)	27.75	22.77	22.17	30.25	28.30
Asset Growth Rate (%)	-2.78	7.45	-8.04	-12.15	8.03

*The end of year

TABLE: 4
BOARD OF DIRECTORS

Name	Task	Profession	Election Date	Experience (Year)	Education	Executive/ Non Executive	Independent/ Not Independent	Committee Membership
Seda KURUCAN	Chairman	Mechanical Engineer	17.12.2002	34	Master	Non-Executive	Not Independent	
Ömer KAMBER	Deputy Chairman and General Manager	Mechanical Engineer	16.03.2017	29	Ph.D.	Executive	Not Independent	
Mehmet KÜSMEZ	Member	Financial Officer	16.03.2001	29	University	Executive	Not Independent	
H. Alev VOLKAN	Member	Accountant	31.05.2012	47	University	Non-Executive	Not Independent	Corp. Gov. Committee Member, Risk Committee Member
Mehmet Remzi ESEN	Member	Accountant	28.03.2014	41	University	Non-Executive	Independent	Risk Committee Chairman, Audit Committee Member
Salman ÇİFTÇİ	Member	Accountant	31.05.2012	24	University	Non-Executive	Independent	Audit Committee Chairman
Murat MEMİOĞLU	Member	Engineer	04.03.2013	20	University	Non-Executive	Independent	Corp. Gov. Committee Chairman