

Corporate Governance Rating

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

Publication Date: 29/07/2019

Sector: Household Appliances

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

Ratings

Overall Score	8.51	AAA(Trk)/a (Stable)
Shareholders	8.25	AA(Trk)/bbb (Stable)
Public Disclosure & Transparency	8.74	AAA(Trk)/a (Stable)
Stakeholders	8.40	AA(Trk)/bbb (Stable)
Board of Directors	8.59	AAA(Trk)/a (Stable)

Company Profile

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 Contact	Phone: +90.212.875.35.62 yatirimci@iea.com.tr
Web	www.iea.com.tr
Investor Relations	Mr. Uğur KURT

Analyst

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Financial Data	2018*	2017*	2016*	2015*	2014*
Total Assets (000 USD)	51,869	68,931	72,959	95,127	105,993
Total Assets (000 TRY)	272,877	260,001	256,756	276,592	245,786
Equity (000 TRY)	190,995	184,339	185,498	210,296	191,299
Net Profit (000 TRY)	6,829	-861	-720	12,477	11,329
Sales (000 TRY)	192,847	140,953	108,725	116,227	98,139
Net Profit Margin (%)	3.54	-0.61	-0.66	10.74	11.54
ROAA (%)	2.98	-0.58	0.16	4.15	5.27
ROAE (%)	4.22	-0.81	0.22	5.40	7.16
Equity / Total Assets (%)	69.99	70.90	72.25	76.03	77.83
Net Working Cpt. / T. Assets (%)	48.08	47.42	55.54	59.51	57.61
Debt Ratio (%)	30.01	29.10	27.75	23.97	22.17
Asset Growth Rate (%)	4.95	1.26	-7.17	12.53	-8.04

*The End of Year

Company Overview

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. and began operating under its current name on July 5, 1995. The Company produces cleaning robots, water purification systems, vacuum cleaners and water heaters at the facility 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 60 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 June 2019. The Company's equity stood at TL197mn, and asset size and sales reached TL277mn and TL50mn as of March 31, 2019, 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

1. Rating Methodology and Executive Summary

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 2019.

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 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).

Last year, through a comprehensive review done in July 2018 the conclusions reached by JCR ER and corresponding notation are shown in the following table:

July 27, 2018				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	82.45	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Public Disclosure and Transparency	84.40	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
Stakeholders	84.00	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Board of Directors	84.16	AA (Trk) (Merit)	(bbb) (Outstanding)	Positive
Overall	83.75	AA(Trk) (Merit)	(bbb) (Outstanding)	Positive

This year, at the end of previous monitoring period, a comprehensive review was performed in July 2019. The Company's overall compliance note has been increased to 8.51 from 8.38.

- The rating for the main section of Public Disclosure and Transparency was upgraded due to the Company's improved transparency with the public disclosure of the “Compliance with the Corporate Governance Principles Report” and “Corporate Governance Information Form” in their new formats.
- By the help of the rising level of quality and effectiveness of the Board through newly elected members in the annual general meeting, the note for the main section of Board of Directors was also upgraded.

are factors behind this increase in compliance.

The general compliance level of IHEVA with the Code as of July 2019 and the corresponding levels within the JCR Eurasia's notation have been determined as follows;

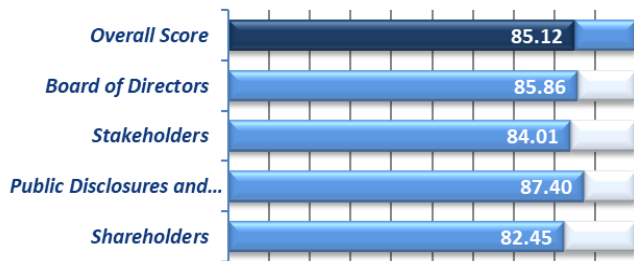
- Numerical value of **8.51**
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”,
- Notch degree **(a)** representing the category of “**Excellent**”,
- Outlook **(Stable)**

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.

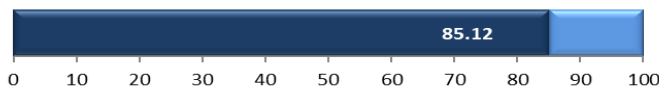
July 29, 2019				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	82.45	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Public Disclosure and Transparency	87.40	AAA (Trk) (Distinctive)	(a) (Excellent)	Stable
Stakeholders	84.00	AA (Trk) (Merit)	(bbb) (Outstanding)	Stable
Board of Directors	85.86	AAA (Trk) (Distinctive)	(a) (Excellent)	Stable
Overall	85.12	AAA(Trk) (Distinctive)	(a) (Excellent)	Stable

JCR Eurasia Rating’s notation system may be viewed at: http://www.jcrrer.com.tr/Upload/Files/Reports/538_kyder_notation_oct2010.pdf

Corporate Governance Score %



Overall Score %



Overall Result

8.51

AAA (Trk) / a
 Stable

Outlook

JCR-ER is of with the opinion that the compliance level of the Company will be maintained during the 12-month monitoring period. For this reason, the outlook for the Company has been determined as “**Stable**”.

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, vacuum cleaners and their plastic components at a facility 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 60 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 June 2019, 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 March 31, 2019 financial statements, the Company’s equity stood at TL197mn and its asset size and sales reached TL277mn and TL50mn, respectively. Balance sheet items and ratios that reflect the Company’s financial structure are exhibited in Table 3 of the Appendix.

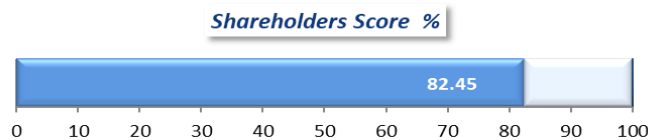
As of July 2019, a total of 162 workers were employed by the Company, 40 of which were administrative staff members. The Board of Directors is composed of 7 members, three of which are independent and one of which is female. Furthermore, the five members have non-executive position in the Company. The 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 the Shareholders main section in the monitoring period.

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

- Numerical value is **8,25**,
- Convergence Level **AA(Trk)** representing the category of **“Merit Compliance”**,
- Notch degree (**bbb**) representing the category of **“Outstanding”**,
- Outlook (**Stable**)



Shareholders Result

8.25
AA (Trk) / bbb
Stable

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

- ✓ IHEVA’s 2018 general meeting was held on April 22, 2019 at 09:15 at İhlas Holding’s Headquarters located at Merkez Mahallesi 29 Ekim Caddesi İhlas

Plaza No: 11 Yenibosna Bahçelievler/İstanbul. The meeting was 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 2018 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.

- ✓ There no change in the Article of Association.
- ✓ No shareholders have canceled any agreement or opened any lawsuit against the Company.
- ✓ The Investor Relations Department received 36 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 TL3,199,067 of profit during FY2018. After setting aside TL159,953 as legal reserves and TL3,039,114 was designated as excess reserves. 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”**.

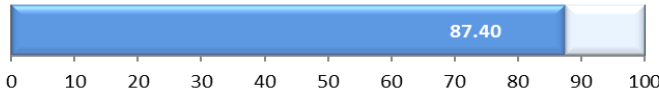
4. Public Disclosure and Transparency

The Company’s Public Disclosure and Transparency’ note has been raised to 8.74 from 8.44. The primary reason behind this increase is that the Company’s improved transparency with the public disclosure of the “Compliance with the Corporate Governance Principles Report” and “Corporate Governance Information Form” in their new formats.

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

- Numerical value of **8,74**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(a)** representing the category of **"Excellent"**,
- Outlook **(Stable)**

Public Disclosures and Transparency Score %



Public Disclosure and Transparency Result

8.74
AAA (Trk) / a
Stable

Activities carried out during the monitoring period in this field:

- ✓ The Company disclosed a total of 48 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 2018 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 2018 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 2019.

Outlook

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

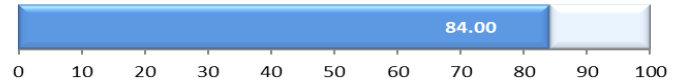
5. Stakeholders

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 of **8,40**
- Convergence Level **AA(Trk)** representing the category of **"Merit Compliance"**,
- Notch degree **(bbb)** representing the category of **"Outstanding"**,
- Outlook **(Stable)**

Stakeholders Score %



Stakeholders Result

8.40
AA (Trk) / bbb
Stable

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

- ✓ The Company hired 36 new employees, 27 employees left the company for various reasons and 5 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 14.593 complaints were received by the call center. Of these, 90% 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 since 2016 in scope of the Carbon Disclosure Project (CDP).
- ✓ The company also participated to the reporting of water program voluntarily since 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"**.

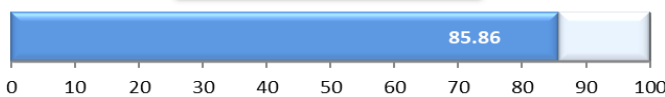
6. Board of Directors

The Company's Board of Directors' score has been raised to 8.59 from 8.42. The primary reason behind this increase is the rising level of quality and effectiveness of the Board through newly elected members in the annual general meeting.

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

- Numerical value is **8,59**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(a)** representing the category of **"Excellent"**,
- Outlook **(Stable)**

Board of Directors Score %



Board of Directors Result

8.59

AAA (Trk) / a
 Stable

Activities carried out during the monitoring period in this field:

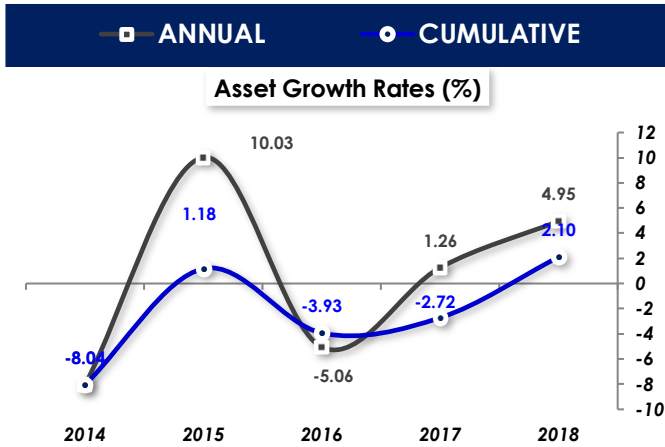
- ✓ The Board of Directors was acquitted at the general meeting held on April 22, 2019.
- ✓ There is no any change in the Board of Directors and Top Management.
- ✓ The Board of Directors held 16 meetings as of 31.05.2019. All votes and decisions made during these meetings were recorded in the minute book and archived in accordance with the Code.
- ✓ The Audit Committee held 4 meetings in monitoring period. All decisions reached during these meetings were forwarded to the Board as suggestions.
- ✓ The Corporate Governance Committee held 2 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

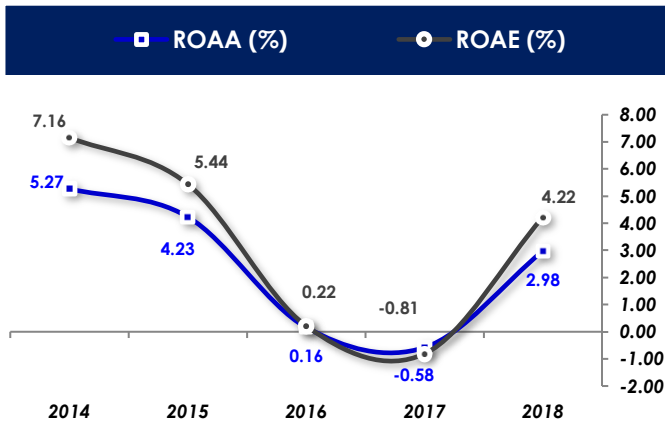
JCR-ER is of the opinion that the Company will maintain its level of compliance with Code in the Board of Directors main section during the upcoming monitoring period. For this reason, the Outlook for this section has been determined as **"Stable"**.

7. Financial Efficiency

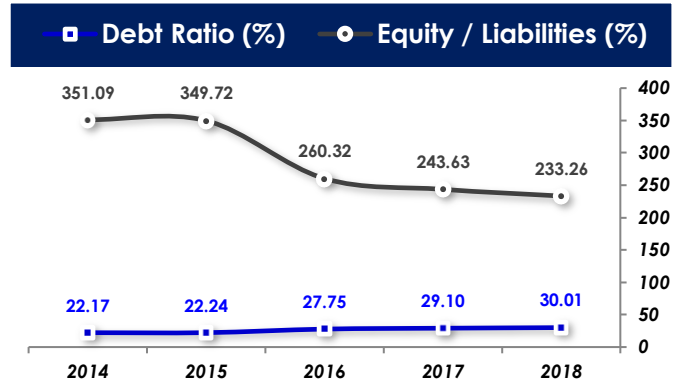
The graph below demonstrates annual and cumulative asset growth rates of IHEVA. After the shrinkage in 2016, the Company grew by 1.26% in 2017, and accelerated its improvement in 2018 with an annual growth rate of 4.95%.



ROAA and ROAE of the Company are depicted below. The profitability indicators of the Company had followed a decreasing trend until 2017 when ROAA declined to -0.58% and ROAE fell down to -0.81%. On the other hand, in 2018 the Company has attained a rapid recovery in profitability with a ROAA of 2.98% and ROAE of 4.22%.



The Company's liability structure and indebtedness are depicted below. The Company's debt ratio has been stably increasing and reached 30.01% by 2018. Together with the increasing indebtedness, the ratio of equity to liabilities has been decreasing especially after 2015 and declined to 233.26% as of FYE2018.



The Company's liquidity indicators followed a decreasing trend as well, yet they are still at satisfactory levels. Net working capital to total assets ratio has been declining and decreased to 47.42% by 2017. On the other hand, there was a slight recovery in 2018 and the ratio reached 48.08% at the end of the year.

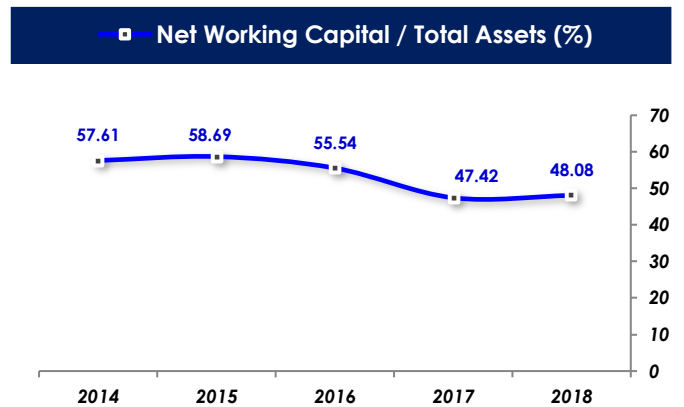


TABLE:1

SHAREHOLDING STRUCTURE

Years	2015	2016	2017	2018	June 2019
Paid Capital (000TRY)	191,370	191,370	191,370	191,370	191,370
Shareholders					Share %
İhlas Holding A. Ş.	4.43	4.43	4.43	4.43	4.43
İhlas Pazarlama A.Ş.	17.60	17.60	17.60	17.60	17.60
Public	77.97	77.97	77.97	77.97	77.97
Total	100	100	100	100	100

TABLE: 2

AFFILIATES AND SUBSIDIARIES as of June 2019

Consolidated Subsidiaries	Sector	Paid Capital (TL)	Interest Share %
İhlas Gayrimenkul Proje Geliştirme ve Ticaret A.Ş.	Real Estate	336,000,000	10.57
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 Paz. İç ve Dış Tic. A. Ş.	Logistic	1,200,000	100

TABLE: 3

Financial Data	2018*	2017*	2016*	2015*	2014*
Total Assets (000 USD)	51,869	68,931	72,959	95,127	105,993
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Asset Growth Rate (%)	4.95	1.26	-7.17	12.53	-8.04

*The End of Year

TABLE: 4

BOARD OF DIRECTORS

Name	Task	Expertise	Date Elected	Experience (Year)	Education	Executive/Non-Executive	Independent/Not Independent	Committee Membership
Sedat KURUCAN	Chairman	Mechanical Engineer	17.12.2002	36	Master	Non-Executive	Not Independent	
Ömer KAMBER	Deputy Chairman and General Manager	Mechanical Engineer	16.03.2017	31	Ph.D.	Executive	Not Independent	
Mehmet KÜSMEZ	Member	Financial Officer	16.03.2001	31	University	Executive	Not Independent	
H. Alev VOLKAN	Member	Accountant	31.05.2012	49	University	Non-Executive	Not Independent	Corp. Gov. Committee Member, Risk Committee Member
Mehmet Remzi ESEN	Member	Accountant	28.03.2014	43	University	Non-Executive	Independent	Risk Committee Chairman, Audit Committee Member
Hüsnü KURTİŞ	Member	Chartered Accountant	29.05.2018	44	University	Non-Executive	Independent	Audit Committee Chairman
Ziya BURCUOĞLU	Member	Retired Colonel	29.05.2018	54	War Academy	Non-Executive	Independent	Corp. Gov. Committee Chairman