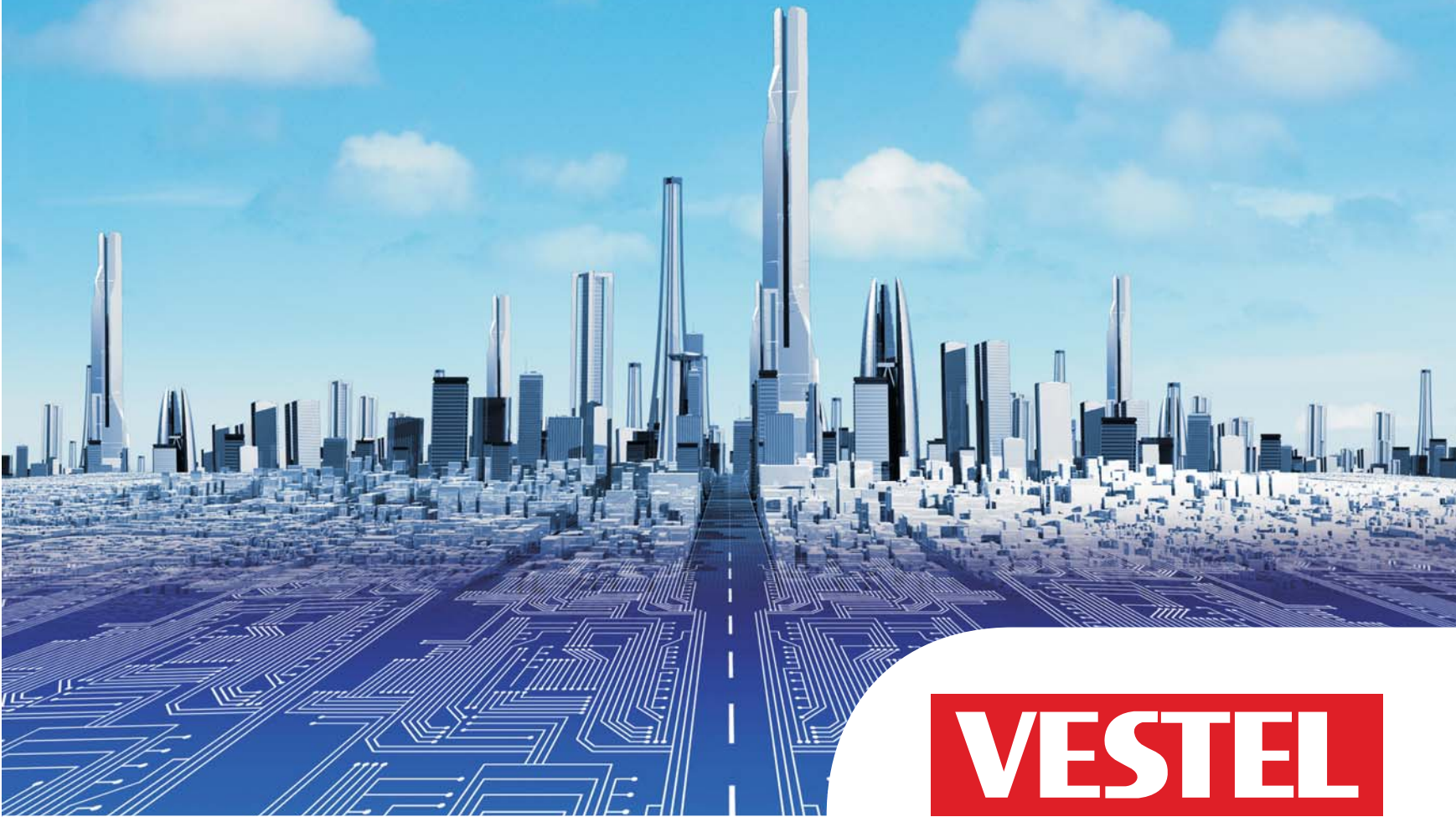


BEYOND DREAMS



CORPORATE PROFILE

VESTEL APPEALS TO GLOBAL CONSUMERS' TASTES

The Vestel Group of Companies (Vestel) is a strong player in Turkish and international markets in the consumer electronics, white goods, and digital products segments. A corporate group consisting of 26 companies (13 of them headquartered outside Turkey) that are active in manufacturing, sales and marketing, R&D, software, and satellite services, Vestel's technology and design development competencies make it one of the world's premier original equipment (OEM) and original design manufacturers (ODM).

Controlling the biggest stake in the majority of group companies and with the pioneering products that it has introduced to the market, Vestel Electronics is the flagship company of the Vestel Group. Vestel Electronics is among the Turkey's and Europe's biggest manufacturers of brown goods.

A member of the Zorlu Group, Vestel leads the market thanks to the technologies that it develops at 11 R&D centers located around the world in keeping with its byword of being the "Turkish for technology". Having translated its successes in consumer electronics into the white goods segment as well, Vestel appeals to consumers in 108 countries with products at world standards of quality.

Vestel has one of the most extensive sales and after-sales services networks in Turkey consisting of 1,250 dealerships and 570 after-sales services outlets. Vestel deploys a multi-brand strategy and "concept store" approach to offer customers all over the country a broad array of products.

Vestel's production activities are carried out in Manisa and İzmir in Turkey at Alexandrov in Russia. The #1 TV plant in Manisa, the high-end TV, PC, and set-top box plant at Vestel City, and a digital products plant in İzmir are the "hotspots" of Vestel's consumer electronics production activities in Turkey. Also located at Vestel City are plants that manufacture refrigerators, washing machines, air conditioners, cookers, and (since February 2007) dishwashers. Vestel's Russian operations are handled by Vestel CIS, which has refrigerator and washing machine plants and also a TV plant, where production is expected to resume in 2007. Vestel CIS products are manufactured for the Russian, Ukrainian, Belarusian, Kazakhstan, and other CIS markets.

Vestel's share of Turkey's total exports consistently ranks it among the top three companies in the country. In 2006 Vestel had net sales worth a total of USD 3.6 billion, USD 2.8 billion of which were export sales.

Vestel Elektronik Sanayi ve Ticaret AŞ (Vestel Electronics Industry and Trade Inc) shares have been traded on the İstanbul Stock Exchange's national market under the symbol "VESTL" since 1990 and on the London Stock Exchange since 2000. After an initial public offering undertaken in 2006, 31.5% of Vestel Beyaz Eşya AŞ (Vestel White Goods Inc) shares also began trading on ISE under the symbol "VESBE".



TECHNOLOGY

BEYOND DREAMS

Vestel leads the market thanks to the technologies that it develops at 11 R&D centers located around the world in keeping with its byword of being the “Turkish for technology”.

FINANCIAL HIGHLIGHTS

USD million	2005	2006
Net Sales	3,321	3,659
Exports/Sales	72%	77%
Operating Profit	127	166
EBITDA	216	264
Net Earnings	62	1
Capital Expenditure	204	145
R&D Expenditure/Sales	1.1%	1.1%
Total Assets	3,272	3,400
Shareholders' Equity	968	941
Net Debt	87	237
Net Working Capital	248	202
Net Debt/Equity	9%	25%
Gross Profit Margin (%)	14.8%	16.5%
EBITDA Margin (%)	6.5%	7.2%
Net Profit Margin (%)	1.9%	0.0%

Based on financial statements audited in accordance with IFRS.

Ratings

S&P	B+/Positive
Fitch Ratings	BB-/Stable
Moody's	Ba3/Negative

PRODUCTS

BEYOND DREAMS

Vestel continues its determined efforts to move even higher in the production system of which it is a part. The expanding innovation capacity of our R&D units not only strengthens our position but will also help us to move up to the next level. New brown and white goods products that have been developed in line with worldwide trends are being put onto the market one after the other. After its leap forward in white goods, Vestel showed that it would have a presence in information technologies as well and it launched production at its own laptop computer factory.

VESTEL: 2006-2007 REVIEW

Vestel White Goods goes public.

Having undergone rapid, organic growth and substantially completed its investments, Vestel White Goods made a public offering of 31.5% of its stock in 2006 for the purpose of sustaining its growth momentum while also developing its corporate structure and strengthening its capital base.

Vestel White Goods is the second member of the Vestel Group of Companies, Europe's giant white and brown goods manufacturer and the engine of the Zorlu Group of Companies, to take itself public in an offering that attracted the greatest demand witnessed in many years. On 21 April 2006 the company's shares began trading on the İstanbul Stock Exchange under the symbol VESBE.

The offering was undertaken by a consortium of 44 underwriters led by DenizYatırım. International sales of the shares were carried out by Deutsche Bank.

Another Vestel first: Notebook computers

Having set up Turkey's first and Europe's only laptop computer factory at Vestel City in Manisa, Vestel made a bold move from consumer electronics to information technologies through a strategic partnership that it developed with Intel. With this venture, Vestel has revealed its determination to be an important player in 3C Convergence products. Vestel's laptop computers are designed to incorporate many different features in light of the different needs of institutional customers and young people and they also come in a variety of color options. Focusing on electronic products such as laptops and LCD televisions that make use of advanced technology and provide a high degree of added value, Vestel's goal is to become an important production base for Europe and the region in the business of laptop computers as well.

Strong, new entries in the brands portfolio

With its ability to reflect innovation in its design, technology, and production processes, Vestel remains the first preference of some of the world's biggest consumer electronics and white goods producers. Vestel has entered into a long-term strategic business partnership with Whirlpool, the world's leading maker of home appliances. Whirlpool products are now being sold in Vestel "concept stores" in line with its multi-brand strategy.

Vestel recently acquired the rights to the Finlux and Luxor trademarks, two well-known brands in Scandinavia and Northern Europe, and it has begun manufacturing and exporting under both names.

S&P changes Vestel's credit rating outlook to "Positive".

In an announcement dated 30 January 2007, the international credit rating agency Standard & Poor's confirmed Vestel Electronics' B+ credit rating while also changing the outlook from "Negative" to "Positive". In its announcement, S&P said that this change in outlook was the result of expectations of improvements in cash flow and of favorable developments in the company's partnership structure.

Strong performance in corporate governance policies and practices

As a company with one of the highest percentages of public participation in Turkey, Vestel Electronics fulfills its responsibilities towards its national and international corporate and private investors to the highest degree.

Institutional Shareholder Services (ISS), an international rating agency recognized worldwide as a leader in the evaluation of corporate governance practices, assigned Vestel Electronics a corporate governance grade of 7.5 out of 10 (75.91%). This rating is proof that the company is well in compliance with the corporate governance principles laid down by the Capital Markets Board (CMB). Vestel Electronics is only the third company in Turkey whose compliance with corporate governance principles has been evaluated in this way.

In the ISS evaluation, which is made under four main headings (“Shareholders”, “Public Disclosure”, “Stakeholders”, “Board of Directors”) in line with CMB corporate governance principles, Vestel Electronics received its highest grade of 8 out of 10 (80.15%) in the category of its dealings with its shareholders.

ZORLU GROUP AND VESTEL GROUP

The story of the Zorlu Group reaches back to its foundation in the early 1950s in a small textile atelier in the town of Babadağ in Denizli province. Growing and gaining strength in textiles by creating globally recognized brands, the Zorlu Group translated its success in textiles into the businesses of brown and white goods and digital products through Vestel and into the energy sector through Zorlu Energy. The group soon added yet another chapter to its success story, this one in financial services, through DenizBank. Deciding to set course for still newer horizons, the group sold off its stake in DenizBank in 2006 and withdrew from financial services. The same year, the Zorlu Group made a bold and successful entry into real estate investment and development in order to tap the huge growth potential that it saw there and it undertook a number of investments in İstanbul as well as in İzmir and Marmaris.

With brands that Turkey takes pride in, facilities that carry Turkish industry into the future, and uninterrupted investment in business and society, the Zorlu Group today produces and works for Turkey.

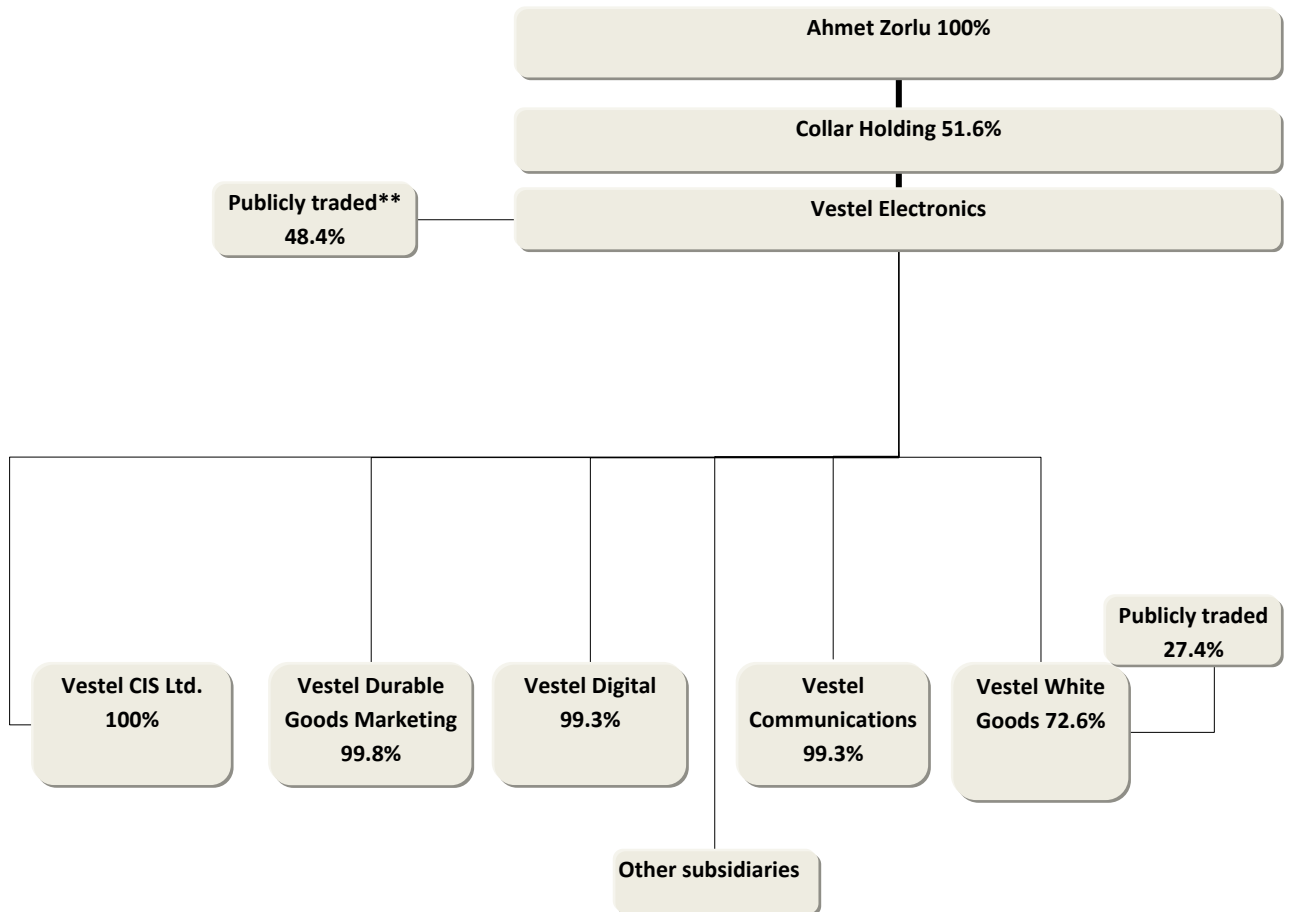
With 30 thousand employees and total assets worth TRY 11 billion and in keeping with its philosophy “If we're going to go, then go as far as we can. If we're going to ascend, then go as high as we can. If we're going to be, then be the best we can be”, the Zorlu Group continues to increase the visibility of the Zorlu name in the global arena as well as the confidence that is felt in it.

ZORLU GROUP

TEXTILE GROUP	VESTEL GROUP OF COMPANIES	ENERGY GROUP	PROPERTY GROUP
Korteks	Vestel Electronics	Zorlu Energy	Zorlu Property Development & Investment
Zorlu Linen	Vestel White Goods	Zorlu O/M	
Linens Marketing	Vestel Digital	Zorlu Industrial	
Zorlu Foreign Trade	Vestel Communications	Zorlu Petrogas	
	Vestel Foreign Trade	Zorlu Electricity	
	Vestel Durable Goods Marketing	Zorlu Natural Gas	
	Vestel CIS	Trakya Gas Distribution	
	Vestel Defense Industrials	Gaziantep Gas Distribution	
	AYESAŞ	Amity Oil	
	Birim Information Technologies	ICFS International LLC (Russia)	
		Solbar Energy Ltd. (Israel)	
		LLC Zorlu Energy (Ukraine)	

Vestel Electronics

Controlling the biggest stake in the majority of group companies and with the pioneering consumer electronics that it has introduced to the market, Vestel Electronics is the flagship company of the Vestel Group. Vestel Electronics is one of the biggest brown goods manufacturers supplying OEM and ODM services to customers not just in Turkey but all over Europe. The company exported goods worth a total of USD 2.8 billion to 108 countries around the world in 2006.



* Consisting of foreign trade companies
 ** 6.05% Zorlu Holding share is included

DESIGN

BEYOND DREAMS

Vestel's production competencies, innovativeness, and vision of the future make it unique as a producer. The popularity of the models that Vestel has developed by keeping a close eye on international trends and incorporating them into its designs are proof of the company's leadership.

VESTEL'S STRATEGIES AND GOALS

Vestel's strategic goal is to achieve sustainable and controllable increases in revenues and profitability through its design, manufacturing, sales, and marketing activities in its principal business activities of consumer electronics, digital products, and white goods.

Vestel's strategy to achieve this goal is carried out under three separate headings.

Strengthen market share in the highly segmented European market while also creating new avenues of growth

In the already highly saturated European TV market, Vestel sees the process of changeover to high-end products (especially to flat-panel units) as a growth opportunity that it cannot afford to miss. Vestel seeks to take maximum advantage of its technological infrastructure and of its vast store of knowledge about the regulatory issues and consumer dynamics of the European TV market in order to increase its market share in "Category A" products.

At the same time, Vestel is determined to increase the competitive edge that it enjoys in the European market as the only manufacturer in the white goods segment capable of also providing OEM and ODM services as well while also capitalizing on its ability to develop knowhow and exploiting the cost and logistical advantages arising from its geographical location.

Diversify products

Vestel seeks to take maximum advantage of its production strengths and economies of scale and to pursue growth in all business lines by diversifying its product gamut.

Expand geographical presence

Vestel seeks to defend its already strong positions in the Turkish and EU markets while supplying Vestel-branded products to customers in Russia, in CIS countries (Azerbaijan, Georgia, Armenia, Ukraine, Kazakhstan, Belarus), in the Middle East (Syria, Iraq, Iran), and in North African and South Asian countries and expanding further into all of these regions.

Vestel keeps a close watch on investment opportunities in line with this strategic objective and it also intends to enter into other business lines that complement the group's principal business activities.

THE SOURCES OF VESTEL'S STRENGTH

The corporate strengths arising from infrastructure and technology as well as from an ability to produce and sell give Vestel a competitive edge under all market conditions.

Innovation

One of the world's premier OEM and ODM producers, Vestel combines R&D strength and technology and industrial design and development competencies with an innovative approach to achieve an important competitive edge in the European market.

With its high-profile trademark, Vestel believes that this attribute will also have an important leveraging effect in new products in its national market, particularly in the steadily growing white goods segment.

Product diversity

Vestel deploys a product diversification strategy to respond to the different needs of its customers in the EU countries that make up its primary market.

Already the world's most flexible manufacturer of consumer electronics, Vestel is now strengthening the same position in white goods as well. Vestel has the ability to tailor its mass production activities on an individual order basis. This ability is what enables Vestel to turn out more than 20 million units a year in its three principal business lines.

Cost advantages

- Vestel regards its logistics and distribution competencies as a key element of its ability to respond to its customers' orders for different numbers of units by means of a broad array of products. The physical proximity of the country to the European market gives it important logistical and cost advantages compared with its Far Eastern competitors.
- As one of the world's biggest makers of televisions and with a rapidly-growing production in white goods, Vestel is well positioned to take advantage of economies of scale and it also enjoys important advantages when procuring the components that are the prime determinants of cost in the manufacture of brown and white goods. Vestel today is one of the top three customers of the biggest suppliers of materials to consumer electronics manufacturers in the world.
- The customs union between Turkey and the EU is another natural competitive advantage that Vestel enjoys. The company's ability to ship goods into EU countries duty-free further strengthens its position vis a vis Asian competition.

Committed to customers

- Unlike its Far Eastern competitors, Vestel delivers seamless service that covers everything from original design and manufacture to point distribution. This ability is what makes it the preferred choice of customers.
- Vestel is strongly positioned in the European TV market. Having developed

relationships with its main customers on a sound and long-term basis, Vestel does not compete directly with its customers' brands in Europe in electronics and it is adhering to the same strategy in the case of white goods as well.

THE STAGES OF VESTEL'S DEVELOPMENT

VESTEL'S BASIC GOAL IS TO FURTHER DEVELOP ITS CORPORATE COMPETENCIES AND ABILITY TO GENERATE REVENUE STREAMS SO AS TO CREATE LONG-TERM VALUE AND ACHIEVE SUSTAINABLE GROWTH.

AT THE HEART OF VESTEL'S SUCCESS IN ACHIEVING THIS GOAL LIES ITS ABILITY TO MANAGE MULTIDIMENSIONAL GROWTH IN TERMS OF TECHNOLOGY, PRODUCTS, AND MARKETS IN THE BEST WAY POSSIBLE AT DIFFERENT STAGES OF ITS DEVELOPMENT.

1994-1997

- Application engineering
- Market strategy based on a large number of models
- Focus on television sets

1997-2000

- Development engineering
- TV, white goods, and digital device production
- R&D

2000-2005

- Technology development
- Flat products
- Digital device software
- Defense industry software
- Alternative energy sources

2006 and beyond

- Intensive R&D
- New product development
- Growth in LCD TV and white goods
- 3C Convergence products

1994-1997: Application engineering and focus on a single product

During the first stage of its strategic development, Vestel focused on application engineering on the technological front while concentrating on television sets on the production side. The company manufactured units for "Class B" brands intended for the European market. As a result of a thorough understanding of the narrowly segmented nature of the market and by making televisions with different features at different periods in keeping with a market strategy based on a large number of models, the company turned out about 1,000 different models of television sets.

1997-2000: Development engineering and product diversification

In the second stage of its strategic development, Vestel moved from application engineering to development engineering. In addition to white goods production digital device production was also added to the Vestel lineup during this period. Research and development activities gained importance during these years and the first Vestel R&D unit was set up in California's Silicon Valley. Keeping abreast of current worldwide developments in technology, Vestel began developing products and delivering them to market simultaneously with the world's giant manufacturers.

Concurrent with this, Vestel also entered into strategic business partnerships with "A Brand" manufacturers such as Mitsubishi, Hitachi, and JVC.

2000-2005: Technology development

The progress made in development engineering became the driving force that enabled Vestel to embark upon the stage of developing its own technology and transforming it into products.

With its ability to quickly make changes in its product line, Vestel entered the market with flat products of its own, becoming a leader now able to do more than just supply the European market with products simultaneously with the world's giants.

Insightfully analyzing technological developments in advance, Vestel purchased UK-based Cabot Communications Ltd in 2001. Cabot today employs a team of more than a hundred people in its Bristol and İzmir centers to produce all the software required for digital devices while also selling its output to the world's major home electronics makers.

In late 2003 Vestel opened its first production facility outside Turkey and began manufacturing and selling Vestel brand products in Russia. This move was the first step of the group's strategy of setting up production bases in other countries.

Through the R&D unit set up at the Urla-based İzmir Institute of High Technology with the help of Cabot's İzmir office in 2004, Vestel accelerated its efforts to meet the demands of customers in domestic and international markets for advanced consumer electronics products.

Employing a business model incorporating flexible production, effective cost management, and extensive distribution combined with strong marketing similar to the one used so successfully for years in consumer electronics, Vestel quickly established itself and gained strength in the white goods sector as well.

At the same time that it was increasing its shares of domestic markets in brown and white goods, Vestel also accelerated its efforts to improve its sales and service network. The first examples of Vestel “concept stores” equipped with more floor space so as to be able to display a greater range of products and brands were opened.

In conjunction with its concept store project, Vestel also launched its “multi-brand strategy” in the domestic market paralleling trends being witnessed around the world. This strategy calls for selling not only Vestel-brand products but also those of other manufacturers as well as types of brown and white goods that are not currently being made by Vestel itself.

As an adjunct of its long-term strategies, Vestel undertakes risk capital investments in the areas of alternative energy sources, defense industries, and software. R&D work on hydrogen fuel cells was begun in 2005 and prototype production has been completed.

In late 2003, Vestel made its first venture into defense industries through newly-set up Vestel Defence Industries Inc. In 2005 Vestel acquired Aydın Yazılım ve Elektronik Sanayi AŞ, a software and electronics company, in order to support its ventures into defense industries. Taking advantage of its R&D and engineering strengths, Vestel is now bidding on defense projects in Turkey and is also exporting software, particularly to customers in the US and Israel.

Paralleling its intention of entering other business lines that complement the group's principal business activities, in 2006 Vestel acquired a stake in Birim Bilgi İşlem AŞ, a company that produces software for the health services industry.

2006 and beyond: New product development, technological institutionalization, and penetrating world markets

Product life-cycles are growing increasingly shorter as users' needs keep changing. Under market conditions that are driven by consumer demand, R&D activities have become crucially important. In view of this, Vestel attaches the utmost importance to technological development and to institutionalization on the one hand while simultaneously playing a greater role in world markets on the other.

By 2006, Vestel had become a group producing its own technology in 11 R&D centers and selling its own know-how. An excellent R&D team of 930 engineers is one of the most potent of Vestel's driving forces.

Vestel is determined to further advance its position in that market as an OEM and ODM. Vestel will also be defending its current market share in its own domestic market that it controlled in 2006.

In early 2007 the dishwasher factory investment that was the outcome of Vestel's forays into white goods over the last few years went into production. With the addition of this plant Vestel has completed the product portfolio that it set out to create in this business line. Controlling a national market share of 18%, Vestel contributes 37% of the refrigerators and 33% of the washing machines that are exported from Turkey.

Vestel continues to carry out its production and branding strategy in the geographical region that it has identified for expansion into. In the wake of its successful first ventures in Russia, the group will pursue growth by selling Vestel-branded products to customers in the developing markets of CIS countries (Azerbaijan, Georgia, Armenia, Ukraine, Kazakhstan, Belarus), the Middle East (Syria, Iraq, Iran), and of North African and South Asian countries.

In the immediate term, Vestel will be putting increasingly more emphasis on 3C convergence products. Combining the advantages arising from its flexible production model in consumer electronics and from its ability to produce embedded software for telecommunication applications with the strength in information technologies that it has gained from making laptop computers, Vestel is moving decisively towards its targeted position in convergence products.

CHAIRMAN'S MESSAGE

2006 was both a successful year for Vestel and an important turning-point in its corporate history.

At year-end 2006, Vestel stood at a much more different and stronger point in terms of institutionalization and production

Last year Vestel White Goods became the second group company, after Vestel Electronics, to take itself public and its shares have begun trading on the stock exchange. Immediately after the public offering, the Zorlu Group's stake in Vestel White Goods was acquired by Vestel Electronics, the flagship company of the Vestel Group of Companies, in keeping with the group's overall approach to institutionalization. This move met with the approval both of our group and of our investors.

Vestel has emerged from more than a decade of non-stop investment and growth. Mindful of its investors' long-term interests, during this period the company refrained from paying a dividend in order to build up and strengthen its capital and financial structure. In 2006 we at last completed our product line investments and reached high production capacities. In addition, we also exceeded our goal of achieving an unassailable market position.

To give you all a better understanding of the point that our group has reached today, I want to share a few figures with you.

- Vestel production takes place in a total of 900,000 m² of enclosed space in 12 plants.
- Vestel technology is the product of the efforts of 930 R&D engineers working in 11 R&D centers located around the world.
- In addition to a TV and white goods factory built in Russia at an investment cost of about USD 100 million, Vestel is also active in Russia, France, Germany, Italy, Spain, Portugal, Finland, Belgium, Netherlands, and Luxembourg as well as the Balkans and the Turkic republics both through the companies it owns and through its sales outlets.
- Vestel ships its goods to 108 countries. Total exports in 2006 were worth USD 2.8 billion.
- With 12,000 employees, 1,250 sales points, 570 service points, and suppliers who in turn employ thousands of people more, Vestel creates employment for some 60,000 people. This success transcends Vestel employees and technology. It is a success shared in by our whole country.

Our actions are based on well-defined strategies. Vestel erects and successfully implements its strategies on the basis of four principles:

- Customer satisfaction
- Diversification by means of number of models
- Production flexibility at optimum quality and speed
- Risk management through diversification of markets / primary product groups (Europe, Turkey, Russia and Middle East time zone, Indian Ocean periphery / Color TVs, set-top boxes, white goods).

Even more important than this successful strategic positioning is the fact that Vestel's role as a manufacturer that can respond quickly and efficiently to individually tailored orders is well

understood by the world's major brown and white goods brands and this in turn is what engenders our company's strategic partnerships. The most recent confirmations of our superior position in this respect are to be seen in the collaboration with Intel in the manufacture of laptop computers and in the long-term OEM & ODM agreements with global names such as Electrolux and Whirlpool.

In the wake of its powerful rise in consumer electronics, Vestel shifted its developmental strategy to white goods for the purpose of tapping the growth potential in that business line and increasing profitability by diversifying its revenue streams. The progress made and results achieved in just a very short time have confirmed the correctness of this strategy. Vestel today is the preferred choice of major European producers as an OEM and ODM in consumer electronics and their only choice in white goods.

The expanding innovation capacity of our R&D units not only strengthens our position but will also help us to move up to the next level. New brown and white goods products that have been developed in line with worldwide trends are being put onto the market one after the other. After its leap forward in white goods, Vestel showed that it would have a presence in information technologies as well and it launched production at its own laptop computer factory. Vestel continues its determined efforts to move even higher in the production system of which it is a part. Our vision is no longer just "digital" but the "advanced digital home". The advanced digital home will not be limited to products in which information, communication, and consumer technologies have converged but will go far beyond that with products and services in the areas of health, assisted living, and alternative energy sources.

Vestel is a model

Besides developing its own technology and equipping its own products with high-tech features, Vestel also makes effective use of technology in its own internal communication processes and business modeling. The speed, effectiveness, cost, and similar advantages that technology affords are fully integrated into Vestel's management processes.

The high business management standards, capable human resources, and corporate governance principles that provide the framework for this business model are the cornerstones of Vestel's corporate viability.

Companies become a shared value of their community to the degree that they attach importance to people and their well-being. In keeping with this dictum, corporate governance principles within the framework of our responsibility towards all our stakeholders guide all our corporate practices and actions as powerful reflections of our deep-rooted and well-established corporate culture. The principles of transparency, accountability, social and environmental responsibility, honesty, and fairness that are identified with by all our intellectual capital at every level will always be our guides.

An even stronger Vestel and securer future

As we've said repeatedly, we're aware of how far we've come but we're never going to be satisfied just with that. We have no choice but to continue to grow and develop. We are a group of companies that is corporate, deep-rooted, respected, knowledgeable, and experienced. As such, our goal must always be to become even stronger. There is still a long way to go and a lot more to do.

Having successfully completed its intensive investment phase, Vestel is now embarking upon a new stage of its corporate life. In the new period ahead our most important focal point must again be customer satisfaction but paralleling this our goal will also be to satisfy our investors and start paying them dividends.

The greater effort we must make to achieve this will nevertheless also be a gratifying one. We are determined to take our turnover, our exports, and our profitability to even higher levels in the period ahead and as we do so, the points on which we shall be concentrating our attentions will be R&D, innovation, productivity, and brand development.

Vestel thinks on a long-term basis and plays its hand with an eye on the future. Our goal is to be a player that shapes markets not just in our own country but in the global arena. That is our vision as a company and it is by no means an idle dream. Our belief in our ability to do this is the most potent force driving us forward.

I take this opportunity to extend my boundless thanks to every coworker who has joined us in this effort and made Vestel a story of success while also conveying my sincerest appreciation to our shareholders whose support is always with us and to the business partners with which we have built these successes together.

Ahmet Zorlu
Chairman of the Board of Directors

BOARD OF DIRECTORS**Şule Zorlu****Board Member**

(1976, İstanbul) Şule Zorlu graduated from Fairleigh Dickinson University (Silberman College of Business) in 1999 and has held seats on the boards of directors of Zorlu Group companies since 2000. She is currently general manager of Linens Marketing.

Mehmet Cem Bodur**Board Member**

(1961, İstanbul) Mehmet Cem Bodur graduated from İstanbul University (Department of Economics) in 1982. After working for nearly a decade in banking (1985-1994) he joined the Zorlu Group in 1996 as its chief financial officer. A member of the Executive Committee in 1999, Mr Bodur joined the Vestel Board of Directors in 2000.

Yılmaz Argüden**Board Member**

(1958, Eskişehir) Dr Yılmaz Argüden is the chairman of ARGE Consulting. He has extensive experience in both the private and public sectors as well as in international organizations non-governmental organizations, and academia. He was responsible for the conduct of Turkey privatization program in 1988-90 and has served as chief consultant to the prime minister of Turkey on economic matters. He is presently the senior adviser to and representative of the Rothschild investment bank in Turkey and serves on the boards of directors of a number of organizations both in Turkey and abroad. Dr Argüden is an adjunct professor of Business Strategy at Boğaziçi University and in the MBA program of Koç University and is also the author of numerous books and a columnist for newspapers and magazines. He has been selected by the World Economic Forum as one of its "100 Global Leaders for Tomorrow".

Enis Turan Erdoğan**Board Member and Member of Executive Committee**

(1955, Mersin) Enis Turan Erdoğan graduated from İstanbul Technical University (Department of Mechanical Engineering) in 1976 and completed a master's degree in production management at Brunel University (England) in 1980. After serving in positions for a number of firms in Turkey, he joined the Vestel Group as managing director of Vestel Foreign Trade in 1988. Since 1997, Mr Erdoğan has also been a member of the Vestel Executive Committee.

Ahmet Zorlu**Chairman**

(1944, Denizli) Ahmet Zorlu began his career in a family-owned textile business. He set up his first company, Korteks, in 1976. In the years that followed, he continued to undertake new investments in the textile industry and founded Zorlu Holding in 1990. Ahmet Zorlu purchased the rights to the Vestel trademark in 1994. He is currently the chairman or a board member of 29 companies active in different sectors.

Prof Ekrem Pakdemirli

Board Member

(1939, İzmir) Prof Ekrem Pakdemirli has served as transportation minister (1987-89), finance minister (1989-90), and deputy prime minister (1991). He is currently a member of the faculties of Bilkent, Başkent, and Ege universities and has previously served as deputy rector of Dokuz Eylül University and as foreign trade undersecretary. He is the author of ten books and more than a hundred published articles.

Ömer Yüngül**Board Member and Chairman of the Executive Committee**

(1955, İzmir) Ömer Yüngül graduated from Boğaziçi University (Department of Mechanical Engineering) in 1978. He joined the Zorlu Group in 1997 as head of the Executive Committee responsible for white goods. On 3 January 2000 his responsibilities were expanded to include all of the Group's production activities. Mr Yüngül is currently chairman of the Vestel Executive Committee.

CEO'S MESSAGE

2006 for Vestel was a successful year in which its targets were achieved, its market positions grew stronger, and its future-oriented strategies became clearer.

Total turnover in 2006 amounted to USD 3.6 billion and by achieving our USD 2.8 billion target for the year, we also registered a year-on rise of 14% in our exports.

From consumer electronics to information technologies

Since 2005 the consumer electronics sector has been a scene of vigorous activity and there have been a number of noteworthy consolidations. With the worldwide move towards LCD units, a market has taken shape in which competition has become even sharper.

Seeking to carry the leadership that it has in CRT units over into flat panel units, Vestel has successfully completed all the design, technology, production, and marketing aspects of the changeover to digital/flat panel televisions and it has overcome all the technical, mechanical, and financial problems that they entail.

Having seen this change coming and readied itself for it in advance, Vestel is successfully leading the way in incorporating digital modules and HD features in the televisions it makes. Despite the emergence of new flat panel TV makers in Eastern Europe, Vestel has a strong competitive edge in digital modules not just in Europe but even in the Far East. The rate of digital module/TV integration in the TFT-LCD units Vestel makes has reached 50% and is rising steadily. This further strengthens our superior position. A module developed by Vestel that can be installed in the Pan European TV makes it possible to receive every channel that is broadcast anywhere in Europe.

In early 2007 Vestel began producing an LCD panel module that will give the company another important competitive advantage while also reasserting its strong position in this area.

Vestel is making important progress in set-top boxes. In digital devices, DVD players are rapidly being replaced with DVD recorders by consumers while our new strategy in this business line is to give emphasis to the production and sale of DVD-DVB combi units. The increasing move towards high-definition (HD) and encrypted broadcasts is also expanding this market.

One of the most important developments to take place in 2006 was Vestel's move into information technologies with the launching of its line of laptop computers. As a result of a partnership and collaboration with Intel, Vestel set up Europe's first genuine laptop computer factory and has begun production there.

A sound market position

Vestel maintains its superior position in the European market as an OEM/ODM capable of manufacturing for "A Brand" names. In addition to its long-term business partnerships with major brown and white goods manufacturers, in 2006 Vestel acquired the rights to the Finlux and Luxor trademarks, two well-known brands in Scandinavia and Northern Europe, and has begun manufacturing and exporting under both names.

The strategy of marketing Vestel-branded products in Turkey and the countries of its hinterland continues to be adhered to. Having successfully established itself as a recognized brand in Russia, Vestel is now pursuing growth in CIS countries (Azerbaijan, Georgia, Armenia, Ukraine, Kazakhstan, Belarus), in the Middle East (Syria, Iraq, Iran), and in North African and South Asian countries and is expanding further into all of these regions.

At Vestel's Russian plant, which has become an important production base for branded product sales in neighboring countries, particularly the Turkic republics, priority is being given to restoring production as quickly as possible due to the huge demand for white goods in the CIS market. The TV factory will resume production in 2007.

In its domestic market, Vestel serves customers through 1,250 dealerships and 570 after-sales services outlets. The company continues to adhere to the multi-brand strategy that it has launched. The number of our "concept stores" incorporating new showroom applications that appeal to new lifestyles continues to grow steadily and reached 101 as of end-2006. In these stores, we provide consumers a selection of alternatives chosen from among brands that are recognized as being the best in their respective fields.

Our growth in white goods will continue.

Our dishwasher plant investment has been completed and trial production began in February 2007. This last project completes our product group plant investment program. Production is now in progress with the high capacities reached in all facilities. The company's rapid development in white goods continued in 2006 and there was a significant rise in their exports. The logistical advantages of Vestel's geographical location are amplified by its ability to respond to customer orders and achieve superior customer satisfaction thanks to the production flexibility that arises from its close integration with its suppliers and by the advanced state of the component manufacturing industry in Manisa. These attributes make Vestel the only name that can serve European brands as an OEM and ODM. Agreements that Vestel has entered into with some of the world's leading producers such as Electrolux, Whirlpool, and Fagor open the way to long-term partnerships and further strengthen Vestel's position in white goods. We have set a growth target of 20-25% a year in white goods in the period ahead.

Vestel venturing into new business lines

Our defense industry activities are increasing in the area of software and in view of the needs of that industry. We have reached significant export figures in software. We are continuing to become specialized in unmanned aerial vehicles, vessel modernization, command centers, and similar issues. Cabling systems for major aircraft makers is another of our new business lines.

In health care services, we have entered the market in partnership with Birim, a leading firm in the sector. The objective of this venture is to combine Vestel's technology and financial strength with Birim's experience and customer portfolio to become the leader of the burgeoning market for integrated health information systems in Turkey. Birim is experienced in producing the software needed for hospital automation, hospital operating systems, and "paperless hospitals". Birim has been awarded the World Bank contract to produce the backbone software needed for the Turkish

Health Information System. Birim will also be active in markets outside Turkey in line with Vestel's overall strategies. Vestel is also seeking to strengthen its position in this market with products specially designed for the health care sector such as health care solutions designed for personal use at home.

R&D activities continue in the areas of renewable and alternative energy sources such as solar cells and hydrogen fuel cells and important progress has been made. Products incorporating technologies capable of producing energy from renewable, non-hydrocarbon resources such as wind and solar power will be put on the market in line with efforts to make them economically viable.

More R&D

Vestel's R&D activities are continuing on all fronts but with a particular emphasis being given to digital and flat products. An algorithm called "Pixelence" has been developed by Vestek that significantly enhances image quality in LCD and plasma televisions. Pixelence will be used initially in Finlux and Vestel brand units that will go into production in 2007. Vestek is also working on codec technologies that will make it possible for audio and video data streams to be stored and transmitted at smaller bandwidths by means of more efficient compression.

The communication and advanced level of collaboration established with Cabot-Bristol have made it possible to transfer software know-how to Cabot-Urla while Cabot-Turkey has become the unit creating the most added value for Cabot-UK. The outstanding engineering team of Cabot-Urla represents one of Vestel's most important competitive advantages in R&D.

We view the future with confidence.

Vestel's production competencies, innovativeness, and vision of the future make it unique as a producer. The popularity of the models that Vestel has developed by keeping a close eye on international trends and incorporating them into its designs are proof of the company's leadership. Vestel-made products with or without the Vestel brand are the leading choices of consumers both in Turkey and in many European countries.

With its strong position and established corporate identity, Vestel views the future with confidence. Engaged in an ongoing and dedicated effort to succeed and seeking to create more value for people everywhere, we as members of the Vestel family from manager to assembly-line worker and from dealer to repairman believe that the future belongs to us.

Ömer Yüngül
Chairman of the Executive Committee

EXECUTIVE COMMITTEE

İzzet Güvenir

Executive Committee Member

İzzet Güvenir graduated from the Department of Aeronautical Engineering of İstanbul Technical University in 1980. After serving in various positions in the white goods sector, he joined Vestel in 1998 as the manager of the air conditioner plant. Mr Güvenir was appointed general manager of Vestel White Goods in 2000 and since 2005 he has been a member of the Executive Committee responsible for white goods.

Cengiz Ultav

Executive Committee Member

(1950, Eskişehir) Cengiz Ultav graduated from Middle East Technical University with BS and MS degrees in electronics engineering. He began his career at the Philips International Institute and subsequently served in the information technology and R&D departments of electronics companies in Turkey and abroad. Mr Ultav joined Vestel in 1997 as a vice chairman responsible for technology and is currently a member of the Executive Committee responsible for strategic planning and technology.

Enis Turan Erdoğan

Executive Committee Member

(1955, Mersin) Enis Turan Erdoğan graduated from İstanbul Technical University (Department of Mechanical Engineering) in 1976 and completed a master's degree in production management at Brunel University (England) in 1980. After serving in positions for a number of firms in Turkey, he joined the Vestel Group as managing director of Vestel Foreign Trade in 1988. Since 1997, Mr Erdoğan has also been a member of the Vestel Executive Committee.

Cem Köksal

Executive Committee Member

(1967, Ankara) Cem Köksal graduated from Boğaziçi University (Department of Mechanical Engineering) in 1988 and received his master's degree from Bilkent University in 1990. He served in various positions in the banking industry between 1990 and 2001, becoming assistant general manager of DenizBank in 1997. Mr Köksal joined Vestel in 2002 as a vice chairman responsible for finance and he has the same responsibility as a member of the Executive Committee.

Ömer Yüngül

Chairman of the Executive Committee

(1955, İzmir) Ömer Yüngül graduated from Boğaziçi University (Department of Mechanical Engineering) in 1978. He joined the Zorlu Group in 1997 as the head of the Executive Committee responsible for white goods. On 3 January 2000 his responsibilities were expanded to include all of the Group's production activities. Mr Yüngül is currently chairman of the Vestel Executive Committee.

İhsaner Alkım**Executive Committee Member**

(1954, Kırcaali) İhsaner Alkım graduated from İstanbul Technical University (Department of Electronics and Communications Engineering) in 1977. After serving in various positions in the electronics and communications sectors, he joined Vestel in 1988 and since then has been undertaking duties in matters related to R&D save for a four-year period in 1998- 2002. Mr Alkım rejoined Vestel in the latter year and is a member of the Executive Committee responsible for electronics R&D.

Necmi Kavuşturan**Executive Committee Member**

(1956, Gaziantep) Necmi Kavuşturan graduated from the Faculty of Political Sciences of Ankara University in 1979. After serving in various positions in the banking industry, he joined DenizBank in 1997 as an assistant general manager in the bank's Management Services Division and he became human resources coordinator for Zorlu Holding in 2003. Since 2005 Mr Kavuşturan has been a member of the Executive Committee responsible for Vestel Group human resources.

Özer Ekmekçiler**Executive Committee Member**

(1957, İzmir) Özer Ekmekçiler graduated from Middle East Technical University (Department of Industrial Engineering). After serving in senior management positions in a number of sectors he was made general manager of Vestelkom in 2000. Since 2005 Mr Ekmekçiler has been a member of the Executive Committee responsible for Vestel Electronics, Vestelkom, Vestel Digital, and Vestel Russia.

MANAGEMENT'S ASSESSMENT AND ANALYSIS OF THE YEAR'S OPERATIONAL RESULTS

ECONOMIC AND SECTORAL DEVELOPMENT IMPACTING THE COMPANY'S ACTIVITIES

Economic review

- The world economy and global trade continued to grow in 2006. Estimates put global growth at 5.1% year-on while the volume of global trade expanded 9%.
- The Turkish economy registered a 6% rate of growth in 2006, a performance that also made it the fifth consecutive year of uninterrupted growth.
- The year-on rise in the consumer price index in 2006 was 9.65%. The biggest contributors to this increase in inflation were costlier oil, the price of which began to rise as early as the first quarter, volatilities experienced in financial markets in May and June, and a weak Turkish lira that depreciated against the euro and even the dollar.
- Volatilities provoked by a serious hike in US interest rates affected markets everywhere but their effect was most seriously felt in developing markets, resulting in currency devaluations in many countries. In Turkey, the lira lost up to 25% of its value and this loss had an adverse impact on quite a few companies' balance sheets.
- Exports in 2006 were up 15.9% year-on and reached USD 85.1 billion in value while at USD 137 billion, imports increased 17.3% during the same period. This performance widened the foreign trade deficit 19.8% to USD 51.9 billion. The ratio of exports to imports, which was 62.9% in 2005, slipped slightly under a whole point to 62.1% in 2006.

Sectoral review

- 2006 was a year during which all firms active in the consumer electronics sector began to feel the relentless pressure being exerted by increasingly greater competition on their profit margins. The consumer electronics sector is undergoing an important transformation marked by an accelerating shift away from traditional products in favor of new-generation digital products and flat televisions. Indeed this process is taking place much faster than many had expected while rapid technological development combined with growing competition is depressing TV unit prices to the point where firms delivering from the stocks that they have built up are forced to sell at a loss.
- Total TV sales in the European market in 2006 stayed at 2005 level. However this is not the whole picture for only 44% of that number were CRT units last year, whereas in 2005 71% of them were. The year-on rise in LCD sales was 106% in unit terms.
- In LCD units, the top five "A Brand" producers together controlled a 70% share of the European market in 2006. Paralleling anticipated contractions in brand margins in the period ahead, Vestel expects to see an increase in its share of European market LCD sales.

- The rapid downward spiral in LCD panel and TV prices in the European market continued last year. The year-on decline in LCD unit prices in 2006 was on the order of 30-40%. This is thought however to be an anomaly characteristic of a transition period and it is expected that prices will stabilize as of 2008.
- Turkish TV makers' total exports to Europe, their principal export market, declined by 6% YoY in unit terms.
- The rise in white goods exports continued in 2006 and 33% more units were sold than in the previous year. Turkey's refrigerator exports increased an average 21% p.a. in the five years to 2006 while the average rise in washing machine exports was 74%.
- White goods producers in Europe face margin pressure due to low rates of growth, high rates of market saturation, and increasingly more expensive labor and raw materials.
- Due to their higher production costs, European white goods producers are shutting down their own production facilities and either setting up smaller ones in eastern European countries, where costs are lower, or else they are having appliances built by manufacturers in those countries.
- Because of the high shipping costs that products incur, competition in the white goods sector is regional rather than global in scale, which means that our own company's chief competitors are in eastern Europe. Nevertheless due to its geographical location, its low-cost yet high-quality labor, and broad base of component manufacturers, Turkey is becoming Europe's production center for brown and especially white goods.
- In view of improved political and economic expectations paralleling the country's EU accession process, greater purchasing power, a high rate of population growth, low rates of saturation in some product groups, demand driven by replacements and renewals, and new products incorporating new technologies coming onto the market, the future of the Turkish white goods sector looks bright.
- Domestic TV sales, which grew by 20% YoY in 2005 in line with aggressive marketing campaigns, dropped by 10% YoY in unit terms.
- Total domestic sales of the four main white goods product groups (refrigerators, washing machines, cookers, and dishwashers), were up 5% YoY in 2006. Looking at the details of this growth one observes that it was driven mainly by two groups-dishwashers and cookers-whose levels of market saturation are still low compared with those of refrigerators and washing machines. The increasing numbers of housing starts over the last few years has been having a positive impact on the demand for built-in units, and this was particularly true in the case of cookers in 2006.

OPERATIONAL REVIEW

Flat TVs

TV markets all over the world are going through a rapid changeover from CRT to LCD units. With its strong market foresight, Vestel entered into early agreements with firms manufacturing the integrated circuits needed for LCD televisions with the result that it was able to move into the European market along with other major TV producers.

Vestel successfully overcame the technical, mechanical, and financial problems involved in the changeover to flat panel televisions (LCD and plasma) and completed all the design, technology, production, and marketing aspects that this transition entailed.

Vestel today is in a position to produce LCD units in every category. Making use of the cost advantages arising from its traditional flexible production abilities to make a large number of different models, Vestel manufactures competitively-priced televisions for "A Brand" producers and retail chains as well as for sale under its own name.

Despite the emergence of new flat TV makers in Eastern Europe, Vestel has a strong competitive edge in digital modules not just in Europe but even in the Far East. The rate of digital module/TV integration in the TFT-LCD units Vestel makes has reached 50%. A module developed by Vestel that can be installed in the Pan European TV makes it possible to receive every channel that is broadcast anywhere in Europe. This further strengthens our competitive position in the European market.

Vestel has undertaken an important investment for the purpose of better positioning itself against competition in the market. Production has begun at the company's LCD module factory, which was opened in February 2007. As a result of this, all of the elements of LCD panels other than the glass cell can now be produced entirely within Vestel itself. The manufacture of LCD panels is a two-stage process in which mechanical, electronic, and lighting system modules made in the factory are combined with glass cells (consisting of glass plates, films, and liquid crystals) imported from the Far East. This investment brings with it a number of important advantages:

- Overall manufacturing time will be reduced substantially since the glass modules can be mass-produced much faster while all of the components other than the cells can be procured from nearby suppliers.
- The panel and TV electronics can be assembled in a single place, resulting in more efficient use of electronic components and thus cost advantages.
- Manufacture in Turkey means that a greater percentage of the displays has been "Europeanized", which qualifies them for customs duty exemptions. The ability to sell duty-free LCD TVs in Europe is an additional advantage.

Moving into the sophisticated European LCD TV market simultaneously with the world's leading brands and with its portfolio of advanced products, Vestel's production of LCD modules is an important step in the direction of ensuring that its strong market position remains just as strong in the future.

Producing for its home market under the Vestel and Regal brands, Vestel continues to serve “A Brand” producers such as Mitsubishi, Hitachi, and JVC and it also supplies “own brand” units for retail chains in the European market as an OEM and ODM.

Digital and 3C Convergence products

Vestel successfully puts its technological infrastructure and know-how to work in digital products and laptop computers as well.

The Vestel portfolio of digital products consists of DVD players and recorders, internet access devices, and satellite decoders. In the DVB digital boxes that offer interactive experience features, Vestel is the European leader in terms of both software and hardware.

In digital devices, DVD players are rapidly being supplanted by DVD recorders, which provide the consumer with much more added value.

Vestel gives both production and sales priority to DVD-DVB combo devices that incorporate a digital satellite receiver and a digital hard disk. The company is working closely with content providers in the area of set-top box production.

3C Convergence products are gaining increasingly more importance because of the way they bring together all the features of consumer electronics to give the user broadband access to all content via telecommunications networks. Vestel is keeping a close watch on developments in this area and it established close relations with major IT firms early on, just as it did in televisions. Entering into a strategic technology transfer partnership with Intel, the company learned how to increase the mobility of laptop computers and deal with such issues as vibration and thermal properties. The Vestel laptop computer factory, which necessitated R&D outlays on the order of USD 7-8 million, was built and went into production in just 8 months' time. It is the only European manufacturer of laptop computers today. The decision to begin with laptop production was based in the realization that consumer demand could better be served with these units rather than with desktops. With this important step, Vestel has greatly augmented the technological strengths needed for 3C Convergence products.

White goods

Vestel continued to pursue growth in the white goods segment in line with its overall strategies. The dishwasher plant investment that began in 2005 continued in 2006 and the factory began trial production in February 2007. This plant essentially culminates Vestel's product group investment program in white goods.

The work of repairing the damage caused by the fire in the CIS refrigerator and washing machine plants in Russia in 2005 was completed and production resumed at both in 2006.

With exports and market shares increasing year after year, Vestel White Goods provides OEM and ODM services in the European market to:

- “A-Brand” manufacturers such as Fagor, Smeg, Whirlpool, Electrolux, Candy, Vestfrost, GE, Gorenje, and Glen Dimplex

- Retail market chains such as Carrefour, Metro, Conforama, Aldi, and Otto
- Distributors such as Zora. Due in particular to shipping costs, white goods make up a business line in which there is but little competition from Chinese producers in Europe. In the manufacture of white goods, for the European market, Turkey is the farthest point you can go in the East.

Due to their own high production costs, European white goods producers are shutting down their own production facilities and either setting up smaller ones in eastern European countries, where costs are lower, or else they are having appliances built by other manufacturers. Vestel exploits this trend as one of its greatest competitive advantages. There are two important roles that Vestel plays in white goods production:

- As a supplier of OEM and ODM services, Vestel does not compete directly with the brands of the customers for which it produces.
- Vestel undertakes production in important markets such as Russia and Turkey. These two attributes enable Vestel to offer other major producers and attractive business model. Vestel deploys a flexible production model to supply goods to an extensive geographical region that includes Russia and CIS countries on the one hand and Europe, the Middle East, and North Africa on the other. Rapidly increasing its own capacity in line with worldwide trends, Vestel successfully transferred its traditional competitive advantages in brown goods to the manufacture of white goods.

The long-term OEM/ODM agreements that Vestel White Goods enters into with the world's giant white goods producers within the framework of its vision of increasing its domination of domestic and international markets through international collaborations continued in 2006. The strategic business partnerships most recently entered into with Electrolux and Whirlpool are two more links in the chain of making this vision a reality.

Other products and services

Health care system software

In line with goals in the areas of health care systems and software, in 2006 Vestel acquired a 55% stake in Birim Bilgi İşlem AŞ, the leading producer of software for the health services industry. Birim provides integrated software, hardware, infrastructure, and personnel solutions for the outsourced automation of hospitals' health information systems. It serves 55 medium to large hospitals all over Turkey employing over 2,000 people. Delivering integrated health information system solutions, Birim's goal is to expand its leadership in digital health applications in Turkey into other countries in the region with Vestel's support.

Classical health care systems are not up to providing the medical care needed by an increasingly aging population. Taking this realization as our point of departure, another important activity in this area besides automating hospitals' systems is developing systems in which medical problems are identified at an early stage and patients can be cared for at home through the use of complementary medical devices as well as other health care solutions that people can use themselves in their own homes.

Fuel cells

Work is continuing in the area of renewable energy sources using micro-generation technologies in which heat and power can be generated by individuals, small businesses and communities to meet their own needs by using such sources of energy as the sun, wind, hydrogen, etc. Vestel is currently focusing on fuel cells that can be used to supply electricity and heating in people's homes.

Another line of intensive research currently under way is concerned with a new type of fuel cell. A solvent has been developed using boron that makes it possible, through greater compression, for hydrogen to be transported more safely and economically from where it is produced to another location. Work is also in progress on a product that will allow mobile devices to be recharged using hydrogen energy. Products incorporating technologies capable of producing energy from renewable, non-hydrocarbon resources such as wind and solar power will be put on the market in line with efforts to make them economically viable.

Vestel Defence Group

Taking advantage of Vestel's design and production muscle, the Vestel Defence Group plays a pioneering role in such areas as simulators, robotics, nanotechnology-based advanced materials, unmanned aerial vehicles, electronic warfare systems, laser and space technologies, and a variety of sea and land platforms. The group seeks to put the Vestel companies' R&D knowledge and experience to work in defense industries in an effort to quickly contribute to the group's and thus the Turkish defense industry's competitive advantages in these areas at the global level.

AYESAŞ has made important progress in the production of software for the cabling equipment and industrial needs of major firms in the aircraft industry. The company's software exports have reached a significant level.

Vestel Defence Industry seeks to become specialized in unmanned aerial vehicles, vessel modernization, command centers, and similar subjects. Testing is currently being carried out on unmanned aerial vehicles.

Developments in production

As it has been doing now for several years, Vestel continued to grow strongly in 2006. This growth is supported principally by capacity expansion and by new product investments. The dishwasher factory investment that was launched in late 2005 continued during 2006 and trial production began at the plant in February 2007.

Total production in 2006 increased by 2% YoY in unit terms.

Sales

Vestel secured a total turnover of USD 3.6 billion in 2006. Broken down by primary product segment:

- In the highly saturated European TV market, the process of changing over to flat-panel units is continuing. Flat unit sales were up 52% year-on in 2006 while CRT unit sales declined 10%. Total sales remained at 2005 level.

- Due to Vestel's strategy of moving away from DVD player production in favor of DVD recorders and DVD boxes, there was a short-term contraction in digital device sales, which were down 18% year-on in 2006.
- On the white goods front, there were 26%, 38%, and 624% increases respectively in unit sales of refrigerators, washing machines, and cookers paralleling the steady increase in Vestel's shares in the European market and the company's augmented product line.

Supplying a diversified line of products that are targeted at different customer segments and with a low cost structure and flexible production competencies, Vestel is the only OEM/ODM making goods for "A-Brand" producers today and its share of the European market is growing steadily. 92.5% of Vestel's exports are shipped to European countries.

Total turnover was up 11% year-on on a USD basis, 77% of which was contributed by exports. TV sales, which accounted for 61% of total turnover, were up 9% year-on on a USD basis but within that turnover, the share of flat panel units increased from 48% in 2005 to 56% in 2006.

The white goods segment grew 26% year-on in 2006 on a USD basis. Offering a diversified line of products that are targeted at different customer segments and with a low cost structure and flexible production competencies, Vestel is the exclusive "OEM/ODM only" white goods manufacturer for "A-Brand" producers today and its share of the European market is growing steadily. Due to its low production figures in 2006, the impact of Vestel CIS on consolidated white goods sales was limited. In 2007 it is expected that the company's share of Vestel's consolidated turnover will increase still more in the period ahead.

Market position

In view of its growing customer base and expanding product gamut, there is every reason to expect that the company's shares of Turkey's white goods exports will continue to increase in the future.

In the domestic market, Vestel is one of the sector's biggest players with market shares ranging between 15-18% in white goods and among top two players in televisions.

Profitability analysis

Because it is a net exporter, the depreciation of the Turkish lira especially against the euro had a positive impact on the company's operational profitability. Nevertheless the actual improvement in the operational profit margin (3.8% in 2005 vs 4.5% in 2006) was limited primarily for the following reasons:

- Losses incurred in foreign subsidiaries in parallel with the sharp declines experienced in LCD prices in Europe during the year.
- Extremely competitive conditions in the domestic market.
- Margin pressures that stemmed from import taxes that had to be paid on goods shipped from Turkey to Russia to defend the company's market share in that country in the face of the production losses sustained on account of the fire at the TV plant in 2005.

The doubling (from 35% to 72%) of Vestel Electronics' stake in Vestel White Goods' increased the company's short FX position, which went from USD 415 million in 2005 to USD 587 million in 2006. A weaker TL (esp. against Euro) coupled with increased short FX position resulted in FX losses of USD 77 million in 2006 vs. FX gains of USD 25 million in 2005.

Accordingly, the company's net profit in 2006 amounted to USD 2.1 million. (USD 64 million in 2005.)

Indebtedness

Increasing the company's stake in Vestel White Goods from 35% in 2005 to 72% in 2006 led to a cash outflow in the amount of USD 95 million and raised gross financial debt from USD 520 million to USD 653 million during the same interval. In a more positive development, net working capital contracted 15% to USD 216 million as of end-2006.

Investment outlays

Vestel Electronics spent a total of USD 145 million on all its investments in 2006. The company plans to invest about USD 100 million during 2007.

R&D investments in 2006 amounted to USD 40 million, a figure that corresponds to 1.1% of total sales.

Expectations for the future

The rapid decline in product prices experienced in the changeover from CRT to flat panel TV in Europe, which is the company's principal export market, is expected to stabilize in 2008.

In 2007 it is expected that Vestel CIS's share of Vestel's consolidated turnover will increase still more in the period ahead.

High interest rates and uncertainties on the political front in Turkey require one to be cautious when making any projections about 2007. Nevertheless it is believed that Vestel White Goods' increased product diversity will have a positive impact on overall revenues and that sales will continue to increase at their existing level in line with demand coming from "A-Brand" producers and from retail chains. Vestel reflects its leadership in technology in its products with the support of its R&D muscle. An ability to perfectly combine a talent for transforming technological innovations into products is an important source of the competitive edge that ensures Vestel's sustainable market position.

In the period ahead, 3C convergence products that combine information, telecommunications, and consumer technologies will become the focal points of competition.

Paralleling the new worldwide trend towards putting different products together in the same box, Vestel is giving increased attention to the development of technologies and designs that will allow different electronic devices such as televisions, home cinema systems, and digital satellite receivers to be integrated in a single unit in a variety of configurations.

Another axis of development is the increasingly greater presence in everyday life of home electronics products incorporating new technologies that make people's lives easier. Alternative energy

products, medical care products, payment systems, security systems, and nanotechnology products are just a few of the innovations that this vision will be bringing.

It is anticipated that products with low levels of energy consumption and of noise generation will be dominating the market in the years ahead. It is expected that “artificial intelligence” in refrigerators, air conditioners that can be remote-controlled by GSM messages, and induction technology in cookers will emerge to the fore.

In the future, washing machines that select their own programs and minimize the amount of a user's “hands-on” time when doing a wash will become popular. More intelligent machines are likely to start coming onto the market with advances in electronics. Paralleling such developments will be the introduction of technologies that increase users' peace of mind in issues related to hygiene and health. Among the company's medium-term projects is a factory to build dryers.

RESEARCH AND DEVELOPMENT AT VESTEL

Advancing rapidly towards becoming a global giant with the technologies that it develops, one of the most potent forces driving Vestel forward is its R&D activities.

Vestel's R&D mission is erected on the principle of being a technological pioneer in areas that will ensure the sustainability of a competitive position that will carry Vestel into the future while also developing technologies that will give it an upper hand over its rivals in an intensely competitive environment.

Underlying Vestel's success in the international market for home electronics are the investments that have been made in R&D activities over a wide range of electronic products and software. Paralleling the importance that it gives to developing new products for the purpose of keeping a close, on-location watch on worldwide developments, Vestel has undertaken R&D investments in the UK, the USA, Hong Kong, Taiwan, Manisa, İzmir, and İstanbul. Vestel employs a total of 930 engineers in its 11 R&D centers.

R&D at Vestel Electronics

Vestel Electronics' R&D activities in 2006 were carried out in Manisa at its Main, High-End, and Digital centers; in İzmir at Vestelkom and Cabot İzmir; at Vestek in İstanbul; at Cabot UK in Bristol, UK; and at Vestel USA in San Diego, California.

The principal focuses of Vestel Electronics' R&D activities are platform digitalization, high definition, mobility and connectivity.

Manisa Main and High-End

The design of the mechanical and electronic features of CRT and LCD televisions was carried out at the Main and High-End R&D centers in Manisa, where a total of 275 people successfully engaged in R&D activities in line with Vestel's project management strategies. Activities at these centers were conducted by separate teams that are individually responsible for industrial design, mechanical design, mechanical applications, industrial applications, intellectual property rights and contracts, design verification, and software and hardware engineering.

One of the objectives of R&D activities last year was to increase productivity in standard CRT products while also adding new features to existing products. CRT hardware design projects investigated new designs that will enhance marketing cost competitiveness while also bringing all existing models and chassis currently in production into Safety2007 (EN60065 new version) compliance. In LCD products, the objective was to expand the product line by incorporating new technologies into them and increasing both their productivity and their customer focus. Integrated digital TV, HD ready and full HD solutions for current product lines were the high-priority issues. In addition to new combi projects such as IPTV and TV-DVD units, new projects were launched on the TFT TV line to enhance image performance. A large number of new mechanical and electronic products were developed.

During 2006 products were developed incorporating a variety of options and features and with screen dimensions ranging between 14 and 42 inches. Vestel is now ready to offer a panoply of televisions capable of receiving the digital terrestrial TV broadcasts that are still in the experimental stage in our country and it is also one of the leading companies in Europe in this area.

Vestel Communications

In a sector beset by intense competition coming from the Far East in particular, Vestel Communications' R&D activities last year made important progress in the DVB-T, DVB-S, and DVB-C formats as well as in HDD and basic DVD recorders. During 2006 Vestel Communications developed many new products such as DVB-T PVR, DVB-S PVR, HDD DVD recorders, and DVD recorders with DVB-T support. The company also launched design work in 2006 on such new technologies as HD DVB-T, HD DVB-S, and IP STB.

Vestelkom's R&D team of 90 specialists is divided into groups individually responsible for software design, hardware design, PCB layout design, design verification, and special projects. In 2007 the team will be concentrating particularly on further increasing the performance of all STB products by means of higher definitions and adding internet support.

Cabot Communication Ltd UK

Starting from 2006 Cabot focused on the creation of new intellectual properties. The company shipped to market the first DVR (digital video recorder) software operating on a Vestel hardware platform. In September the company also completed a two-year push VoD (video on demand) DTT (digital terrestrial television) technology development project that it had been working on. In October the BBC launched technical testing of Cabot's software and Vestel's hardware with 350 testers sent from London. These tests were slated to continue until March 2007 and the results are to be used in the consulting process when actual service begins.

Cabot İzmir AŞ

Cabot İzmir's activities in 2006 once again enabled it to successfully maintain its superior position in Turkey's software industry.

Cabot İzmir, which joined the Vestel R&D family in 2004, carries out software development in coordination with Cabot UK in Bristol. Together the two have become one of Europe's leading suppliers of primary digital TV software. Employing a technical staff of close to fifty, Cabot İzmir produced solutions on many different platforms for numerous firms' DVB-T, DVB-S, IDTV, and DVB-C products. In 2006 Cabot launched its first embedded Conax and DVB-C applications and took an important step forward in new DVR applications with the addition of recording and rewinding features in hard disk integrated DVB products. Cabot provides IP software support for the top-selling products (Goodmans GDB3, Toshiba WLT series, and Philips DTR series) of such electronics giants as Vestel, Toshiba, and Philips.

Cabot has begun working on new development projects to support high-definition terrestrial and satellite broadcasts. Besides HD, the projects are especially targeting Mpeg4 Part 10 support, the new industry standard for HD broadcast.

Cabot will continue to increase the breadth of its portfolio of competitively superior high DVT technology software in 2007 and the years that follow.

Vestel USA Inc

Based in San Diego, Vestel USA's R&D unit keeps a close watch on developments in world markets and technologies so as to contribute to the competitive advantages of Vestel products. The company provides guidance for the group's other R&D activities through regular reports on the full range of Vestel products. It also coordinates the development of products intended for the North American market.

Vestek İstanbul

Vestek was founded in 2005 with the vision of becoming a skilled and respected consumer electronics research and development firm that keeps up with and produces new technologies, is guided by market conditions and technology, and is results-focused. Its mission is to engage in research jointly with research institutes and universities into new technologies and new consumer preferences and to transform the results of such research into modules, systems, and products etc that qualify as internationally licensable and patentable intellectual property rights.

In 2006 Vestek created an image processing engine that compares favorably with those of Sony, Samsung, Philips, and other leading brands. The content of this engine consists of image enhancement algorithms that were developed by Vestel and whose worldwide patent rights belong to Vestel. One outcome of this project is that Vestek also entered the area of processing images incorporating motion as well and it has become one of only a few companies in the world that are specialized in this field. Vestek produces audio and video compression software, video player software, and software for portable devices. The company also produces Hotel TV, advertising and information screen solutions, and interactive TV applications that are similar to Apple products.

Vestek has been selected as a strategic partner to provide software and hardware support in multimedia and network system projects by such firms as Xilinx and Freescale.

Vestel Digital

Vestel Digital consists of hardware design, software design, mechanical design, and design verification teams that are organized around the Vestel notebook PC for the purpose of increasing specialized knowledge on the critical issues involved in notebook PC design. The hardware design team consists of separate groups individually responsible for power management, CPU and chip sets, and I/O terminals while the software design team consists of the EC software, BIOS software, and operating system software groups and the mechanical design team of the thermal design, materials, and molds ("Tooling") sub-groups.

Vestel Digital keeps a close watch on the latest developments in the information technology market. Design work that began with Sonoma is continuing on the Napa and Santa Rosa platforms. 12 and 15-inch models have been produced for Sonoma and 14.1, 15, and 15.4-inch models for Napa. In addition to the 15 and 15.4-inch Santa Rosa models that will go on the market in May 2007, 12.1 and 17-inch models are also planned.

A liquid crystal module (LCM) that will increase the added value of Vestel LCD-TV products and make them more competitive has been made ready for production.

Having rapidly completed its initial investment phase in 2005, Vestel Digital began working on its cleanrooms (Class 10 K-Class 100 K) in March 2006 and completed them in July. Around the middle of the same month it began production with a maximum capacity of 100 K/month. Having readied its LCM production structure in a remarkably short time, Vestel Digital has become the first European manufacturer of these modules. The company's investments in LCM design and production are continuing.

Vestel Digital will continue to keep pace with technological developments and maintain its standing as the leading R&D house in the region.

R&D at Vestel White Goods

R&D is one of the most important ways in which Vestel White Goods hones its competitive edge and distinguishes itself. An ability to create new and pioneering technologies and to come up with designs and products that appeal to customers globally and meet their needs is the outcome of the talents and efforts of Vestel White Goods' strong R&D team. Vestel White Goods' research and development division consists of individual departments each of which is concerned with all aspects of its own production line. Every factory has its own R&D unit that reports directly to the factory manager. The total number of R&D personnel employed in 2006 was 130 and it is planned to increase this number to 169 during 2007. These R&D teams are responsible for:

- Procuring new technologies
- Designing new products
- Making production processes more environment-friendly
- Developing existing products
- Increasing productivity and reducing costs.

The common objective of every Vestel White Goods' R&D department is to develop its own products so as to support efforts to further increase the company's competitive strength in international markets and to enhance customer satisfaction.

These R&D units are also specialized in resolving any technical problems that may arise with respect to products or production methods. In line with this, R&D personnel:

- Closely monitor technical, academic, and industrial publications related to white goods and keep abreast of sectoral innovations and developments.
- Keep a close watch on customers' needs and wishes through customer visits and by attending fairs and exhibitions. New products are designed and existing ones are modified accordingly.
- Design products incorporating enhanced functions and features and improved production parameters.
- Carry out trial production so as to obtain pre-producing qualification for newly designed or improved products.

The success of the Vestel White Goods R&D team can be seen in the number of patents that the company has applied for and received. 44 industrial applicability/patent applications have been made and 6 of them have been registered to date. In addition, of the 21 industrial design applications that have been made, 17 have been registered.

VESTEL'S DISTRIBUTION NETWORK

Vestel White Goods has an extensive and effective distribution network consisting of Vestel Foreign Trade, a sister company that handles its international sales, and Vestel Durable Goods Marketing, another group company that conducts its domestic sales.

Vestel Foreign Trade

- Exports products to more than 100 countries around the world.
- Is a distributor in 8 European countries.
- Has a strong competitive edge in foreign markets thanks to its flexibility in meeting customers' needs, a talent for adapting quickly to changing market conditions, and a strong and sure hand in after-sales services.

Vestel Durable Goods Marketing

- Has a nationwide sales and service capability with 1,250 showrooms, 570 authorized service outlets, and 5,100 service personnel all over Turkey.
- Takes a customer and sales-focused approach through its "concept stores" and multi-brand strategy.
- Is the hub of an effective dealership and service outlet management system that incorporates GIS (Geographical Information System) technology.
 - Provides live product training online to 250 dealers and their personnel around the country via satellite services supplied by Vestel Group company Dexar.
 - Deploys a Manugistics system to achieve a 90% level of productivity in its resource planning, logistics, and supply chain management.
 - Adheres to an active communication and marketing strategy that has made Vestel one of the top ten recognized brand names in Turkey.

During 2006 Vestel continued to increase the number of its "concept stores", which are based on a multi-brand sales model that includes Vestel products. As of year-end, the number of such stores had reached 101.

A new sales and after-sales services organization is being set up to expand the Vestel trademark into new markets outside Turkey: Russia and CIS countries (Ukraine, Georgia, Azerbaijan, Armenia); Middle East (Syria, Iran, Iraq); South Asia (India, Pakistan); North Africa (Egypt). In the case of the Turkic republic, Middle East, and North Africa markets it has been decided to open standard showrooms that sell only Vestel products. The number of these outlets is currently 30.

Another project that is in the works is aimed at strengthening the company's position in its domestic market by restructuring the sales network through store renovations, improvements in point stores, moving stores to better locations (in shopping centers, etc), and building a bigger and more effective service network.

HUMAN RESOURCES AT VESTEL

Vestel is a community of people who identify with the company's corporate culture, are passionate about their work, and are open to development, progress, and innovation.

At end-2006 Vestel had 11,235 people on its payroll, of which 8,941 were blue collar and 2,294 were white collar workers.

Investing continuously in high-quality human resources, Vestel gives each and every one of its employees an equal opportunity and all the resources needed for them to develop themselves personally as well as professionally in the course of their careers. Underlying Vestel's continued success are human resources who share the same values such as working as a team, thinking in concert, and pursuing common goals and who are earnest in their commitment to the company.

Vestel's human resources policy is based on an approach that recruits the best and most suitable people for the company's needs from as wide a pool as possible, puts its personnel through a well-defined process of training and progression, seeks to fill management position vacancies from within the company, and maximizes productivity through employee motivation.

Vestel gives great importance to training on an individual company basis in order to increase the knowledge and skills of its employees. In addition to in-house and on-the-job training, Vestel also makes use of its technological resources to provide remote-learning and interactive training opportunities. Average training time throughout the Vestel Group in 2006 was 16 hours per person. A total of 1,317 people took part in training in the areas of technical development, corporate development, and management development. More than 40 training programs are currently being conducted by training firms that Vestel has entered into agreements with.

CORPORATE AND SOCIAL RESPONSIBILITY

Vestel's approach to quality, the environment, occupational safety, and employee health and its certifications

In keeping with its responsibilities as one of the world's leading manufacturers of consumer electronics and white goods, Vestel defines and documents quality, environmental, and occupational safety standards that must be complied with in all its operations, production lines, and products and it engages in an ongoing effort to ensure that it remains a strong, world league player in all of its dealings with its employees, customers, dealers, and suppliers. Vestel regards formulating management systems that will ensure the development of working principles and group policies in line with this through a common quality language and environmental awareness as one of the essential elements of its continued corporate existence.

Vestel regards it as its duty to be mindful of the health and safety of everyone who may be affected in any way whatsoever by its products and services and to protect the environment and nature on behalf of future generations. In line with this, the potential environmental risks that every department may carry have been defined throughout the group and all activities are conducted taking these risks into account.

Vestel's approach to environment policy is one that seeks to safeguard and improve the quality of life of its employees and customers. The main tenets of the environment policy to which Vestel is committed are the following:

- Environmental issues will always be taken into account when considering new product projects and operations.
- When designing and making products, environmentally harmful materials will be avoided as much as possible and efforts will be made to use those that are less polluting.
- Waste will be reduced, recycled, and reused as much as possible.
- Energy, water, and natural resources will be used as economically as possible through increases in productivity and the use of new technologies.
- Recycled/recyclable packaging materials will be used wherever feasible.
- Activities will be carried out to create and encourage environmental awareness.
- All environment-related laws, regulations, and administrative provisions currently in effect will be strictly complied with.

Vestel is committed to allocating sufficient quantities of pertinent resources needed to accomplish these goals. Within the framework of its occupational health and safety principles, Vestel:

- Fulfills all of the requirements of laws, regulations, and administrative provisions; complies with the rules of the organizations of which it is a member; and continuously ensures that international standards, new technologies, and employee suggestions are incorporated into its policies and practices concerning such issues.

- Identifies and analyzes its occupational health and safety risks and develops and implements plans aimed at preventing work-related accidents and diseases.
- Ensures that its personnel at every level are aware of their responsibilities for occupational health and safety and provides continuous training on health and safety risks so as to inculcate correct habits and behavior.
- Adheres to the principle of “the right person for the right job” in its efforts to prevent or minimize work-related accidents.

Vestel White Goods' fundamental working principles to prevent or minimize work-related accidents consist of:

- Eliminating or reducing unsafe conditions and movements within the workplace
- Frequently reviewing working conditions and taking appropriate measures when problems are identified
- Ensuring that such measures are provided with the resources they need to be effective
- Reviewing occupational health and safety policies and practices in light of changing conditions and requirements.

Vestel Electronics

Vestel Electronics has held TS-EN ISO 9001 certification since 1993. The company deploys a management system that disciplines all the primary and secondary processes involved in everything from identifying customer demand and market research to design, production, sales, and after-sales services with the objective of maximizing customer satisfaction.

Vestel Electronics has also held ISO 14001 Environmental Management System certification since 1998. The company was most recently subjected to an environmental impact audit in 2005, according to whose results it was ascertained that Vestel Electronics was not in violation of any rules or regulations concerning environmental protection.

Vestel White Goods

Vestel White Goods was awarded ISO 9001- 1994 Quality Management System certification in 2002 and ISO 9001-2000 Quality Management System certification in 2003.

Work is currently in progress on the company's ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health & Safety Management System certifications, both of which should be received by the end of 2007. Vestel White Goods' sensitive approach to environmental, occupational safety, and employee health issues and its practices are also a reflection of the Vestel Group's corporate values.

Vestel White Goods fulfills all the responsibilities incumbent upon it as a good corporate citizen on all issues related to minimizing the environmental impact of its activities and to delivering to market only products that are environmentally compatible. Since June 2006, all of the company's products have been manufactured in compliance with the EU Restriction of Hazardous Substances Directive (RoHS) and complies with the use limits specified in that directive for six restricted substances (lead, mercury, cadmium hexavalent chromium (chromium VI or Cr6+), polybrominated biphenyls (PBB), and polybrominated diphenyl ether (PBDE)) in products.

Paralleling RoHS, Vestel White Goods also complies with the EU Waste of Electrical and Electronic (WEEE) Directive, under which every manufacturer is held responsible for the safe disposal/recycling of its own waste electrical and electronic equipment. Priority is also given to manufacturing class A+ or class A products at Vestel factories so as to ensure that electricity and natural resources are used as efficiently as possible.

Vestel Communications

Vestel Communications holds both TS EN ISO 9001:2000 quality management system and British Electrotechnical Approvals Board (BEAB) certifications. In 2005 the company also began using environmentally safe materials complying with the EU Restriction of Hazardous Substances Directive (RoHS) that went into effect in mid-2006.

Social responsibility

Mehmet Zorlu Foundation

Co-headed by Zorlu Group chairman Ahmet Zorlu and by Zeki Zorlu, the Mehmet Zorlu Education, Health, Culture, and Mutual Assistance Foundation is a family foundation named after their father and the Zorlu Group's founder, Mehmet Zorlu. It was chartered on 25 April 1999.

The objectives of the Mehmet Zorlu Foundation are to support young people who are successful in their studies but lack the material means to pursue them and who have the ability to contribute something to Turkey and to the whole world in the name of humanity and to support the organizations that nurture them for us; to address their needs; and to lead the way in organizing activities that will assist their ongoing development.

To achieve these objectives, the Mehmet Zorlu Foundation engages in such activities as:

- Providing financial aid to needy young people so that they may continue their education and training
- Providing assistance in the opening of schools and similar educational institutions
- Supporting and organizing education-related competitions and projects
- Assisting in the organization of education-related social activities.

The Mehmet Zorlu Foundation began fulfilling the mission of supporting education, culture, and sports activities in 2002.

Every year the foundation provides primary school, high school, and university-level students with financial aid on the bases of merit and need.

In the 2006-2007 academic year, the foundation provided scholarships to 669 students, some of whom were the dependents of Zorlu Group employees.

The Mehmet Zorlu Foundation provides scholarships and builds schools so as to lighten the public burden of educating individuals who will be beneficial to their families, their country, and their nation.

The Mehmet Zorlu Foundation continues to increase its support for the construction efforts of educational institutions needed to ensure that the young people who are the future of our country will receive the superior education that they need and deserve.

Before the formation of the Mehmet Zorlu Foundation, the Zorlu Group financed the construction and operation of two schools:

- Hacı Mehmet Zorlu Multi-Program Lycee (Babadağ-Denizli, 1991)
- Saide Zorlu Anadolu Business Professional Lycee (Avcılar-İstanbul, 1998)

Since its inception, the foundation has completed:

- Saide Zorlu Professional College (Bahçeşehir University, İstanbul, 2003)
- Hakkı Dereköylü Fine Arts Lycee (Denizli, made ready for the 2003-2004 academic year and turned over to the Ministry of National Education)

In November 2004 the foundation initiated the construction of a 32 classroom primary school in Serdivan-Adapazarı to help mitigate the need for schools in that earthquake-stricken region. This school, named after Mehmet Zorlu, was completed in time for the 2005-2006 academic year. Turned over to the Ministry of National Education, 800 pupils were admitted to it in September.

The Zorlu Theater for Children and Youths was established by the foundation in 2003. This troupe tours cities all over Turkey and puts on theatrical performances and puppet shows particularly for needy children.

The foundation has donated 200 complete basketball backboards to schools to help support that sport throughout the country. Among the most important non-educational activities that the Mehmet Zorlu Foundation undertakes is the provision of regular monthly material support to the needy and to the surviving veterans of the Turkish War of Independence (1919-1923).

“Vestel Stands By Turkish Athletics” social responsibility project

The first project undertaken by Vestel in athletics was its sponsorship of national athlete Süreyya Ayhan in 2003. The “Vestel Stands By Turkish Athletics” social responsibility project has been continuing since 1 May 2004 in line with the primary goal of increasing the interest that Turkish young people take in athletics.

The project's stages have been organized on the basis of the four-year cycle of the Olympic Games, which provoke widespread national and international interest in athletics. The first stage of the project was completed with the 2004 Athens Olympics. The second will be completed with the 2008 Beijing Olympics. No specific completion date for the entire project has yet been set.

“Vestel Stands By Turkish Athletics” is a social responsibility project consisting of integrated sponsorships and support activities undertaken for the purpose of fostering an interest in athletics, which are widely regarded as a benchmark for all other sports, across a broad cross-section of Turkish society. Project activities are planned and carried out under five main headings:

- Individual athlete sponsorships
- Education
- Student athletics
- Competition sponsorships
- Informatics and communication

Vestel's initial sponsorship of Süreyya Ayhan increased the popularity of athletics in Turkey and it was immediately followed up by a large number of other social responsibility projects aimed at further enhancing the popularity of athletics and bringing the sport up to international levels of proficiency in Turkey.

Vestel's activities under this social responsibility project have been expanded to embrace all of Turkish athletics. These activities are aimed at strengthening and promoting athletics in all branches and at encouraging Turkish young people to take an interest in the sport by providing them with exemplary role models. The Turkish athletes supported by Vestel have won numerous medals in international tournaments and competitions and also broken many Turkish national records.

VESTEL GROUP COMPANIES

VESTEL ELECTRONICS

LEGAL NAME Vestel Elektronik Sanayi ve Ticaret A.Ş.

FOUNDED 1984

PRINCIPAL BUSINESS ACTIVITY Production of CRT, TFT-LCD, and plasma televisions

Turkey's leading manufacturer of electronics, Vestel Electronics joined the Zorlu Group in 1994. In the years since then, Vestel Electronics' tremendous progress, growth, and development have made it one of Turkey's biggest privately-owned industrial concerns, Europe's biggest TV manufacturer, and a leading actor in the global television market.

Controlling the biggest stake in the majority of group companies and with the pioneering products that it has introduced to the market, Vestel Electronics is the flagship company of the Vestel Group.

The author of many firsts in television manufacturing in Turkey, Vestel Electronics is offers customers standard and combi CRT units in the 37 to 87 cm screen range and is also the market leader in the design and production of high-tech TFT-LCD and plasma televisions. The high-end factory investment completed at Manisa Vestel City in 2005 placed the company solidly in the ranks of the leaders of the European market in TFT-LCD and plasma segment.

Manufacturing televisions that are compliant with the digital and high-definition (HD) broadcasts that are becoming increasingly more common in Europe, Vestel Electronics' greatest strength is derived from its R&D infrastructure. Seeing R&D as the most important guarantee of its future and growth, Vestel Electronics continuously supports its R&D activities with new investment with the result that its technological infrastructure has become one of the most advanced in its sector. As a result of the activities carried out in the R&D centers that it has set up in Europe, the USA, and the Far East as well as in Turkey, Vestel Electronics is able to provide goods whose electronics, mechanical design, and software are produced entirely in-house.

Vestel Electronics' internationally accredited test laboratories give it a superior advantage by increasing its productivity at the product testing and certification stages.

An innovative approach shaped by R&D investments has made it possible for Vestel Electronics to achieve a unique and strong market position for itself. Vestel Electronics has been the author of many innovations in television manufacturing in Turkey and was the first to go to market with products incorporating 100 Hz, 87 cm screen, 16:9 cinema format, recording/replay, Dolby surround prologic, digital TV, internet access, TFT, and plasma features.

In addition to its own branded products, Vestel Electronics has been producing goods for such global electronics giants as JVC, Hitachi, Sharp, Sanyo, and Toshiba for several years now in its own plants.

All of Vestel Electronics' production processes and activities have been awarded ISO 9001 Quality Management System and ISO 14001 Environmental Management System certifications. Its integrated facilities and automation technologies have made the company Europe's biggest color television manufacturer.

Vestel Electronics employs a cellular manufacturing system that allows it to achieve the high degree of flexibility that it needs. By greatly shortening new product development times, this system enables the company to enrich its product line and increase its competitive strength. Ongoing improvements in production technologies lead to increases in productivity as well as to leaner production processes and shorter production times that generate greater customer satisfaction and profitability.

In 2006, Vestel Electronics is Europe's biggest television manufacturer and it ships its goods to more than 100 countries worldwide.

Vestel Electronics' products are sold on the Turkish market by Vestel Durable Goods Marketing and in foreign markets by Vestel Foreign Trade.

VESTELWHITE GOODS

LEGAL NAME Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.

FOUNDED 1997

PRINCIPAL BUSINESS ACTIVITY Design and manufacture of white goods

Vestel White Goods was founded in Manisa in 1997 for the purposes of designing, manufacturing, and selling white goods with a particular focus on refrigerators. The company began producing refrigerators in 1999, split air conditioners in 2000, washing machines in 2003, and cookers in 2005. It completed its dishwasher production investment in early 2007.

Vestel White Goods' highly flexible production lines give it the ability to respond to customers' needs quickly and they are what have been nourishing the company's rapid growth in recent years. Vestel White Goods today is a company whose products' quality and features make them preferred in more than a hundred countries, particularly in mature markets such as the UK, France, Germany, and Spain where customer expectations are high.

In keeping with its quality management system and adopted principle of continuous development, Vestel White Good's mission is to offer products that are economical, innovative, and competitive and that satisfy the needs and expectations of customers in Turkey and around the world. Informed by this mission, the company's vision is to be the manufacturer offering the world's best white goods by adhering to a total quality management approach that seeks to provide more people with more and better products and services.

Vestel White Goods' refrigerator line includes electronic and mechanical-controlled no-frost, combi, double-door, single-door, and under-counter models. The company also makes deep freezers. Vestel White Goods was the first in Europe to produce and offer no-frost models with environment-friendly R600 refrigerant after having successfully completed Europe's biggest and most comprehensive no-frost manufacturing project. A new refrigerator factory completed in April 2005 brought the company's total production capacity in all models to 2,500,000 units a year.

Vestel White Goods' single and multiple split air conditioners incorporate all of the cooling and heating functions made available by state-of-the-art technology, are equipped with electronic remote control, come in a range of BTU options, and are aesthetically designed to fit in with home decors. Vestel White Goods was the first in Turkey to offer models with negative ion generators and

also the first to produce models with anti-allergenic filtration built in. The company's new Quattro series takes split AC design to a whole new level.

The company's AC factory at Vestel City supplies about 50% of all the air conditioners exported from Turkey. Expansion investments at the plant have raised annual production capacity to 700,000 units.

In line with its planned growth strategy, Vestel White Goods brought its new cooker factory on stream in the last quarter of 2005. Fully equipped with state-of-the-art technologies, this plant is one of the most modern of its kind in the world and has an annual production capacity of 1 million units.

When designing its cookers, the company carefully takes into account the needs and expectations of its target markets. The existing product line is capable of addressing nearly all of the demands of markets in former Eastern Bloc countries and Europe in general as well as many of those in Africa and the Middle East. The design process also took into account environment and safety directives (RoHS, WEEE, etc) that were still in draft form at the time and went into effect in 2006, with the result that the products already complied with those directives when they went on the market.

The production capacity of the company's washing machine factory reached 2 million units a year as a result of investments completed in 2006. The factory is currently producing washing machines with washing capacities between 3 and 7.5 kilograms and equipped with mechanical and electronic controls for speeds ranging between 400 and 1,600 rpm. Intelligent assembly lines make it possible to quickly change the functional features of a run of washing machines according to a customer's wishes.

Vestel White Goods' products are sold on the Turkish market by Vestel Durable Goods Marketing and in foreign markets by Vestel Foreign Trade.

Giving special importance to product quality, Vestel White Goods' refrigerator, washing machine, and air conditioner factories' production processes have all been awarded ISO 9001:2000 Quality Management System certification. The refrigerator plant has "approved factory" certification (BEAB, UK) and all its products are KEMA-certified as well. It is expected that the company's ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health & Safety Assessment Series certifications will be awarded before the end of 2007.

VESTELCOMMUNICATIONS

LEGAL NAME Vestel Komünikasyon Sanayi ve Ticaret A.Ş.

FOUNDED 1975

PRINCIPAL BUSINESS ACTIVITY Consumer electronics

Originally founded in 1975 as Turkey's first manufacturer of remote controls and tuners, this company joined the Vestel Group in 1996 as Vestel Communications.

Vestel Communications today is a leading manufacturer of consumer electronics that are sold not just in Turkey but throughout Europe as well. Vestel Communications employs a staff of 1,213 people, 90 of them engaged in R&D, in 26,000 m² of facilities equipped with advanced technology and located in the Aegean Free Zone just outside the city of İzmir.

Vestel Communications makes DVD players, DiVX players, AV receivers (home cinema systems), DVD recorders, digital satellite receivers, digital TV receivers, and wireless video and audio routers (digital media adapters) designed for the digital home concept.

Putting an innovative approach at the focal point of all its corporate activities, Vestel Communications:

- Is the first company in Turkey to make use of reflow surface mount device (SMD) technology.
- Has Turkey's biggest and fastest-operating SMD manufacturing capacity.
- Was the first company to engage in digital R&D in Turkey.
- Is Europe's biggest maker of digital set-top boxes.
- The first company in Turkey that designs and produces all the hardware and software needed for digital satellite receivers, digital TV receivers, DVD players, and DVD recorders.
- the first company in Turkey that designs and produces digital media players (DMP) and digital home concept devices.

In 2005 Vestel Communications completed the hardware and software design work on Turkey's first DVD recorder with HDD and the new devices have gone into production. In 2006 the company completed the hardware and software design work on its personal video recorders and these units are now in production.

Vestel Communications manufactures as both ODM and OEM. The bulk of its output is intended for the export market. Products that have been designed and manufactured taking into account the wishes and expectations of consumer groups in different countries are shipped to the UK and also to Spain, Germany, France, Italy, and Ireland. The company is concentrating on expanding its market share, especially in Europe, and is working intensively on ways to further increase its foreign sales.

Vestel Communications transferred much of its software development activities to its subsidiary at the Urla Technology Center of the UK-based software house Cabot, considerably increasing its R&D muscle in the process. The R&D links originally established with major Japanese firms have turned into full-fledged collaborations and these too have been important contributors to Vestel Communications' success in this area.

Giving the highest priority to quality in all its activities, Vestel Communications' manufacturing processes have been awarded TS EN ISO 9001:2000 Quality Management System and BEAB certifications. In keeping with its focus on protecting the environment, in 2005 the company began using environment-friendly materials that are compliant with the RoHS Directive that went into force in the EU around mid-2006.

VESTELDURABLE GOODS MARKETING

LEGAL NAME Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.

FOUNDED 1991

PRINCIPAL BUSINESS ACTIVITY Marketing and sales of Vestel products in the domestic market

Vestel Durable Goods Marketing is responsible for marketing and selling in Turkey the products manufactured by Vestel Electronics, Vestel White Goods, and Vestel Digital.

In keeping with the Vestel Group's multi-brand strategy, the company also markets and sells goods made by such major international brands as JVC, Whirlpool, Moulinex, Tefal, Rowenta, Palm, Samsung, Motorola HP, Nokia, Philips, and Creative. This rich array of products is also made available to consumers through Vestel stores.

The company's nationwide sales are conducted through four regional departments (Marmara, Aegean & Mediterranean, Central Anatolia, and Southeastern Anatolia) that oversee the operations of twelve sales offices. In addition to this regional sales organization, Vestel Durable Goods Marketing also has a commercial sales unit that makes lot sales to hotels, retail chains, companies and institutions, complete/prefabricated kitchen suppliers, and construction projects.

During 2006 Vestel Durable Goods Marketing continued its efforts to distribute its goods to dealers faster and more effectively. The company is the only one in the durable consumer goods sector in Turkey to make use of the Manugistics system to oversee the effectiveness of its deliveries. This system increases the efficiency of warehouse management, reduces transport costs significantly, and raises average truck capacity utilization rates to as high as 90%.

Making intensive use of advanced technology in all of its business processes, Vestel Durable Goods Marketing:

- Is the hub of an effective dealership and service outlet management system that incorporates GIS (Geographical Information System) technology.
- Introduced a web-based service infrastructure in 2006 that enables all service points to take advantage of a centralized customer data base
- Was providing live, online product training to 250 dealers and their personnel around the country via satellite services supplied by Vestel Group company Dexar as of end-2006. Vestel Durable Goods Marketing's dealership organization has a national reach and has been completely restructured over the last four years. Vestel brand products have been withdrawn from stores that sell other brands of brown and white goods and they have been moved into Vestel showrooms and shops instead. The number of these outlets reached 1,250 as of year-end 2006. In addition to Vestel brand brown and white goods these Vestel dealerships also offer customers Whirlpool white goods; Tefal, Moulinex, and Rowenta small home appliances; Samsung, Motorola, and Palm mobile phones; Palm, JVC, and HP consumer electronics; and Philips personal care products. In order to make this growing array of products and brands more conveniently available to consumers, in 2005 Vestel Durable Goods Marketing began opening "concept stores" in shopping malls and on high streets. The company accelerated its concept store activities in 2006 and brought the number to 101 as of year-end.

Vestel Durable Goods Marketing's rates of growth in 2006 were again above the sector averages. Last year the company commanded market shares of 18% in refrigerators, 15% in washing machines, while it is among the top two players in televisions.

Vestel Durable Goods Marketing has phased Vestel brand products out of wholesale channels and replaced them with the Regal brand that was specially created for this segment.

Another important delivery channel for this company is major retailers such as Carrefour, Metro, Real, Praktiker, Tansaş, and Maxi. To this segment the company supplies its specially-designed Alaska, Firstline, Watson, and SEG branded products. Vestel Durable Goods Marketing also makes lot sales directly to institutional customers such as hotels and hospitals.

As one of the leading players in Turkey's durable consumer goods sector, Vestel Durable Goods Marketing's competitive advantages are domestic manufacturing strengths, a line of products that appeal to Turkish consumers' tastes, effective and highly developed delivery channels, a multi-brand marketing strategy, high levels of process automation and productivity, and collective thinking and transparent communication in management. These attributes put Vestel among the top five "most liked companies" in Turkey in 2006.

Under the heading of its social responsibility activities, Vestel Durable Goods Marketing's support of athletics that began with Turkish national athlete Süreyya Ayhan in 2001 continues. The company provided support for seven members of the Turkish team that participated in the 2004 Athens Olympics and one of them, Eşref Apak, brought home a bronze medal in the hammer throw competition. Vestel Durable Goods Marketing is currently supporting ten members of the national team that is to be sent to the 2008 Beijing Olympics. The company also provides sponsorship support for fourteen athletes as part of its efforts to foster the growth and development of athletics in Turkey.

VESTEL DIGITAL

LEGAL NAME Vestel Dijital Üretim Sanayi A.Ş.

FOUNDED 2005

PRINCIPAL BUSINESS ACTIVITY Digital media and PC products

Vestel Digital is the youngest member of the Vestel Group of Companies. After completing its initial organization and startup in 2005, the company commenced production at Vestel City, one of Turkey's most important technology centers.

Vestel Digital employs a team of 35 R&D specialists in its in-house product development program. Paralleling this program, the company carries out its activities with a focus on innovation and development with the objective of becoming the Turkish and European pioneer and leader of the "3C Convergence" that has begun to take hold in the entire electronics industry.

"3C Convergence" is the name given to the trend towards integrating three areas of technology:

- Communication
- Consumer electronics
- Computing

These three technologies are increasingly appearing together in products that are designed to make people's everyday lives easier. Taking full advantage of the strong technological infrastructure and know-how of the group of which it is a member, Vestel Digital's ambition is to be a global actor in digital media and PC products.

For the purpose of coming up with innovative products that appeal to customers, Vestel Digital has entered into an R&D arrangement in Shanghai and is rapidly acquiring all of the technological prerequisites needed to ensure its success in the market.

The company is currently focusing on two main avenues of development: digital media products and personal computer products.

In the first category, the company designed and has begun manufacturing Turkey's first WiFi card and also the country's first portable DVD player conforming to EU standards.

Vestel Digital manufactures boxes with support for both terrestrial digital and satellite broadcasts and it ranks first in the UK, the leading country in terrestrial digital broadcasting, with an overwhelming market share of 60%.

In its other business line, personal computers, Vestel Digital pulled off another first in the

Turkish and European markets by designing and manufacturing laptop computers entirely from components made by itself. The first models to be put on the market offer 12, 14, and 15 inch screen options. This line will be expanded with more advanced models incorporating new technologies as they become available and a 15.4 inch W model has already been added. Thanks to its ability to call on the extensive and dynamic sales network of its sister company Vestel Durable Goods Marketing, Vestel Digital is also one of the most important players in the Turkish market for desktop computers.

Vestel Digital takes the same innovative and technology-intensive approach in production technologies as it does in product development. The high-capacity automatic assembly lines and advanced testing systems used to make products also ensure the highest levels of quality and reliability at every stage of production. All of the testing systems and software controls used in the company's automated production processes were also developed in-house. Work is currently in progress to further increase the percentage of process automation.

As is the case with all Vestel companies, customer satisfaction is fundamental to everything that Vestel Digital does. The company's flexible approach to production, whose processes are all quality-certified, give it the ability to successfully respond to demand quickly and exactly.

DEXAR

LEGAL NAME Deksar Multimedya ve Telekomünikasyon A.Ş.

FOUNDED 2000

PRINCIPAL BUSINESS ACTIVITY Informatics and telecommunications systems, operation, and integration

Dexar is a telecommunications service provider and operator originally set up to provide satellite communication services and to support them with high added-value services. The company has since

expanded its service line with the addition of information technology services and integration applications.

In 2006 Dexar ranked in first place among all the satellite service providers and satellite data applications operators in Turkey. In its report for 2006, Comsys showed Dexar with a 2.6% share of the European broadband market. Dexar's satellite-based services include setting up high-speed point to multi-point data transmission networks and bidirectional internet access, IP multicasting, distance learning, intranet, and bandwidth on demand (BOD) services.

Under the heading of general IT services, Dexar provides installation, operation, and maintenance support for LAN and WAN applications, collocation and hosting services, and onsite services for dispersed corporate structures. During 2006 Dexar began providing onsite services for about 20,000 computers belonging to different companies and organizations.

Dexar's customer portfolio consists of such leading corporate and institutional names as Roche, Aksa, General Directorate for Disaster Recovery, Superonline, Başak Sigorta, Betek, Kandilli Observatory, Süleyman Demirel University, TPAO, BAT, Loreal, Meteksan, Alarko, İpragaz, EUAŞ, Shell, BP, Fortis, and DenizBank.

As the only IT service provider in the Zorlu Group, Dexar also provides group members with access, communications, infrastructure, and software support for themselves and for their strategic production facilities. Some of the firms in this category are Vestel Electronics, Vestel CIS, Vestel Communications, Vestel Digital, Vestel Durable Goods Marketing, Vestel Defence, Vestel Electronics R&D, Korteks, Zorlu Energy, Zorlu Linens, and Cabot Technology Development.

In addition to its satellite services, Dexar intends to expand its service line with the integration and servicing of Vestel-brand IT products while continuing to strengthen its existing market position.

VESTEL FOREIGN TRADE

LEGAL NAME Vestel Dış Ticaret A.Ş.

FOUNDED 1987

PRINCIPAL BUSINESS ACTIVITY Export-import

Handling all of the exports of Vestel Group companies, Vestel Foreign Trade has been Turkey's export champion in the electronics industry for seven years in a row.

The company's international marketing and sales activities are carried out through its subsidiaries located in Finland, France, Germany, Holland, Italy, Romania, Russia, Spain, and the UK.

With a huge array of products ranging from televisions to digital boxes and from refrigerators to cookers, Vestel Foreign Trade is responsible for the international marketing and sale of the goods manufactured by Vestel Electronics, Vestel White Goods, and Vestel Digital.

An extensive customer portfolio that spans the globe, deep market knowledge and experience, a strong worldwide distribution network, and staunch international business relationships are the keys to Vestel Foreign Trade's success.

Vestel Foreign Trade and its foreign operations had total international sales worth USD 2.8 billion in 2006, the biggest share of which was accounted for by television sets.

Selling to more than a hundred different countries, Vestel Foreign Trade has an important place in the European TV receiver market. With its ability to rapidly move into and establish itself in new markets, the company plans to increase its foreign sales by entering emerging markets everywhere practicable and increasing their share of its total sales.

VESTELITALY SRL

LEGAL NAME Vestel Italy SRL

FOUNDED 2001

PRINCIPAL BUSINESS ACTIVITY Marketing and sales

Vestel Italy was set up in 2001 to sell Vestel products in the Italian market.

VESTELIBERIA

LEGAL NAME Vestel Iberia

FOUNDED 1998

PRINCIPAL BUSINESS ACTIVITY Marketing and sales

Founded in 1998, Vestel Iberia is responsible for the marketing and sale of Vestel products in Spain and Portugal. The company has firmly established itself in the Iberian peninsula thanks to its superior competitive advantages.

VESTELCIS LTD.

LEGAL NAME Vestel CIS Ltd.

FOUNDED 2003

PRINCIPAL BUSINESS ACTIVITY Production and sales of brown and white goods

Vestel CIS Ltd is the Vestel Group's production company in the Russian Federation and was originally founded in 2003 to manufacture television sets.

Based in Alexandrov near Moscow, Vestel CIS Ltd's product quality, strong logistical support, and lean cost structure give it a keen competitive edge in the market. Vestel CIS Ltd's production activities have been awarded Rostest certification, which is mandatory in Russia.

A fire that broke out on 14 November 2005 completely destroyed the television plant. Vestel CIS is in the process of collecting its claims from the insurers. The washing machine and refrigerator plants that came on stream in 2006 will reach annual production capacities of 500,000 units in each product category in 2007 and thus enable the company to further tap the tremendous potential that exists in the rapidly growing Russian market.

VESTEL UK LTD.**LEGAL NAME** Vestel UK Ltd.**FOUNDED** 2004**PRINCIPAL BUSINESS ACTIVITY** Marketing and sales

Having completed its second year of operation, Vestel UK is responsible for the marketing and sale of Vestel products and for customer relations management in the UK.

Vestel UK's local organization enables it to provide full service that includes warehouse deliveries as well as maintenance and repair support and it further strengthens the competitive position of Vestel products in the UK market.

VESTELFRANCE SA**LEGAL NAME** Vestel France SA**FOUNDED** 1996**PRINCIPAL BUSINESS ACTIVITY** Marketing and sales

Vestel France was set up to market Vestel products in Europe in 1996. The territory under the company's responsibility consists of France as well as Belgium, Martinique, Reunion, and Guadeloupe.

VESTELVESEG GMBH**LEGAL NAME** Veseg GmbH**FOUNDED** 1995**PRINCIPAL BUSINESS ACTIVITY** Marketing and sales

Veseg was founded in 1995 to market and sell Vestel products in Germany and neighboring countries. The company sells goods in Germany, Austria, and Switzerland under the SEG brand name as well as a number of others.

VESTELBENELUX BV**LEGAL NAME** Vestel Benelux BV**FOUNDED** 2003**PRINCIPAL BUSINESS ACTIVITY** Marketing and sales

Vestel Benelux commenced operations in 2003 and is responsible for the marketing and sale of both Vestel-brand and OEM products in Belgium, Netherlands, and Luxembourg.

VESTELHOLLAND BV**LEGAL NAME** Vestel Holland BV**FOUNDED** 1995**PRINCIPAL BUSINESS ACTIVITY** Logistical support and sales

The group's first foreign subsidiary, Vestel Holland BV operates out of the city of Rotterdam and plays a very important role in coordinating Vestel's international trade activities and providing them with logistical support.

VESTEL ROMANIA**LEGAL NAME** Vestel Electronica SRL**FOUNDED** 2004**PRINCIPAL BUSINESS ACTIVITY** Marketing and sales

Vestel Romania was founded in 2004 to market and sell Vestel products in Romania, which joined the EU on 1 January 2007. After being set up, the company engaged in a variety of activities concerning the sale of OEM products in line with the changes taking place in Romania as it approached EU membership. It is also making preparations to launch Vestel branded products in the country as well.

VESTELDEFENSE INDUSTRIALS**LEGAL NAME** Vestel Savunma Sanayi A.Ş.**FOUNDED** 2003**PRINCIPAL BUSINESS ACTIVITY** Defense industry technologies marketing and sales

Vestel Defence was founded in late 2003 mainly to supply the technological needs of the Turkish Armed Forces and to export defense industry products to other countries of the world. The company's primary objectives are to conduct research in high-tech electronic and software issues, to come up with cost-effective and technologically superior solutions that are delivered on time, and to give those solutions a competitive edge among the strongest defense industry products available worldwide.

In today's world, providing for the defense and security of peace, freedom, and progress has become an increasingly more complex and technology-demanding process. Vestel Defence brings together all the experience and strengths of the Zorlu Group in the areas of electronics, software, energy, and textiles to lead the way in the development of simulators, robotic systems, hydrogen energy, fuel cells, nanotechnology-based high-tech materials, unmanned aerial vehicles, electronic warfare systems, and a variety of sea and land platforms in the effort to give the group a competitive advantage in these areas on a global scale.

AYESAŞ

LEGAL NAME Aydın Yazılım ve Elektronik Sanayii A.Ş.

FOUNDED 1990

PRINCIPAL BUSINESS ACTIVITY Original software and technology development and production for military and civilian applications

AYESAŞ was founded in 1990 to design, produce, and integrate the command, control, and communication systems that make up the backbone of Turkey's national air defense system.

From this technology base, AYESAŞ has gained significant experience and built up unique capabilities in defense industry and aviation industry software, engineering, design, and production infrastructure capable of competing in the international arena.

Joining the Vestel Group in 2005, AYESAŞ continues to meet the needs of Turkey's defense industry while also exporting software and hardware to some of the world's leading defense and aviation industry companies. The projects that it has undertaken, the technological experience that it has built up, and the specialist human resources that it employs all make AYESAŞ the biggest privately-owned company in its sector in our country.

AYESAŞ's distinguished roster of customers includes the Ministry of National Defense, the Turkish armed forces, and the Undersecretariat for Defense Industries as well as NATO, Boeing, Lockheed-Martin, Sikorsky, Thales, Rockwell- Collins, L-3 Communications, Northrop- Grumman, GD Canada, Smiths Aerospace, ADC Teledata, Türk Telekom, ASELSAN, HAVELSAN, TAI, and FNSS.

AYESAŞ's activities are concentrated in the following areas:

- Real-time software development
- Turnkey-delivery C4I Systems
- Avionics software development conforming to RTCA DO-178B standards
- Radar integration
- Tactical data communication (Link-1, Link-11/B, ATDL-1, and Link-16)
- Independent verification and validation (IV&V)
- Electronic and electromechanical system design, production, and integration
- Wiring production
- System engineering and system integration
- Console, communication system, and electro-mechanical equipment design, production, and integration for sea platforms
- Ruggedization of electronic equipment
- Depot level maintenance for C4I systems
- Simulation systems
- UHF-VHF communication systems and devices

The company's activities have received the following quality system and other certifications:

- ISO-9001:2000, AQAP-150 quality assurance certification
- SEI SW CMM Level 3 software development certification
- AQAP-150 and SSM Class A software quality assurance certification
- National and NATO Secret Level Secure Facility certification.

BİRİM INFORMATION TECHNOLOGIES

LEGAL NAME Birim Bilgi İşlem Müşavirlik ve Ticaret Ltd. Şti.

FOUNDED 1991

PRINCIPAL BUSINESS ACTIVITY Software for the health services industry

In 2006 Vestel acquired a 55% stake in Birim Bilgi İşlem AŞ, the leading producer of software for the health services industry in Turkey. Delivering integrated health information system solutions, Birim's goal is to expand its leadership in digital health applications in Turkey into other countries in the region with Vestel's support. The company provides integrated software, hardware, infrastructure, and personnel solutions for the outsourced automation of hospitals' health information systems.

Birim supplies all the hardware, software, and infrastructure that health care institutions need to successfully manage all their information. It provides the software and equipment-use training needed for an integrated hospital information management system, procures data input personnel when necessary, and undertakes all system maintenance.

Founded in 1991, Birim today employs more than 3,000 people to provide high-quality and dependable service and solutions to health care institutions all over the country. Taking a teamwork approach to their work, Birim personnel keep a close watch on technological and sectoral developments and make use of them to enhance the productivity and effectiveness of software, hardware, and systems.

Birim regards the designing of hospital information management system programs as a fully integrated process in which system support units, technical support units, and design units work together to produce programs that best suit the changing needs of the day.

The same units all take part in continuously developing programs once they are in operation. It is thanks to this approach that these programs create ever greater synergies between health care sector services and the services that a patient receives from a health care provider.

Focused on the work processes and needs that are required of hospitals by law, hospital information management system programs are structured so as to comply with regulations while delivering health care solutions in the fastest and most effective way possible. Birim provides its customers with fully-integrated hospital information management systems that are economical, productive, effective, scalable, and secure.

Birim's high-quality service is rooted in the principles of:

- Correctly identifying and reassessing task flows
- Making it possible to monitor and evaluate the performance of personnel and to change assignments as needed
- Reducing materials procurement and storage costs
- Providing instantaneous access to financial information
- Allowing instantaneous access to all information from anywhere in the hospital
- Serving patients better and more effectively
- Ensuring and increasing the security of confidential patient information. Birim's hospital information management system programs deliver solutions that allow hospitals to make full and effective use of all their resources and to make correct decisions about them.

VESTEK

LEGAL NAME Vestek Electronics Arařtırma Geliřtirme A.ř.

FOUNDED 2005

PRINCIPAL BUSINESS ACTIVITY Research and development

Vestek is a Vestel R&D center that commenced operations in August 2005 in the Arı technocity on the Ayazaęa campus of İstanbul Technical University. It employs a staff of 52.

Vestek was set up with the vision of being an R&D firm that keeps abreast of and produces new technologies, is guided by technology and market conditions, and is proficient and respected as a result-focused producer in the area of consumer electronics. Vestek's mission is to investigate new technologies and new consumer trends in partnership with universities and research institutions and to transform such research into modules, systems, and products etc that qualify as internationally licensable and patentable intellectual property rights.

In 2006 Vestek worked on image processing, image quality enhancement, audio and video data compression and decompression, embedded multimedia systems, and home entertainment network development. The company is also currently working on energy distribution management software.

CABOT UK

LEGAL NAME Cabot Communications Ltd. UK

FOUNDED 2001

PRINCIPAL BUSINESS ACTIVITY Research and development

R&D work has been going on at Bristol-based Cabot in England since 2001. In 2006, the company was again very busy meeting customers' increasing demand for software for digital broadcasting applications. Software was developed for international firms to accommodate changes in digital broadcasting features and also to make it possible for UK and other countries' content (such as MHP and PVR) to be decoded.

CABOT Turkey

LEGAL NAME Cabot Turkey

FOUNDED 2004

PRINCIPAL BUSINESS ACTIVITY Research and development

Cabot Turkey's activities in 2006 once again enabled it to successfully maintain its superior position in Turkey's software industry. Cabot Turkey, which joined the Vestel R&D family in 2004, carries out software development in coordination with Bristol-based Cabot UK.

Employing a technical staff of close to fifty, Cabot Turkey has produced solutions on many different platforms for numerous firms' DVB-T, DVB-S, DVB-C, IDTV, and DVD recorder products.

CORPORATE GOVERNANCE COMPLIANCE REPORT

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CORPORATE GOVERNANCE COMPLIANCE REPORT

1. Statement of compliance with corporate governance principles

Vestel Electronics Incorporated has started to reap the results of the Corporate Governance work that was initiated in late 2004 and lasted about two years. During the process, the Principles, which have been adopted from the lowest to the highest level across the Company, were started to be fully implemented, and the corporate governance mechanisms were started to be operated in line therewith. It was decided to obtain a rating from Institutional Shareholder Services (ISS), a leading international rating agency, in order to have the latest status of the work carried out as at 2006 examined independently and to ensure its public disclosure. The score of 7.5 (good) granted on a scale of 10 evidences the level and success of the Company's corporate management. The assessment was based on four main headings in line with the Corporate Governance Principles of the Capital Markets Board of Turkey (CMB); these headings consisted of Shareholders, Public Disclosure and Transparency, Stakeholders, and the Board of Directors, and were given different weights. In the assessment, Vestel Electronics received the highest score with 8 (80.15%) on a scale of 10 in practices related to "Shareholders".

The efforts undertaken with a view to further improve compliance with Corporate Governance Principles at Vestel Electronics Inc. in 2006 are summarized below.

Committees formed by non-executive members: Elected to serve as a member on the Corporate Governance Committee in order to closely monitor the duties of the committee during its establishment as well as the operation of the Corporate Governance structure, Chairman of the Executive Committee Mr. Ömer Yüngül quit this position in 2006. At present, the Corporate Governance Committee consists of independent member Mr. Yılmaz Argüden (head of the committee) and non-executive board member Ms. Şule Zorlu.

Revision of the Company website in 2006 in line with the Corporate Governance Principles: Regularly updated at short intervals by the Investor Relations Unit, the aim of the website is to inform the shareholders, stakeholders and the public at large on the principles of clear, intelligible and equitable disclosures.

In the implementation of Corporate Governance Principles, certain principles that do not conform with the Company's structure and that are regarded as potential obstacles against its activities were excluded. These principles and the reasons for opting not to comply therewith are summarized below:

Cumulative voting: The Company does not make use of the cumulative voting method. However, the representation to be provided by cumulative voting on the Board of Directors is achieved by the presence of independent members on the Board.

Individual right to request appointment of a special auditor in the articles of incorporation: The right to request appointment of a special auditor is stipulated by Article 356 of the Turkish Commercial Code (TCC). Due to the fact that this right is vested in the shareholders by legislation and takes place among "optional" principles in the Corporate Governance Principles, it is not separately covered in the Company's articles of incorporation.

The Company's articles of incorporation contain no provisions stipulating that material decisions such as "demergers and share exchanges, buying, selling, or leasing substantial amounts of tangible/intangible assets, or donation and grants, or giving guarantees such as suretyship, mortgage in favor of third parties" are required to be taken at a general meeting. The underlying reason is that the nature of the business in which the Company is involved requires it to buy, sell, and lease quite frequently. Having to hold a general meeting every time such a transaction takes place is considered to be impossible and so no such article has been included in the articles of incorporation. This practice is refrained from in order to ensure that deals are made quickly and to prevent opportunities from being missed.

These activities on the part of Vestel shows its commitment to achieve compliance with corporate governance principles and that it is aware of its responsibilities towards its shareholders no matter what the size of their stakes in the Company may be. Acknowledging the contributions that corporate governance principles have already made to the Company, Vestel Electronics Inc.'s goal is to attain even greater compliance with those principles with the involvement of all its employees and managers in the senior management.

Ahmet Nazif Zorlu
Chairman of the Board

Ömer Yüngül
Board Member

CORPORATE GOVERNANCE COMPLIANCE REPORT

PART I: SHAREHOLDERS

2. Investor Relations Unit

- On 30 May 2005 Vestel Electronics' Board of Directors created a Corporate Finance and Investor Relations Unit for the purposes of effectively managing relations with investors and achieving uniformity in communication with investors and in publicly disclosed information. This unit, which reports to the Corporate Governance Committee that was set up in the early part of 2005 as stipulated in the Company's articles of incorporation, plays an important role in the Company's compliance with corporate governance principles.
- The officer in charge of the Corporate Finance and Investor Relations Unit is Figen Çevik.
- The Corporate Finance and Investor Relations Unit can be contacted on a continuous basis through the corporate website and by its direct telephone on (0212) 456 2427.
- The principal activities carried out by the Corporate Finance and Investor Relations Unit in 2006 were the following:
 - Merrill Lynch Conference, London
 - Deutsche Securities Conference, New York
 - Global Investment Conference, London
 - ING Barings Conference, Prague
- About 35 face-to-face contacts were held in addition to the above
- During the reporting period about 120 questions were responded to by e-mail and about 90 by telephone.
- All of the questions asked of the unit were carefully responded to verbally and/or in writing as appropriate and within the framework of the Company's public disclosure policy and in such a way as not to reveal any confidential information.

3. Shareholders' exercise of their right to obtain information

- During 2005 the Vestel Corporate Finance and Investor Relations Unit responded in detail to all of the approximately 210 requests for information that were received. 60% of the requests for information were concerned with the Company's activities and financial performance; the remaining 40% were concerned with investments, stock price movements, general meetings, etc.
- For the purpose of facilitating the exercise of shareholders' important right to obtain information, the corporate website was redesigned in 2006 to give domestic and international investors quick access to as much timely, truthful, complete, and intelligible information as possible. To further enhance the effectiveness of the website, it was also put under the responsibility of the Investor Relations Unit, by which it is continuously updated.
- A request to have a special auditor appointed is not provided for in the Company's articles of incorporation. Due to the fact that this right is stipulated by Article 356 of the TCC in respect of the minority shareholders holding 10% stake in the capital, it was deemed unnecessary to make a separate provision for this. The Company received no requests for the appointment of a special auditor in the reporting period.

4. Information about general meetings

- Vestel Electronics held its ordinary general meeting for 2005 at 10:00 AM on 24 May 2006 at the address of Zorlu Plaza, Avcılar-İstanbul.
 - Invitations to the meeting that also included the agenda were published, as required by law and the Company's articles of incorporation, in issue 6545 of Turkish Trade Registry gazette dated 28 April 2006 and in the 28 April 2006 issues of the newspapers Milliyet and Dünya. In addition, registered shareholders and holders of bearer shares that had previously entrusted one share to the Company were also notified of the meeting by registered mail within the legally prescribed time.
- To facilitate participation in the meeting, its announcements were published in the two newspapers with the highest circulations in Turkey. Convenient access to all information about the general meeting including the announcement was also provided on the corporate website.
- Only shareholders attended the meeting. There was no other stakeholder or media presence.

Of the 159,099,886,960 shares corresponding to the Company's total capitalization of TRY 159,099,886,960, 51.60% or 82,186,743,367 shares representing TRY 82,090,109,236 in capital were present in person. No proxy votes were cast.

- There is no period of time stipulated in which the holders of registered shares must have entries made in the shareholders' register in order to take part in general meetings.

CORPORATE GOVERNANCE COMPLIANCE REPORT

- Before the general meeting, the annual report and financial statements were made available for the inspection of shareholders at the Company's own headquarters and at those of Vestel Holding as well. All of this information was also published on the corporate website together with the general meeting announcement and agenda.
- Shareholders were allowed to ask questions at the general meeting. All questions coming from shareholders were responded to in detail. Shareholders introduced no motions during the meeting.
- The Company's articles of incorporation contain no provisions requiring decisions of a highly important nature such as demergers or buying, selling, or leasing substantial amounts of assets and property to be taken at a general meeting. The reason for this is the fact that the nature of the business in which the Company is involved requires it to buy, sell, and lease quite frequently. Having to hold a general meeting every time such a transaction takes place is not deemed to be possible and so no such article has been included in the articles of incorporation. This practice is refrained from in order to ensure that deals are made quickly and to prevent opportunities from being missed.
- The minutes of the general meeting were made available for the examination of shareholders at the Company's own headquarters and at those of Zorlu Holding as well. As a result of changes made in the corporate website, all announcements, documents, and other materials related to general meetings are now accessible to shareholders and to all other stakeholders.

5. Voting rights and minority rights

- All of Vestel Electronics Inc. shares enjoy the same rights. There are no special rights with respect to voting or dividends. This is stipulated in the Company's articles of incorporation.
- The Company's subsidiaries do not have any shareholding interests in Vestel Electronics Inc. For this reason, there are no cross-shareholding interests and therefore no need to disclose their impact on general meeting votes.
- Minority shareholding interests are represented by two independent members that have been elected to seats on the Board of Directors. By virtue of their ability to perform their duties completely independent of any outside influence, the independent members on the board protect represent the interests of all shareholders, including those of minority shareholders.
- The Company's articles of incorporation contain no provisions governing the cumulative voting method. The Company believes that the effect of cumulative voting on the Board of Directors is achievable by the presence of independent members on the board.

6. Dividend payment policy and timing

- None of the Company's shares incorporate special rights concerning the distribution of the Company's profits. Each share of stock is entitled to an equal dividend.
- The proposal for 2005-year profits was announced in article 8 of the agenda for the general meeting and it was unanimously passed by the participants at that meeting.
- The Company decided to set its prior-year losses off against the profits arising from its activities in 2005 as per article 446 of the Turkish Commercial Code and article 15 of the Capital Markets Law and for that reason paid no dividend last year.
- In accord with the dividend distribution policy established in the Board of Directors meeting held on 19 March 2007, the Company decided to distribute dividends that are equal to minimum 25% of the attributable profit in cash or in the form of bonus shares to the shareholders, including 2006-year profits. The amount of dividends to be distributed shall be proposed depending on national and global economic conditions and the Company's growth plan by the Board of Directors each year at the general meeting. The said policy shall be presented for the information of the shareholders at the latest general meeting.

7. Transfer of Shares

- The Company's articles of incorporation contain no provisions restricting the transfer of shareholding interests. Article 6 specifically states that there are no restrictions on the transfer of shares in the Company.

CORPORATE GOVERNANCE COMPLIANCE REPORT

PART II: PUBLIC DISCLOSURE AND TRANSPARENCY

8. Company disclosure policy

• Vestel Electronics Inc.'s public disclosure policy has been formulated in line with CMB Corporate Governance Principles and was presented for the information of investors as an appendix to the annual report at the annual meeting for 2004. This disclosure policy has been published on the corporate website.

• The issues addressed by the Company's public disclosure policy are summarized below:

- The clarity, timeliness, and truthfulness of public announcements.
- What information may be publicly disclosed.
- The frequency and the ways in which information may be publicly disclosed.
- Relations of company's Board members and managers with the media.
- The effectiveness with which investors, shareholders, and other stakeholders are kept actively informed.
- Methods to ensure information flows within the Company.
- Meetings involving public disclosures.
- Matters to be discussed at general meetings.
- Principles governing publicly disclosed information about matters that may come up in the future.
- The Board of Directors has formulated and approved the Company's public disclosure policy. The Board of Directors is responsible for the oversight, review, and development of public disclosure policy.
- The Investor Relations Unit Director monitors and follows up on public disclosure policy.

9. Disclosure of material events

- A total of 48 material event disclosures were made in 2006. Neither CMB nor ISE requested any additional information concerning these disclosures.
- All of the Company's material event disclosures made at stock exchanges outside the country are simultaneously made in Turkey as well. Similarly, material event disclosures made to ISE and CMB are simultaneously made to the appropriate stock exchanges abroad.
- All material event disclosures were made in time and the Company was not subjected to any sanctions on this account.
- The Investor Relations Unit is responsible for making material event disclosures.

10. The corporate website and its content

- Vestel Electronics' corporate website was overhauled in 2006 in line with corporate governance principles. The corporate website contains all the information whose disclosure is stipulated in article 1.11.5 of section II of CMB Corporate Governance Principles. In addition, it also contains information that is not required by that article but which is deemed to be important from the standpoint of the Company's corporate governance principles.
- The Vestel corporate website is located at www.vestel.com.tr and is continuously kept up to date.

11. Disclosure of the Company's ultimate controlling shareholders

- The Company has no non-corporate ultimate controlling shareholders.
- The Company's shareholder structure is as follows:

Shareholders	% shareholding interest	Nominal value (TRY)
Collar Holding BV	51.59	82,079,631.683
Publicly held	48.41	77,020,255.277
Total	100.00	159,099,886.960

CORPORATE GOVERNANCE COMPLIANCE REPORT

12. Public disclosure of those who may have access to insider information

- Information about the individuals who may have access to insider information about the Company is provided in the Company's corporate governance compliance report every year.
- Vestel is in complete compliance with rules governing insider trading as per capital market and related laws, regulations, and administrative provisions and takes all necessary measures to fulfill its responsibilities thereunder. For this purpose Vestel Electronics formulated an "Insider Trading Policy" and introduced it as a company regulation in early 2005. This policy has also been publicly disclosed on the corporate website.
- The following is a list of the people who are in positions to have access to insider information about the Company:

Ahmet Nazif Zorlu	Chairman of the Board of Directors
Prof. Ekrem Pakdemirli	Vice Chairman of the Board of Directors
Şule Zorlu	Board Member
Dr. Yılmaz Argüden	Board Member
M. Cem Bodur	Board Member
Ömer Yüngül	Board Member & Chairman of the Executive Committee
Enis Turan Erdoğan	Board Member & Member of the Executive Committee
Ahmet Hızarcı	Statutory Auditor
Şerif Arı	Statutory Auditor
Cem Köksal	Member of the Executive Committee
Cengiz Ultav	Member of the Executive Committee
İzzet Güvenir	Member of the Executive Committee
İhsaner Alkım	Member of the Executive Committee
Necmi Kavuşturan	Member of the Executive Committee
Özer Ekmekçiler	Member of the Executive Committee
Sertaç Beller	General Manager
Şeref Hamarat	Assistant General Manager for Production & Planning
Ender Yüksel	Assistant General Manager for Procurements
Ediz Kökyazıcı	Assistant General Manager for Financial Affairs
Celal Özkul	Assistant General Manager for Applications Engineering and Quality
Samim Hünakıncı	Finance Officer
Cem Kadırgan	Financial Affairs Officer
Figen Çevik	Corporate Finance and Investor Relations Director
Coşkun Özkan	Internal Audit Manager
Şenol Toygar	Business Evaluation Officer
Hamdiye Yalçın	Accounting Manager
Salih Muratoğlu	Logistics Manager
İdris Tilmensağır	Production Planning Manager
Raşit Çiloğlan	Budget Manager
Aykut Halit	Grant Thornton Independent Auditors
Emre Halit	Grant Thornton Independent Auditors
Fahrunisa Arı	Arılar Independent Auditors

PART III: STAKEHOLDERS

13. Keeping stakeholders informed

- Stakeholders are continuously informed within the framework of the Company's public disclosure policy.
- Employees and management take part in periodically held meetings for the purpose of keeping employees actively informed about the

CORPORATE GOVERNANCE COMPLIANCE REPORT

Company. Attention is given to two-way communication with information flowing upward to management from employees as well as downward from management to employees. The Company adheres to an "open door policy" to keep channels of communication open between management and personnel. In addition, employees are also kept continuously informed by means of the Company's corporate intranet.

- Periodic meetings are held with customers and suppliers and all customers and suppliers are kept informed about company-related issues that may be of concern to them. The Company regularly organizes meetings for its dealers in order to measure customer satisfaction. In situations where it is deemed to be necessary, additional one-on-one and group meetings are also held.

14. Stakeholder participation in management

- Stakeholders do not take part in management however attention is given to having employees take part in Board of Directors meetings at regular intervals in order to have first-hand access to their opinions.
- No model has been developed to include stakeholders in the Company's management. Stakeholders do not participate in management. However the independent members on the board protect and represent the interests of all stakeholders as well as those of the Company's shareholders.

15. Human resources policy

- The Company's human resources policy is set down in writing and covers all issues related to hiring, promotion, dismissal, compensation, training, career planning, and performance evaluation.
- The Human Resources Unit is responsible for the conduct and development of this policy. This unit keeps track of employee-related entitlements, promotions, career progression, training, and disciplinary action. At regular intervals but not less than once a year, the unit also conducts employee evaluations in line with specified performance criteria.
- Training programs are regularly conducted for the purpose of improving employees' productivity. Employees may also be sent to take part in extramural training programs.
- While there is no board member responsible for overseeing employee relations, individuals representing employees are invited to be present at board meetings at which issues affecting employees are to be decided on so that they may provide the board with information about the matter at hand.
- All employees are treated equally and without any discrimination whatsoever in all matters involving training, career development, promotion, etc.
- There were no complaints from employees concerning discrimination. Measures are taken to prevent any practices that might cause discrimination among employees and all employees are treated equally without any distinctions being made among them. The Human Resources Unit periodically conducts polls to measure employee satisfaction.

16. Relations with customers and suppliers

- The Company conducts regular meetings with its customers and suppliers concerning the marketing and sale of its goods and services. A Customer Communications Center has also been set up to deal with customers' problems and resolve them without delay. This center operates as a help desk and seeks to resolve problems that customers may have and refers any problem that cannot be resolved by the center to an appropriate company officer to be dealt with.
- The utmost importance is given to quality control to ensure the satisfaction of customers and suppliers and tight quality checks are made to achieve this. As is the case with the ISO 14001 system, the ISO 9000 system is also based on the principle of voluntary participation. This system is playing an important role in the changeover to Total Quality Management and represents the first step in that direction. Vestel regards Total Quality Management as being important to increasing the quality of life.
- Customer satisfaction is measured at regular intervals and corrective action is taken to resolve issues and deal with dissatisfaction when it occurs.
- In keeping with its TS-EN ISO 9001 certification, Vestel employs a quality management system that governs all processes and subprocesses from customer demand and market research to design, production, and after-sales services for the purpose of maximizing customer satisfaction at the highest level. As a company whose products' certified standards make the products fully capable of competing in world markets with their, Vestel is making an increasing effort to be the best player in the world league among its employees, customers, dealers, and suppliers.

CORPORATE GOVERNANCE COMPLIANCE REPORT

17. Social responsibility

- Within the framework of its principle of social responsibility, Vestel Electronics Inc. contributes towards the services provided by Zorlu Holding in the areas of education, sports, and culture.
- Vestel underwent environmental impact audits during 2006 and no violations of environmental safety rules were identified. The potential environmental risks inherent in each department have been identified and the company conducts all of its activities taking these risks into account
- Taking the responsibilities made incumbent upon it by its goal of being a world player in the consumer electronics sector, Vestel Electronics Inc. carries out environmental impact reviews of all its operations, production lines, and products. Vestel believes that it has a duty to be mindful of the health and safety of the employees, customers, and general public who may be affected by its activities, products, and services and to protect the environment and nature for the good of future generations. Vestel demonstrated the importance of this by being awarded its TS-EN ISO 14001 Environmental Management System Certificate in 1998. The Company has pledged itself to continuously improve its performance on environmental issues, to prevent pollution, to strictly obey all environment-related laws, regulations, and administrative provisions, and to allocate sufficient and proper resources in its efforts to:
 - Take environmental factors into account when evaluating new product projects and operations
 - Reduce the use of harmful materials in its product design and production processes and to investigate the use of materials that are less polluting
 - Reduce waste and wherever possible reuse, recycle, and recover resources that have been used
 - Make the most economical use possible of energy, water, and natural resources through productivity increases and by encouraging the use of new technologies
 - Use recycled/recyclable packaging materials whenever feasible
 - Conduct activities aimed at fostering environmental awareness.

The underlying objective and approach of Vestel's environment policy are to protect and improve the quality of life of its employees and customers.

- During 2005 the Company was not the target of any suit concerning damage to the environment.
- Within the framework of its social responsibility, the Company contributes to the activities of the Mehmet Zorlu Foundation, through which all of the Vestel Group's charitable and social efforts are channeled.

Part IV: The Board of Directors

18. Structure and composition of the Board of Directors; non-executive board members

Name	Position	Age	Term of office	Classification	Educational background	Previous Experience
Ahmet Nazif Zorlu	Chairman	62	1-3 years	Non-executive	Primary school	-
Ekrem Pakdemirli	Deputy Chairman	67	1-3 years	Independent	University	- Member of the Parliament - Deputy Prime Minister - Faculty member of Bilkent, Başkent and Ege Universities - Deputy Rector with Dokuz Eylül University
Şule Zorlu	Board Member	30	1-3 years	Non-executive	University	Served successively in various capacities in Zorlu Group companies
Ömer Yüngül	Board Member	51	1-3 years	Executive	University	Vestel White Goods (General Manager)
Enis Turan Erdoğan	Board Member	51	1-3 years	Executive	University	Ekinciler Holding
Recep Yılmaz Argüden	Board Member	48	1-3 years	Independent	University	- Chief Consultant to the Prime Minister - Chairman of Erdemir
M. Cem Bodur	Board Member	45	1-3 years	Non-executive	University	Ekinciler Holding (Finance Officer)

CORPORATE GOVERNANCE COMPLIANCE REPORT

- Five of the board's seven members are non-executive members and two are executive members.
- The chairman of the board and the chief executive officer are different individuals. The chairman of the board is Ahmet Nazif Zorlu and the chief executive officer is Ömer Yüngül.
- Board members Ekrem Pakdemirli and Yılmaz Argüden are independent members who satisfy CMB corporate governance principles pertaining to independence criteria. Nothing occurred during the reporting period that changed the independent status of the independent members.
- No restrictions are imposed on board members' undertaking one or more duties outside the company.

19. Qualifications of board members

- The minimum qualifications required of members of the Board of Directors coincide with those stipulated in articles 3.1.1, 3.1.2, and 3.1.5 of section IV of the CMB's corporate governance principles.
- At the annual general meeting for 2004, the Company's articles of incorporation were amended so that the minimum qualifications required of members of the Board of Directors are spelled out in them. (Article 12)
- To date there has been no need for a training or compliance program for board members. If such a program does become necessary, it will be carried out by the Corporate Governance Committee.

20. Mission, vision, and strategic goals of the Company

- The Company's mission, vision, objectives, and values are publicly disclosed on the corporate website.

Mission: To conquer the world with technology products

Vision: To be the world's most powerful technology and production group in the sector

- The Board of Directors approves the strategic goals formulated by company management. Ideas pertaining to the Company's strategic goals may be suggested by both board members and company managers. The board is certain to consult management on the goals it formulates. Goals formulated by management are first debated among management and then submitted to the Board of Directors, which approves them at its discretion. Managers are also invited to attend meetings at which strategic goals are discussed. Work to implement these goals as quickly as possible is begun immediately. Performance in achieving these goals is measured at quarterly intervals and on the basis of the Company's year-end results.
- Once a year the Board of Directors convenes to conduct an annual review and assessment of the degree to which the Company has accomplished its objectives and of its activities in light of previous performance. In the conduct of this review and assessment, the Board of Directors debates the degree to which objectives have been accomplished, the effectiveness of the Company's activities, past performance, and the Company's strategies. A Vestel executive responsible for business evaluation also sends the Executive Committee a monthly performance report.

21. Risk management and internal control mechanisms

- The Vestel Board of Directors has created a risk management mechanism within the Company to measure existing and potential risks and to deal with them. Embodied in this mechanism are controls that have been developed so as to identify the maximum risks to which the Company may become exposed in aggregate as well as on an individual unit basis and to take such measures as are needed for them. The Vestel Electronics Inc. Board of Directors is responsible for the creation and reliable operation of a risk management and internal control mechanism that will minimize the impact of risks on the Company.
- The Company's internal control system oversees all matters related to finance, operations, and compliance and it assesses the measurement of risk at regular intervals and determines the level that it is at. The entire mechanism is also reviewed at regular intervals and any defects that might impair its effectiveness are corrected as soon as possible. In the conduct of these activities, Vestel also employs its SAP system as an effective operational program.

CORPORATE GOVERNANCE COMPLIANCE REPORT

22. Authorities and responsibilities of board members and executives

- The authorities and responsibilities of board members are spelled out in the Company's articles of incorporation and are published on the Company's corporate website.

23. Principles of activity of the Board of Directors

- Agendas for board meetings are determined in line with the requests of the chairman and other members. Requests coming from company management are also influential in determining meeting agendas.
- As stipulated in article 16 of the articles of incorporation, the Board of Directors must meet at least twelve times a year. The board met a total of 12 times during the reporting period. The overall rate of attendance at these meetings was 90%. To encourage attendance at meetings the following rule was added to the articles of incorporation: "A member of the Board who does not take part in three consecutive meetings shall be deemed to have resigned his seat."
- Invitations to meetings are made by mail, fax, and e-mail. In line with corporate governance principles, a secretariat has been set up within the Company that is responsible to the Board of Directors. This secretariat notifies board members of meetings at least a week (seven days) in advance of the meeting date, providing them with the agenda and documents related to the matters on the agenda.
- A board resolution requires that differences of opinions arising at board meetings and reasonable and detailed justifications for dissenting votes be entered into the record; however to date there has never been an instance of this. The minutes taken by the board's secretariat also include any questions that members ask and the responses that are made to them.
- Board members are personally present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB's corporate governance principles as requiring the actual attendance of board members at meetings.
- No board members, including the chairman, have preferential voting rights or the right to veto board decisions. Each member, including the chairman, possesses an equal vote.

24. Prohibition on doing business or competing with the Company

- One of the items included on the agenda of each year's general meeting and voted on by the shareholders pursuant to articles 334 and 335 of the Turkish Commercial Code is concerned with Vestel Board of Directors members doing business and competing with the Company.
- No board member did any business or competed with the Company in 2006.
- As required by corporate governance principles, in the event of any violation of the prohibition on board members' doing business or competing with the Company, the potential conflicts of interest will be publicly disclosed.

25. Code of ethics

- Vestel's code of ethics has been written up and published on the corporate website within the framework of its public disclosure policy. The utmost care is given to ensure that the code of ethics formulated for the Company, its board members, and its employees is complied with.

26. Number, structure, and independency of committees established by the Board of Directors

- The Vestel Electronics Inc. Board of Directors has set up a corporate governance and appointments committee and an audit committee in line with Capital Markets Board corporate governance principles.

The Audit Committee

- The Audit Committee was set up by a Board of Directors resolution dated 17 May 2005 pursuant to article 3 of CMB Communiqué X:19. This committee is responsible for the effective oversight of all financial and operational activities. The Audit Committee is structured in accordance with Capital Markets Board corporate governance principles and consists of at least two members. To ensure the independence of the committee, it has been decided to choose its head from among the Company's independent board members. In addition to independence, attention is also given to the possession of specific qualifications when choosing the committee head. The head of the Audit Committee should have previously served in a similar position, should have the knowledge and experience needed to analyze financial statements, should be versed in accounting standards, and otherwise be highly qualified. These issues have been included in the Company's articles of incorporation (Articles 35 and 36.)

CORPORATE GOVERNANCE COMPLIANCE REPORT

- The head of the Audit Committee is Ekrem Pakdemirli, an independent board member. The other member is Cem Bodur, a non-executive board member.
- The Audit Committee meets at least four times a year (once in each quarter) and this is stipulated in the articles of incorporation. The Board of Directors' secretariat is responsible for recording the committee's minutes and decisions.
- The committee carries out its activities in accordance with detailed working principles that have been written up.

Corporate Governance and Appointments Committee

- The Corporate Governance and Appointments Committee was set up by a Board of Directors resolution dated 17 May 2005 pursuant to article 3 of CMB Communiqué X:19. This committee is responsible for monitoring the Company's compliance with corporate governance principles and for making recommendations to the Board of Directors concerning company appointments.
- The head of the Corporate Governance Committee is Yılmaz Argüden, who has been elected from amongst non-executive members. The other member is Şule Zorlu, a non-executive board member.
- Attention is given to ensuring that the qualifications of this committee's members comply with those required of the company's board members as per its corporate governance principles.
- The Corporate Governance and Appointments Committee is required to meet at least three times a year. In 2006 the committee met three times. The Board of Directors' secretariat is responsible for recording and archiving the committee's meeting minutes and for keeping committee members effectively informed.
- The committee carries out its activities in accordance with detailed working principles that have been written up. The activities carried out by the Corporate Governance and Appointments Committee in 2006 consisted of:
 - Establishing corporate governance principles throughout the Company
 - Developing recommendations pertaining to the structure and effectiveness of the Board of Directors
 - Evaluation the structures and functions of committees and making recommendations about such matters
 - Structuring the Shareholder Relations Unit and coordinating its activities.

CORPORATE GOVERNANCE COMPLIANCE REPORT

27. Financial benefits provided to the Board of Directors

- The rights, benefits, and remuneration given to members of the Board of Directors and to the statutory auditors are determined every year by the shareholders at a general meeting.
- As of June 2006, the members of the Vestel Board of Directors were being paid TRY 55,000 a year each, which is commensurate with precedents in the sector. The statutory auditors were being paid TRY 2,232 a year each.
- The Company has extended no loans or credit to any Board member or manager.

PROFIT DISTRIBUTION POLICY AND PROPOSAL

In line with a resolution passed at a meeting of the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş. held at the company headquarters on 19 March 2007, it was decided to distribute at least 25% of the company's net distributable profits (including its 2006-year profit) to shareholders in accordance with the dividend policy specified by the board either as a cash payment or in the form of shares of stock. The amount of dividend to be paid is proposed by the Board of Directors at the ordinary general meeting of shareholders that is held every year on the basis of national and international economic conditions and the company's growth plans.

Profit distribution proposal for the 1 January 2006-31 December 2006 fiscal year

Although the financial statements prepared in accordance with tax laws and Capital Markets Board communique XI:25 concerning accounting standards in capital markets show a profit, as a result of the emergence of prior-year losses in the company's financial statements on account of inflation adjustments made as of 31 December 2003 in accordance with CMB communique XI:21 and due to the need to set those losses off against 2006-year profits, no distributable profit remains and for that reason it has been decided to recommend to the general assembly that no dividend be paid.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. STATUTORY AUDITOR'S REPORT

Company Name	: VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
Headquarters	: Ambarlı Yolu, Zorlu Plaza, Avcılar, İstanbul
Capital : 159.099.887 YTL	
Name of Auditor	: Coşkun Özkan, CIA, CFE
Board Meeting participated in	: 2006 Accounting Period
Accounts, books and documents, scope of auditing, dates of auditing and results obtained	: The Company's balance sheet as of 31.03.2006 and 31.12.2006 and the last three-month and twelve-month income statements for the periods ended on the same dates were audited. It was evaluated whether the records were in line with the law, provisions of the AoA and with general accounting principles. The recommendations were provided to further strengthen the internal audit process on specific issues. It was agreed with the company officials for the implementation of these proposals.
Number and results of cash counts performed in accordance with the Turkish Commercial Code, Art. 353, paragraph 1, sub-prgh. 3	: A cash count was performed as of 31.12.2006 and it was observed that the result of the cash count was in line with the records.
Complaints and frauds reported and procedures initiated with respect to these :	No complaint or fraud has been reported.
We have studied the accounts and transactions of Vestel Elektronik Sanayi Ve Ticaret A.Ş. for the period 01.01.-31.12.2006 in accordance with the Turkish Commercial Code, the company's Articles of Association and other regulations as well as with generally accepted accounting principles and standards.	
We think that Balance Sheet of the company as of 31.12.2006, whose contents we have studied and attached hereto, reflect the actual financial condition of the company on the same date and the Income Statement for the period correctly reflect the financial status of the company during the period in question and are in compliance with its books and records.	
We submit the Balance Sheet and Income Statement for your approval and propose that the Board of directors be acquitted of their fiduciary responsibilities.	



Coşkun ÖZKAN, CIA, CFE
Statutory Auditor

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. RESOLUTION OF THE BOARD OF DIRECTORS

RESOLUTION DATE : 26.04.2007
RESOLUTION NO : 2007/17
PARTICIPANTS : Ahmet Nazif Zorlu
Şule Zorlu
Ömer Yüngül
Enis Turan Erdoğan
M. Cem Bodur
Ekrem Pakdemirli

MEETING AGENDA:

The Board of Directors of VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ convened at the company's headquarters under the chairmanship of Mr. Ahmet Nazif Zorlu and discussed the subjects on the agenda and adopted the below-mentioned resolutions.

The Board of Directors who convened for the meeting decided unanimously to accept the 2006 Annual Report, which has been presented to the Board of Directors and is attached hereto, and to make the report available to shareholders.

BOARD OF DIRECTORS



Ahmet Nazif ZORLU
Chairman



Ekrem PAKDEMİRLİ
Vice Chairman



Şule ZORLU
Board Member



M. Cem BODUR
Board Member



Enis Turan ERDOĞAN
Board Member



Ömer YÜNGÜL
Board Member

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

INDEPENDENT AUDITOR'S REPORT

To The Shareholders and Board of Directors of
Vestel Elektronik Sanayi ve Ticaret A.Ş.

We have audited the accompanying consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret A.Ş. and its subsidiaries listed under note 1 (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), a 100% subsidiary, were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents relating to the period from 01 January through 14 November 2005. Therefore it was not possible to perform a full scope of the procedures to report on the financials statements of Vestel CIS Ltd. for the year ended 31 December 2005. Vestel CIS Ltd. recorded insurance claims of USD 37.347 thousand (YTL 52.495 thousand) with respect to assets affected by the said fire and the resulting business interruption (note 8). In addition Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of USD 4.894 thousand (YTL 6.879 thousand). Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, as well as negotiations with tax authorities, it is not possible to determine the amount that will be recovered under these claims. The management of Vestel CIS Ltd. believes that there will be no difference between their claim and the compensation to be received from the insurance company and therefore no provision has been set aside in this respect.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. INDEPENDENT AUDITOR'S REPORT

The total assets of Vestel CIS Ltd. are YTL 249.992 thousand which amounts to 5,2% of the consolidated total assets of the Group. The net loss of Vestel CIS Ltd. for year ending 31 December 2006 is YTL 10.314 thousand. The management of the Group is of the opinion that the total fire damage of YTL 52.495 thousand does not have a material effect on the operations of the Group.

Opinion

In our opinion, except for the effects on the corresponding figures of the adjustments, if any, which might have been considered necessary if it were possible to perform full scope of procedures on the financial statements of Vestel CIS Ltd. as of 31 December 2005 the consolidated financial statements present fairly in all material respects, the consolidated financial position of the Group as of 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ARKAN & ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş.
Member Firm of GRANT THORNTON International



Aykut Halit
Partner

İstanbul, 12 April 2007

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. CONSOLIDATED BALANCE SHEETS AT 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Assets	Note	31.12.2006	31.12.2005
Current assets			
Cash and cash equivalents	5	584.684	581.086
Trade receivables	6	1.349.794	1.367.848
Inventories	7	1.241.766	1.030.006
Other assets	8	233.667	196.391
Total current assets		3.409.911	3.175.331
Non-current assets			
Trade receivables		14.803	13.077
Investments	9	1.496	3.069
Property, plant and equipment, net	10	1.021.601	974.033
Intangible assets, net	11	267.513	138.476
Other assets	8	26.909	31.728
Deferred tax asset	15	36.113	55.031
Total non-current assets		1.368.435	1.215.414
Total assets		4.778.346	4.390.745

The accompanying notes are an integral part of these consolidated financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AT 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Liabilities and equity	Note	31.12.2006	31.12.2005
Current liabilities			
Borrowings	12	523.650	171.934
Trade payables	13	2.306.328	2.064.592
Taxation on income	15	7.317	12.030
Provision for expenses	14.1	46.286	105.674
Other liabilities	14.2	89.728	70.382
Total current liabilities		2.973.309	2.424.612
Non-current liabilities			
Borrowings	12	394.659	525.597
Provision for retirement pay	16	21.447	18.456
Provision for expenses	14.1	8.871	7.850
Other liabilities		265	--
Deferred tax liability	15	57.613	115.753
Total non-current liabilities		482.855	667.656
Equity			
Share capital	17	576.862	576.862
Minority interest		130.253	160.432
General reserves	18	615.068	561.183
Total equity		1.322.183	1.298.477
Commitments and contingencies	19		
Total liabilities and equity		4.778.346	4.390.745

The accompanying notes are an integral part of these consolidated financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Note	31.12.2006	31.12.2005
Net sales	25.1	5.231.125	4.456.229
Cost of sales		(4.367.941)	(3.798.115)
Gross profit	25.3	863.184	658.114
Warranty expenses		(36.971)	(30.972)
Selling expenses		(444.726)	(337.763)
General and administrative expenses		(172.168)	(141.642)
Other income, net	20	28.016	22.265
Operating profit		237.335	170.002
Financing income	21	336.990	286.386
Financing expense	21	(581.303)	(322.471)
Profit/(loss) before taxation		(6.978)	133.917
Taxation charge			
Current		(17.272)	(54.699)
Deferred		38.677	43.592
Taxation on income	15	21.405	(11.107)
Profit after taxation		14.427	122.810
Monetary loss		--	(9.296)
Net profit for the year		14.427	113.514
Attributable to:			
Equity holders of the Company		2.021	83.346
Minority interest		12.406	30.168
		14.427	113.514
Basic and fully diluted earnings per share	4	0,00	0,05

The accompanying notes are an integral part of these consolidated financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Share capital	General reserves	Minority interest	Total equity
Balance at 31.12.2004	576.862	493.873	110.722	1.181.457
Translation differences	--	(433)	--	(433)
Acquisition of subsidiary	--	(15.603)	19.542	3.939
Net profit for the year	--	83.346	30.168	113.514
Balance at 31.12.2005	576.862	561.183	160.432	1.298.477
Translation differences	--	5.205	575	5.780
Public offering of Vestel White	--	47.202	(45.123)	2.079
Change in minority interest	--	(543)	543	--
Acquisition of subsidiary	--	--	1.420	1.420
Net profit for the year	--	2.021	12.406	14.427
Balance at 31.12.2006	576.862	615.068	130.253	1.322.183

The accompanying notes are an integral part of these consolidated financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Note	01.01.-31.12.2006	01.01.-31.12.2005
Profit (loss) before income tax		(6.978)	133.917
Adjustment to reconcile net income to net cash provided from operating activities:			
Depreciation and amortisation expense	22	139.470	119.222
(Profit) loss on sale of fixed assets		(2.348)	6.082
(Profit) loss on sale of investments		(3.189)	--
Provision for retirement pay		5.387	(4.237)
Provision for doubtful receivables		6.302	1.278
Warranty provision		5.104	2.757
Provision for expense accruals		10.801	11.746
Operating profit before changes in working capital		154.549	270.765
Changes in operating assets and liabilities	22	(43.409)	(56.766)
Taxes paid		(21.985)	(57.135)
Net cash provided by operating activities		89.156	156.864
Cash flows from financing activities			
Changes in current borrowings		351.245	15.142
Changes in non-current borrowings		(130.938)	16.562
Changes in minority interest		2.653	3.939
Net cash provided by financing activities		222.960	35.643
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	22	(1.619)	1.521
Purchases of investments		(71)	1.797
Purchases of property, plant and equipment		(215.781)	(267.780)
Purchases of intangible assets		(150.302)	(13.621)
Proceeds from sale of investments		4.833	--
Proceeds from sale of property, plant and equipment		54.422	43.585
Net cash used in investing activities		(308.518)	(234.498)
Net increase (decrease) in cash and cash equivalents		3.598	(41.991)
Cash and cash equivalents at beginning of year		581.086	623.077
Cash and cash equivalents at end of year		584.684	581.086

The accompanying notes are an integral part of these consolidated financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

1. ORGANISATION AND NATURE OF ACTIVITIES

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (the "Company" or "Vestel Elektronik") was founded in March 1983 under the name of Ferguson Elektronik Sanayi ve Ticaret A.Ş. under the Turkish Commercial Code and was registered in İstanbul, Turkey. The name was changed to Star Elektronik Sanayi ve Ticaret A.Ş. during the same year. In April 1984 Polly Peck Group acquired the Company and changed its name to Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi which has been its current name. In 1990 18% of the Company's shares were issued to the public at the İstanbul Stock Exchange. The Company has been operating the Foreign Capital regulations in Turkey since July 1985. In 1991 Polly Peck Group transferred all of its shares to one of its subsidiaries named Collar Holding BV based in the Netherlands and in the same year, following the collapse of the Polly Peck Group, the Company was placed in administration. In November 1994 Ahmet Nazif Zorlu acquired the Company from the administrator of the Polly Peck Group by buying the entire share capital of Collar Holding BV which at the time held 82% of the Company's issued share capital.

The registered office address of the Company is located at Ambarlı, Petrol Ofisi Dolum Tesisleri Yolu, Zorlu Plaza, Avcılar/İstanbul- Turkey

For the purpose of the consolidated financial statements, the Company and its consolidated subsidiaries are referred to as the "Group".

Nature of Activities of the Group

The Group is organized into three production divisions given below;

A. Television production:

Vestel Elektronik Sanayi ve Ticaret A.Ş.

The Company is mainly engaged in the production of colour televisions. The Company's production facilities are located in Manisa industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for colour televisions was 14.300.000 (2005: 14.000.000) units per year respectively.

Vestel CIS Limited ("Vestel CIS")

Vestel CIS was registered on 15 November 2002 (in Vladimir Region, Russia). The Company is mainly engaged in the production of colour televisions and commenced production in the second half of 2003.

B. Refrigerator, air conditioning units, washing machines and cookers

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. ("Vestel White")

Vestel White started working actively in 1999 and is engaged in the production of refrigerators, room air conditioning units, washing machines and cookers. Vestel White's production facilities are located in Manisa Organized industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for refrigerators, room air conditioning units, washing machines and cooker unit was 2.500.000, 700.000, 2.000.000 and 1.000.000 (2005: 2.800.000, 700.000 and 2.000.000) units per year respectively.

Vestel CIS

During 2005, Vestel CIS commenced construction of white goods production facilities and started production by end of 2005.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

C. Digital Devices

Vestel Komünikasyon Sanayi ve Ticaret A.Ş. ("Vestel Kom")

Vestel Kom is engaged in the production of DVD players, analogue and digital receivers and internet access devices. Vestel Kom's production facilities are primarily located in İzmir Aegean free zone industrial site. As of the balance sheet date, production capacity for digital devices was 8.600.000 (2005: 8.600.000) units per year.

Vestel Dijital Üretim Sanayi A.Ş. ("Vestel Dijital")

Vestel Dijital is engaged in the production of, analogue and digital receivers, personal computers (PC) and internet access devices. Vestel Dijital's production facilities are located in Manisa industrial site. As of the balance sheet date, production capacity for digital devices was 3.700.000 (2005: 2.800.000) units per year.

The Company has always exercised effective control over the management of each of the companies included in the group consolidation. The direct and indirect shareholding of Vestel Elektronik in their capital, are:

Consolidated Company	Location	Field of activity	Shareholding (%)	
			31.12.2006	31.12.2005
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	72,6	35,0
Vestel Komünikasyon Sanayi ve Ticareti A.Ş.	Turkey	Manufacturing	99,3	99,3
Vestel CIS Limited	Russia	Manufacturing	100,0	100,0
Vestel Dijital Üretim Sanayi A.Ş.	Turkey	Manufacturing	99,3	98,0
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	Software	10,0	29,9
Cabot Communications Limited	England	Software	90,9	90,9
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	52,7	90,5
Veseg Video Handelsgesellschaft GmbH	Germany	Marketing	50,8	50,8
Vestel France SA	France	Marketing	99,5	99,5
Vestel Iberia SL	Spain	Marketing	99,7	99,7
Vestel Dış Ticaret A.Ş.	Turkey	Marketing	99,7	99,7
Vestel Benelux BV	Netherlands	Marketing	50,8	50,8
Vestel UK	England	Marketing	99,7	99,7
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	Marketing	99,8	99,8
Vestel Italy SRL	Italy	Marketing	50,8	50,8
Vestel Holland BV	Netherlands	Marketing	99,7	99,7
Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş.	Turkey	Software	6,0	18,0
Electronics Outlet SRL	Italy	Marketing	50,8	50,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Marketing	94,0	93,8
Vestel Trade Limited	Russia	Marketing	100,0	--
Birim Bilgi Teknolojileri Ticaret A.Ş.	Turkey	Software	55,0	--

Vestel Savunma Sanayi A.Ş. and Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. with group shares of respectively 10% and 6% are consolidated because they are under the effective control and management of the Group.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board ("IASB").

The Company, which is quoted on the İstanbul Stock Exchange, maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code, accounting policies prescribed by the Turkish Capital Markets Board and tax legislation and since 1994 has adopted the Uniform Chart of Accounts issued by the Ministry of Finance (collectively "Turkish Practices"). Its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The financial statements of overseas subsidiaries are converted into New Turkish Lira (YTL) by closing rate method. The consolidated financial statements have been prepared from statutory financial statements of the Company and its subsidiaries and presented in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise deferred taxation, employee termination benefits, fixed assets and borrowing costs, investment property, receivables, interest expense accruals on bank loans.

Measurement currency and reporting currency

The restatement for the changes in the general purchasing power of YTL as of 31 December 2005 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic (but not limited to) that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of 31 December 2005, the three year cumulative rate has been 36% (31 December 2004: 70% - 31 December 2003: 181%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics.

As of 1 January 2006, it has been decided to discontinue the adjustment of financial statements for inflation after taking into account that hyperinflation period has come to an end as indicated by existing objective criteria and, that other signs indicating the continuance of hyperinflation have largely disappeared the financial statement as of 31 December 2006 have therefore, not been subjected to any adjustment for inflation.

The effects of ending the adjustments for inflation on financial statements are summarized as follows:

The financial statements as of 31 December 2006 have not been subjected to any inflation adjustment whereas the financial statements for previous periods have been adjusted for inflation on basis of the measuring unit current at the last preceding balance sheet date namely 31 December 2005.

Together with the ending of the hyperinflationary period the balances adjusted for inflation as of the last preceding balance sheet date form the opening balances of the assets, liabilities and equity accounts as of 1 January 2006.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying financial statements are summarized below:

Group accounting

Subsidiary undertakings - The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of their fair values of the assets and liabilities recognized.

The balance sheet and income statement of the subsidiaries are consolidated on a line by line basis, and the carrying value of the investment held by the Company is eliminated against related equity and reserves accounts.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Foreign currency translations

Foreign currency transactions and translation - Transactions in foreign currencies during the period have been translated into YTL at the exchange rates prevailing at dates of these transactions. Balance sheet items denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the income or expense accounts as appropriate.

The foreign exchange rates used by the Company are as follows:

	31.12.2006	31.12.2005
US Dollar	1,4056	1,3418
EURO	1,8515	1,5875

Foreign entities - Foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences between the closing balances and opening balances due to the difference in inflation and devaluation are included in currency translation adjustment in equity.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, restated in equivalent purchasing power at 31 December 2005 less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Property, plant and equipment in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight line basis over the following years stated below:

	Years
Land improvements	10 to 20
Buildings	25 to 50
Machinery, equipment and moulds	10 to 15
Furniture and fixtures	5 to 12,5
Motor vehicles	5 to 12,5

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Leases

Finance lease - Assets held under finance leases are recognized as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the Company is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Operating lease - Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments on operating lease are recognized as an expense on a straight-line basis over the lease term.

Intangible assets

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Vestel Dayanıklı Tüketim Malları ve Pazarlama A.Ş., Vestel Dış Ticaret A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş., Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. and Birim Bilgi Teknolojileri Ticaret A.Ş. at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Research and development costs – Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets to the extent that the expenditure is expected to generate future economic benefits. Development costs that have been capitalized are amortized on straight line basis over 5 years. The carrying values of capitalized research and development expenditure are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Other intangible assets – These are amortized using the straight line basis over their useful lives which vary between 5 to 10 years.

Impairment of intangible assets – Where an indication of impairment exists, the carrying amount of any intangible asset including goodwill is assessed and written down immediately to its recoverable amount.

Investments

All investments are initially recognized at cost, restated at the equivalent purchasing power of Turkish lira at 31 December 2005, being the fair value of the consideration given and including acquisition charges associated with the investment.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market average of the closing bid prices at the balance sheet date.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition but excludes borrowing cost. Cost is calculated by using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method to set an allowance for unearned interest. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method to set an allowance for unearned interest.

Related parties

For the purpose of the accompanying financial statements, the shareholders of the Company, its directors and the companies identified by the Company as being controlled by/affiliated with them are considered and referred to as related parties. A number of transactions are entered into with related parties in the normal course of business (see note 23).

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Bank borrowings

Interest-bearing bank loans and overdrafts are recognized at fair value at initial recognition which equate to the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Recognition and derecognition of financial instruments

The Company recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset or when financial asset or a portion of financial asset expires. The Company derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Commitments and contingencies

Transactions that may give rise to contingencies and commitments are those where the outcome and the performance of which will be ultimately confirmed only on the occurrence or non occurrence of certain future events, unless the expected performance is not very likely. Accordingly, contingent losses are recognized in the financial statements if a reasonable estimate of the amount of the resulting loss can be made. Contingent gains are reflected only if it is virtually certain that the gain will be realized.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is shown net of value added and sales taxes, discounts and returns.

Other revenues earned by the Company are recognized on the following bases:

Rental income – on an accrual basis.

Interest income – on an effective yield basis.

Income taxes

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

Provisions

Employee benefits - Under Turkish labour law, the Company and its Turkish subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who retires in accordance with social insurance regulations or is called up for military service or dies. The reserve for retirement pay is made for the maximum amount payable to employees, based on their accumulated period of service at the balance sheet date.

Warranty – The Company recognizes the estimated liability to repair or replace products still under warranty at the balance sheet date. The provision is calculated based on past history of level of repairs and replacements.

Other provisions - Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Earnings per share

Earnings per share ("EPS") disclosed in the income statements are determined by dividing net income by the weighted average number of shares that have been outstanding during the related year or period and taking into account bonus issues and right issues. There is no difference between basic and diluted earnings per share for any class of shares for any of the years.

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, deposits with banks and other financial institutions, other money market placements and funds lent under securities resale agreements with the original maturity of three months or less.

4. EARNINGS PER SHARE

	31.12.2006	31.12.2005
Net profit for the year	14.427	113.514
Weighted average number of ordinary shares in issue ('000.000)	159.100	159.100
Basic and diluted earnings per share	0,00	0,07

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5. CASH AND CASH EQUIVALENTS

	31.12.2006	31.12.2005
Cash at bank and in hand	574.492	570.557
Other	10.192	10.529
	584.684	581.086

The maturity of time deposits was January 2007 and the interest rate was between 2,7% and 5,9% per year for foreign currency and between 15,6% and 19,8% for New Turkish Lira per year (2005: the interest rate was 2% for foreign currency and 14% for New Turkish Lira per year).

6. TRADE RECEIVABLES

Current

Current accounts		
- Third parties	1.012.263	1.090.297
- Related parties, note 23	1.154	647
Notes receivable		
- Third parties	368.669	300.336
Others	1.758	253
	1.383.844	1.391.533

Unearned interest on receivables (-)	(20.311)	(14.703)
Allowance for doubtful receivables (-)	(13.739)	(8.982)
	1.349.794	1.367.848

The movement of doubtful receivables is given below:

Beginning balance	8.982	8.938
Additions	6.302	1.278
Proceeds from doubtful receivables	(1.545)	(833)
Monetary gain	--	(401)
Ending balance	13.739	8.982

7. INVENTORIES

	31.12.2006	31.12.2005
Raw materials	487.144	327.016
Work in process	42.241	42.589
Finished goods and merchandise	514.430	413.853
Spares and supplies	8.604	4.175
Goods in transit	197.901	248.404
Provision for diminution in value	(8.554)	(6.031)
	1.241.766	1.030.006

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The cost of inventories recognized as expense and included in cost of sales during the year amounted to YTL 3.625.053 (2005: YTL 3.174.986).

8. OTHER ASSETS

	31.12.2006	31.12.2005
Current		
Prepaid expenses	25.019	25.123
Income accruals	6.445	43.655
VAT receivable	107.361	59.758
Work advances	1.549	4.222
Due from personnel	461	753
Due from related parties, note 23	911	225
Project expenses	23.618	17.273
Receivables from insurance company (*)	52.495	41.341
Prepaid taxes	12.960	1.910
Other	2.848	2.131
	233.667	196.391
Non-current		
Prepaid expenses	26.899	31.583
Other	10	145
	26.909	31.728

(*) The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), the 100% subsidiary of the Company were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents relating to the period from 01 January through 14 November 2005. Vestel CIS Ltd recorded insurance claims of USD 37.347 thousand (YTL 52.495 thousand) with respect to assets affected by the said fire and the resulting business interruption (note 8). In addition Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of USD 4.894 thousand (YTL 6.879 thousand). Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, as well as negotiations with tax authorities, it is not possible to determine the amount that will be recovered under these claims. The management of Vestel CIS Ltd. believes that there will be no difference between their claim and the compensation to be received from the insurance company and therefore no provision has been set aside in this respect.

9. INVESTMENTS

	31.12.2006	31.12.2005
Unconsolidated investments	52	28
Other investments	1.444	3.041
	1.496	3.069

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Unconsolidated investments	Country	Share percentage		Amount	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
Vestpro Electronics SA	Romania	52	52	301	301
Vestel USA Inc.	USA	100	100	233	233
Vestel Electronica SA	Romania	100	100	19	18
Vestel India	India	100	100	10	10
OY Vestel Scandinavia AB	Finland	100	--	17	--
Uts-United Technical Services, S.R.O	Romania	60	--	6	--
				586	562
Allowance for diminution in value (-)					
Vestpro Electronics SA				(301)	(301)
Vestel USA Inc.				(233)	(233)
				52	28

The above companies in which the Company has a controlling interest or significant influence are not consolidated because:

- Vestpro Electronics SA and Vestel USA Inc. have been inactive since 2002.
- Vestel Electronica SA, Vestel India, OY Vestel Scandinavia AB and Uts-United Technical Services, S.R.O are newly established inactive companies.

Other investments	Country	Share percentage		Amount	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
Zorlu Enerji Elektrik Üretim A.Ş	Turkey	Less than 1	Less than 1	1.369	3.013
Tursoft A.Ş.	Turkey	7	7	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1	1	50	3
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5	5	12	12
				1.444	3.041

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10. PROPERTY, PLANT AND EQUIPMENT, net

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost						
Balance at 01.01.2005	169.373	1.074.281	2.832	72.583	72.174	1.391.243
Additions	14.010	86.492	1.328	8.960	160.532	271.322
Disposals	(11.997)	(46.746)	(109)	(2.825)	(4.376)	(66.053)
Acquisition of subsidiary	--	6.254	354	3.299	--	9.907
Translation differences	(1.998)	(935)	(133)	(264)	(686)	(4.016)
Transfers	44.245	105.227	161	1.313	(150.946)	--
Balance at 31.12.2005	213.633	1.224.573	4.433	83.066	76.698	1.602.403
Additions	40.164	79.795	1.681	25.838	58.486	205.964
Disposals	(144)	(3.897)	(627)	(238)	(43.248)	(48.154)
Acquisition of subsidiary	--	--	235	4.558	--	4.793
Translation differences	976	934	--	300	8.153	10.363
Transfers	1.761	42.608	--	1.379	(45.748)	--
Balance at 31.12.2006	256.390	1.344.013	5.722	114.903	54.341	1.775.369
Accumulated depreciation						
Balance at 01.01.2005	18.251	463.733	1.029	48.174	--	531.187
Additions	4.948	93.473	696	6.300	--	105.417
Disposals	(402)	(15.163)	(77)	(1.107)	--	(16.749)
Acquisition of subsidiary	--	6.201	174	2.614	--	8.989
Translation differences	(147)	(136)	(28)	(163)	--	(474)
Balance at 31.12.2005	22.650	548.108	1.794	55.818	--	628.370
Additions	10.212	104.229	916	9.505	--	124.862
Disposals	(29)	(2.040)	(490)	(217)	--	(2.776)
Acquisition of subsidiary	--	--	89	2.677	--	2.766
Translation differences	132	179	--	235	--	546
Balance at 31.12.2006	32.965	650.476	2.309	68.018	--	753.768
Net book value as of 31.12.2005	190.983	676.465	2.639	27.248	76.698	974.033
Net book value as of 31.12.2006	223.425	693.537	3.413	46.885	54.341	1.021.601

As of 31.12.2006 and 2005, property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

Leased assets included in the table above comprise plant and machinery amounting to YTL 28.785 (2005: YTL 34.231) net of accumulated depreciation. Leased assets are pledged as security for the related finance lease obligations.

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The Company's policy is to trace all material and significant fixed asset additions under construction in progress and transfer to the related fixed asset accounts when the construction process is completed. Significant portion of the construction-in-progress balance represented investment made in Vestel White to increase its refrigerator and washing machine production capacity and new investment made in cooker and dishwasher segment during 2005 and 2006 and new investment related to fire damaged Vestel CIS plant (Russia) used for television production which was affected by fire on 14 November 2005.

11. INTANGIBLE ASSETS, net

	Goodwill	Research and development cost	Other intangible assets	Total
Cost				
Balance at 01.01.2005	72.637	38.546	140.355	251.538
Additions	2.672	--	12.069	14.741
Disposals	--	--	(395)	(395)
Acquisition of subsidiary	--	--	2.273	2.273
Translation differences	(1.184)	--	(271)	(1.455)
Balance at 31.12.2005	74.125	38.546	154.031	266.702
Additions	128.387	12	21.531	149.930
Disposals	--	(6.557)	(1.376)	(7.933)
Acquisition of subsidiary	--	--	47	47
Translation differences	384	--	305	689
Balance at 31.12.2006	202.896	32.001	174.538	409.435
Accumulated amortisation				
Balance at 01.01.2005	14.212	5.544	93.425	113.181
Additions	--	2.330	11.475	13.805
Disposals	--	--	(32)	(32)
Acquisition of subsidiary	--	--	1.607	1.607
Translation differences	(168)	--	(167)	(335)
Balance at 31.12.2005	14.044	7.874	106.308	128.226
Additions	--	5.481	9.127	14.608
Disposals	--	--	(1.237)	(1.237)
Acquisition of subsidiary	--	--	8	8
Translation differences	51	--	266	317
Balance at 31.12.2006	14.095	13.355	114.472	141.922
Net book value as of 31.12.2005	60.081	30.672	47.723	138.476
Net book value as of 31.12.2006	188.801	18.646	60.066	267.513

The share values of Vestel White was established on basis of prices received from invitations for submission of price quotations between 11-12 April 2006 and the value thus ascertained was YTL 3.20 (full) per share. The Company purchased 89.699.993 shares (65% of capital) of Vestel White which were held by Zorlu Holding A.Ş. and Zorlu Family at YTL 3.20 (full) each on 13 April 2006 and consequently became 100% owner of the shares Vestel White. At the same time the share capital of Vestel White was increased by YTL 52.000 (52.000.000 shares) to YTL 190.000 and 59.800.000 shares were sold through public offering on 21 April 2006 at the price of YTL 3.20 (full) per share. Subsequently 7.800.000

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shares were reacquired at the Istanbul Stock Exchange and therefore the interest of minorities in Vestel White was reduced to 27.4%. On 3 May 2006, Company acquired 2.750.000 shares (55% of capital) of Birim Bilgi İşlem for YTL 1.990

Goodwill arising in 2006 on acquisitions and the net assets acquired of the companies mentioned above is given below:

	Vestel White	Birim Bilgi İşlem	Total
Purchase consideration	287.040	1.990	289.030
Group share of net assets acquired	(158.958)	(1.685)	(160.643)
Positive goodwill	128.082	305	128.387

In mid 2001, the Company established the Digital Research and Development Department within Aegean Free Zone – İzmir to contribute to the expansion of the product range in line with technological developments. The Department continues development of digital satellite receivers with common Interface and Personal Video Recording (PVR) capabilities, digital terrestrial receivers, DVD A/V receivers and recordable DVD players in Vestel Komünikasyon A.Ş. and Vestel Elektronik A.Ş. Research and Development Department in Manisa continues development of Integrated Digital TV (DTV), Hybrid TV, Digital TV, TV-DVD, Large Digital TV and Large Flat Screen TV.

Development costs principally comprise internally generated expenditure on development costs on the above projects where it is reasonably anticipated that costs will be recovered through future commercial activity.

12. BORROWINGS

	Current		Non-current	
	Foreign currency	YTL equivalent	Foreign currency	YTL equivalent
31.12.2006				
New Turkish Lira bank loans	--	1.649	--	--
Foreign currency bank loans				
-USD ('000)	183.712	258.226	235.280	330.710
-EUR ('000)	141.236	261.498	33.976	62.907
Finance lease liabilities, net				
-USD ('000)	1.373	1.930	610	857
-EUR ('000)	187	347	100	185
		523.650		394.659
31.12.2005				
New Turkish Lira bank loans	--	1.049	--	--
Foreign currency bank loans				
-USD ('000)	27.184	36.476	249.141	334.297
-EUR ('000)	82.215	130.516	118.644	188.347
Finance lease liabilities, net				
-USD ('000)	1.273	1.708	1.774	2.380
-EUR ('000)	1.376	2.185	362	573
		171.934		525.597

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The effective interest rates of foreign currency loans and New Turkish Lira loans vary between 3% and 12,9% (2005: 2,7% and 11,4% and), respectively.

Summary maturity schedule of bank borrowings was as follows:

	31.12.2006	31.12.2005
Due in one year	523.650	171.934
One to five years	76.043	215.748
Over five years	318.616	309.849
	918.309	697.531

Letters of guarantee and notes amounting to YTL 35.113 (EUR 18.965.000) have been given as collateral for Turkish Eximbank and other credits (2005: YTL 67.740 (USD 15.000.242 and EURO 29.992.000)).

As of 31.12.2006 and 2005, property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

The payment schedules of finance lease liabilities are given below:

	31.12.2006	31.12.2005
Finance lease liabilities - minimum lease payments:		
Payable with in one year	2.438	4.279
Payable later then one year and not later than four years	1.069	3.125
	3.507	7.404
Future finance charges on finance leases	(188)	(558)
Present value of finance lease liabilities	3.319	6.847
The present value of finance lease liabilities is as follows:		
Payable with in one year	2.277	3.893
Payable later then one year and not later than four years	1.042	2.953
	3.319	6.846

13. TRADE PAYABLES

Current accounts		
- Third parties	1.844.403	1.516.343
- Related parties, note 23	3.964	1.272
- Letters of credit	219.417	243.850
- Letters of credit discounted	197.639	248.925
Notes payable		
- Third parties	45.535	56.872
Other	118	615
	2.311.076	2.067.877
Unearned interest on payables (-)	(4.748)	(3.285)
	2.306.328	2.064.592

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14. PROVISION FOR EXPENSES AND OTHER LIABILITIES

14.1 PROVISION FOR EXPENSES

	31.12.2006	31.12.2005
Current		
Warranty provision	35.485	31.402
Expense accruals	10.801	74.272
	46.286	105.674
Non-current		
Warranty provision	8.871	7.850

The movement of provisions is as follows:

	Warranty expense	Expense accruals
Opening balance	39.252	74.272
Additions	36.971	10.801
Disposals	(31.867)	(74.272)
Closing balance	44.356	10.801

14.2 OTHER LIABILITIES

	31.12.2006	31.12.2005
Income tax and social security premiums payable	32.809	20.038
Advances received	17.489	18.373
Deferred project income	31.007	20.263
Due to personnel	3.665	6.663
Other	4.758	5.045
	89.728	70.382

15. TAXATION ON INCOME

In Turkey, the corporation tax rate on the profits for the calendar year 2006 is 20% (2005: 30%). Taxable profits are calculated by modifying accounting income for certain exclusions and allowances for tax purposes from the profit disclosed in the statutory income. No other taxes are paid unless profits are distributed.

In Turkey no taxes are withheld from undistributed profits, profits added to share capital (bonus shares) and dividends paid to other resident companies. Other than those, profits distributed in dividend to individuals and non-resident companies are subject to withholding at the rate of 15%.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, provision for taxation charge, as reflected in the accompanying consolidated financial information, has been calculated on a separate-entity basis.

The exemption period granted on profits from the sale of investment shares and immovable property by Corporation Tax Law transitory articles No. 28 and 29 expired on 31 December 2004. However this exemption was re-enacted by Law No. 5281 on permanent basis in effect from 1 January 2005. Accordingly, 75% of profits from the sale of investments and immovables held for a minimum of two years will be tax exempt provided the sale proceeds are collected within two years and 75% of the profit is added to share capital or is kept in a special reserve account for minimum five years.

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Companies were allowed to deduct 40% of the value of fixed assets (exceeding YTL 6.000) purchased after 24 April 2003 (investment allowances) from their taxable profits as investment incentive. Such investment deduction is also not subject to income tax withholding. The investment deductions not used in any year because of insufficient profits may be carried to future periods. Investment allowances related to fixed assets purchased or to be purchased under Investment Incentive Certificates granted or applied for before 24 April 2003, may be based on up to 100% of the investment value in fixed assets, but these are subject to tax at 19.8%. Investment allowances have been cancelled as from 1 January 2006 but investment allowances earned prior to this date may be used up to 31 December 2008; any balance unused after this date may not be carried forward; if this option is exercised the balance of taxable profit after deduction of investment allowances is to be taxed at 30%.

Tax losses that are reported in the Corporation Tax in Turkey return may be carried forward and deducted from the corporation tax base for a maximum of five consecutive years.

The Turkish Tax Procedural Law does not include a procedure for formally agreeing tax assessments. Tax returns must be filed within three and half months of the year-end and may be subject to investigation, together with their underlying accounting records, by the tax authorities at any stage during the following five years.

The taxation liabilities of foreign subsidiaries are calculated in accordance with the regulations of the respective country where the subsidiary is situated, as follows:

Country	% of taxable profit
Germany	39,62
France	33,33
The Netherlands	25,50
UK	30,00
Spain	35,00
Italy	37,45
Russia	20,00

As of 31.12.2006 and 2005, taxation on income for the year is reconciled to the profit per income statements as follows:

	01.01.-31.12.2006	01.01.-31.12.2005
Profit (loss) before tax	(6.978)	133.917
Corporation tax using applicable tax rates	17.272	54.699
Disallowable expenses	41.446	48.863
Income not subject to tax	(70.674)	(76.553)
Investment allowances	(8.253)	(14.768)
Research and development allowances	(1.196)	(1.134)
Taxation on income	(21.405)	11.107

The Group's prepaid income and Corporation taxes are netted off against the current income tax provision on the balance sheet as stated below:

	31.12.2006	31.12.2005
Corporation and income taxes	17.272	54.699
Prepaid taxes (-)	(9.955)	(42.669)
Provision for taxation at the year end	7.317	12.030

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Deferred taxation

The Group recognizes deferred tax assets and liabilities based upon temporary differences between its financial statements as reported for IAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IAS and tax purposes.

The composition of cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at the balance sheet dates using the expected future tax rates were as follows:

	Cumulative temporary difference		Deferred tax	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Deferred tax asset				
Warranty expense provision	38.039	32.879	8.192	9.864
Retirement pay provision	19.588	16.173	4.192	4.852
Unearned interest on receivables	21.034	14.246	4.296	4.274
Capitalized financing expenses written off on inventory and fixed assets	20.057	12.728	5.921	3.818
Finance lease liabilities	4	2.056	1	617
Provision for doubtful receivables	12.750	6.536	2.550	1.961
Accrued expenses	17.846	67.273	3.569	20.182
Investment incentive allowances	--	21.500	--	2.193
Taxable loss carried forward	10.205	4.788	2.041	1.436
Other	25.208	19.450	5.351	5.834
			36.113	55.031
Deferred tax liability				
Temporary differences arising from restating non-monetary assets	245.578	189.073	53.875	56.749
Income accruals	--	182.590	--	54.777
Unearned interest on payables	15.891	9.800	3.309	2.940
Other	1.798	4.302	429	1.287
			57.613	115.753
Deferred tax liability, net			(21.500)	(60.722)

The movement of deferred tax liability is given below:

	01.01.- 31.12.2006	01.01.-31.12.2005
Opening balance	(60.722)	(106.574)
Acquisition of subsidiary	610	2.155
Deferred tax income	38.677	43.592
Translation difference	(65)	105
Closing balance	(21.500)	(60.722)

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16. PROVISION FOR RETIREMENT PAY

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each eligible employee who has completed one year of service with the Company, and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The amount of indemnity is the equivalent of one month's salary for each year of service subject to a ceiling which is YTL 1.857,4 as of 31 December 2006 (2005: YTL 1.727,2) on historical cost basis).

The Company has no other obligation for employee termination other than the retirement pay above.

In the accompanying consolidated financial statements, the Company reflected a liability for termination benefits based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted to present value at the balance sheet date by using average market yield, expected inflation rates and an appropriate discount rate.

The Group has no other obligation for employee termination other than the retirement pay above.

	01.01.-31.12.2006	01.01.-31.12.2005
Opening balance	18.456	17.262
Additions	5.387	5.639
Acquisition of subsidiary	788	593
Disposals	(3.184)	(3.908)
Monetary gain	--	(1.130)
Closing balance	21.447	18.456
Number of personnel employed at year end:	11.686	11.845
Personnel cost:		
Gross salaries, wages, and employer's share of social insurance	240.296	200.181
Key personnel salaries and other short term benefits	8.881	6.801

17. SHARE CAPITAL

The authorized share capital of the Company comprised 22.000.000.000 shares of par value YKr 1 each at 31.12.2006 and the issued and paid up share capital of the Company comprised 15.909.988.696 shares of par value YKr 1 each at 31.12.2006 and 2005.

As of 31.12.2006 and 2005 the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding Percentage	Amount
Collar Holding BV	51,59	82.082
Other shareholders	48,41	77.018
Share capital (Nominal)	100,00	159.100
Inflation adjustment of share capital		417.762
		576.862

The ultimate parent of the Company is Collar Holding BV which is located at Park Laan 1 3016 BA Rotterdam, Netherlands.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18. GENERAL RESERVES

General reserves comprise legal reserves and retained earnings.

Under the Turkish Commercial Code, the Company is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid up share capital.

Second legal reserve, apportioned at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

19. COMMITMENTS AND CONTINGENCIES

a) At 31.12.2006 the Group had contingent liabilities of YTL 169.868 (2005: YTL 164.165) in respect of letters of guarantee obtained from local banks and submitted to various customs and state authorities for import and Turkish Eximbank credits.

b) Due to the export and investment incentive certificates obtained, the Group has committed to realize exports amounting to USD 333.344.860 as of the balance sheet date.

c) Property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

d) The payment of VAT on certain export sales may be postponed and later cancelled by the tax office subject to clearance of certain routine formalities in due course. Responsibility of the Group continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future. The amount of postponed VAT at 31.12.2006 was YTL 185.176 (2005: YTL 183.417).

e) The Group signed a loan agreement with Vakıflar Bankası for USD 125 million which has not yet been utilised. Group companies and the majority shareholder of the Group were guarantors to the agreement. This mortgage on fixed assets was released during March 2007.

f) Claims from court cases started by the group and pending as of 31.12.2006 amounted to YTL 14.477. Claims from court cases started and pending against the group as of the same date was YTL 927.

Included among the court cases started by the group are receivables totalling YTL 13.379 and tax claim of YTL 1.287 which have been provided for in full. In addition a provision of YTL 860 has been set aside in respect of court cases opened against the group.

h) A lawsuit has been initiated against the Group by a company engaged in the production of household appliances in respect of a patent certificate for a minor component used in refrigerators. The Group has initiated a counter lawsuit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The lawsuits are still pending and at the stage of expert evaluation.

i) Vestel CIS Limited's property, plant and equipment used for television production, part of finished goods, components and raw materials were destroyed by a fire on 14 November 2005. The situation related to the fire at Vestel CIS Ltd. (Russia) has been explained under note (8) above.

k) Total obligation of the Group related to operational lease agreements is amounted to YTL 2.514 (2005: YTL 2.559) per year.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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FOR THE YEAR ENDED 31.12.2006

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20. OTHER INCOME, net

	01.01.- 31.12.2006	01.01.-31.12.2005
Scrap sales	9.333	14.434
Export commission and freight related income	14.509	7.428
Profit on sale of fixed assets	2.896	635
Profit on sale of investments	3.189	--
Provisions	2.109	11.652
Other	10.970	5.026
Other income	43.006	39.175
Idle capacity expenses	(2.692)	(7.170)
Loss on sale of fixed assets	(548)	(6.717)
Other	(11.750)	(3.023)
Other expense	(14.990)	(16.910)
	28.016	22.265

21. FINANCING EXPENSE, net

	31.12.2006	31.12.2005
Foreign exchange gain	276.280	183.835
Interest income from bank deposits	39.608	75.445
Profit on forward contracts	25	8.044
Unearned interest on payables	21.077	19.062
Financing income	336.990	286.386
Foreign exchange loss	(370.161)	(145.160)
Bank loans interest expense	(95.841)	(55.970)
Letters of credit expenses	(34.541)	(32.075)
Finance lease interest expense	(443)	(768)
Factoring expenses	(6.353)	(3.411)
Loss on forward contracts	(2.298)	(44.353)
Bank commission expenses	(17.683)	(14.427)
Unearned interest on receivables	(28.207)	(18.376)
Other financial expenses	(25.776)	(7.931)
Financing expense	(581.303)	(322.471)
	(244.313)	(36.085)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

22. SUPPLEMENTARY CASH FLOW INFORMATION

	01.01.- 31.12.2006	01.01.-31.12.2005
Depreciation and amortisation:		
Cost of sales	114.858	97.868
Selling expenses and general and administrative expenses	24.612	21.354
	139.470	119.222
Changes in operating assets and liabilities:		
Trade receivables	20.120	(321.616)
Inventories	(211.691)	(116.199)
Other assets	(31.299)	11.572
Trade payables	236.096	429.106
Other liabilities	(56.635)	(59.629)
	(43.409)	(56.766)

Acquisition of subsidiary:

During 2006 and 2005 the Group acquired Birim Bilgi İşlem and Aydın Yazılım. The fair value of assets acquired and liabilities were as follows:

	Birim Bilgi İşlem	Aydın Yazılım
Current assets	11.692	20.409
Non-current assets	3.062	6.235
Total liabilities	(11.386)	(26.365)
Total net assets acquired	3.368	279
Minority share (-)	(1.378)	(235)
Total purchase price	1.990	44
Less: Cash and cash equivalents	(371)	(1.565)
Cash flow on acquisition net of cash acquired	1.619	(1.521)

Birim Bilgi İşlem is a Turkish company engaged in software preparation in hospitals and undertaking to operate computer information system in hospitals.

Aydın Yazılım is a Turkish company engaged in software work for military applications.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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23. RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements shareholders are referred to as related parties. Related parties also include individuals that are principle owners, management and members of the Company's Board of Directors and their families. In the course of conducting its business, the Company conducted various business transactions with related parties on commercial terms.

a) The significant balances with related parties at year end are shown below:

Related party	Trade receivables	Other assets	Trade payables
31.12.2006			
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	58	--	330
Promer Bilgisayar Limited Şirketi	--	--	1.170
Vestel USA Inc.	535	240	--
Teds International	--	552	--
L-3 Communications Investments	--	--	1.553
Other related parties	561	119	911
	1.154	911	3.964
31.12.2005			
Vestel Elektronika SA	--	117	--
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	159	--	69
Vestel USA Inc.	469	--	--
L-3 Communications Investments	--	--	1.013
Other related parties	19	108	190
	647	225	1.272

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

b) Significant income and expense from related parties are summarised below:

	01.01.- 31.12.2006	01.01.-31.12.2005
Sales		
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	1.883	--
Other	933	--
	2.816	--
Operating expense		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	1.864	1.665
Other	--	851
	1.864	2.516
Other income		
Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş.	--	2.373
Other income	--	1.566
	--	3.939
Other expense		
Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş.	--	1.540
Other expense	--	2.474
	--	4.014

24. FINANCIAL INSTRUMENTS

Financial risk management objectives and polices

The Group's principal financial instruments comprise bank loans, overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk – The Group's operating income and operating cash flows are substantially independent from changes in market interest rates. The Group borrows short term at variable interest rates and borrows long term at fixed and variable interest rates.

Credit risk - The Group's credit risk is primarily attributable to its trade receivables which are insured by Turkish Eximbank and export credit agencies. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

Liquidity risk - The Group raises funds by liquidating its short term financial instruments, e.g. by collecting receivables and disposing of marketable securities. The Group's proceeds from these instruments generally approximate their fair values.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Foreign exchange risk – The Group operates internationally and matches its foreign currency commitments primarily from its foreign currency trade receivables. Foreign currency position of the Group as of 31.12.2006 and 2005 is shown below:

	USD	EURO	GBP	YTL equivalent
31.12.2006				
Cash and cash equivalents	112.975	110.133	12.114	396.106
Trade receivables	71.104	323.937	30.070	782.613
Inventories	94.599	96.887	9.640	338.931
Other receivables	89.328	8.479	202	141.815
Total foreign currency assets	368.006	539.436	52.026	1.659.465
Current borrowings	183.712	141.236	--	519.724
Non-current borrowings	235.280	33.976	--	393.617
Current lease payables	1.373	187	--	2.277
Non-current lease payables	610	100	--	1.042
Trade payables	905.641	499.294	813	2.199.653
Advance received	5.902	3.294	--	14.395
Other liabilities	22.060	--	--	31.007
Total foreign currency liabilities	1.354.578	678.087	813	3.161.715
Net foreign currency position	(986.572)	(138.651)	51.213	(1.502.250)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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	USD	EURO	GBP	YTL equivalent
31.12.2005				
Cash and cash equivalents	48.832	103.508	179	230.256
Trade receivables	249.875	378.138	1.120	938.166
Inventories	174.305	123.640	217	430.663
Other receivables	45.766	8.038	629	75.623
Total foreign currency assets	518.778	613.324	2.145	1.674.708
Current borrowings	27.184	82.215	--	166.992
Non-current borrowings	249.141	118.644	--	522.644
Current lease payables	1.273	1.376	--	3.893
Non-current lease payables	1.774	362	--	2.953
Trade payables	916.939	450.592	979	1.947.927
Advance received	8.439	3.272	47	16.626
Other liabilities	15.101	--	--	20.263
Total foreign currency liabilities	1.219.851	656.461	1.026	2.681.298
Net foreign currency position	(701.073)	(43.137)	1.119	(1.006.590)

Fair value of financial instruments - Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information, management's judgment and appropriate valuation methodologies. The following disclosure of the estimated fair value of financial instruments is made with the requirements of IAS 32. To the extent relevant and reliable information is available from the financial markets in Turkey, the fair value of the financial instruments of the Group is based on such market data. The fair values of the remaining financial instruments of the Group can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Financial assets

Monetary assets for which fair value approximates carrying value:

- Balances denominated in foreign currencies are translated at year-end exchange rates. The fair value of certain financial assets carried at cost, including cash and due from banks, marketable securities plus the respective accrued interest are considered to approximate their respective carrying values.
- The carrying value of the trade receivables net of provisions for uncollectible are considered to approximate their fair values.

Financial liabilities

Monetary liabilities for which fair value approximates carrying value:

- The fair values of short-term bank loans and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.
- The fair values of long-term bank borrowings which are denominated in foreign currencies and translated at year-end exchange rates are considered to approximate their carrying values.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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25. SEGMENT INFORMATION

The Group is currently organized into three major production divisions. The basis on which the Group reports its primary segment information is as follows:

Television and monitor	:Produced by Vestel Elektronik Sanayi ve Ticaret A.Ş. (Manisa/Turkey). :Produced by Vestel CIS (Vladimir Region/Russia)
Electronic devices	:Produced by Vestel Komünikasyon Sanayi ve Ticaret A.Ş. (Izmir/Turkey). Produced by Vestel Dijital Üretim Sanayi A.Ş. (Manisa/Turkey).
White Goods	:Produced by Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.(Manisa/Turkey). Produced by Vestel CIS (Vladimir Region/Russia)

Segment information about these businesses is presented below:

25.1 The composition of sales volume and amount by principal product groups can be summarized as follows:

	01.01- 31.12.2006		01.01- 31.12.2005	
	Amount	Quantity	Amount	Quantity
Television	3.271.073	10.978.636	2.797.912	10.868.211
- Domestic	366.950	1.044.342	499.189	1.338.265
- Export	499.817	1.666.790	443.839	1.779.806
- Foreign marketing companies	2.404.306	8.267.504	1.854.884	7.750.140
Monitor	--	--	24.125	267.749
- Domestic	--	--	12.737	96.986
- Export	--	--	14	26
- Foreign marketing companies	--	--	11.374	170.737
Electronic Devices	582.375	5.999.434	545.342	7.314.755
- Domestic	240.335	970.389	148.371	1.028.466
- Export	124.564	549.749	54.848	995.718
- Foreign marketing companies	217.476	4.479.296	342.123	5.290.571
White goods	1.216.844	4.150.159	902.191	3.203.442
- Domestic	452.194	864.728	398.113	832.743
- Export	297.867	1.428.259	182.787	938.669
- Foreign marketing companies	466.783	1.857.172	321.291	1.432.030
Other	160.833	--	186.659	--
- Domestic	160.833	--	186.659	--
	5.231.125		4.456.229	

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25.2 The breakdown of television export sales by country is as follows:

	01.01- 31.12.2006		01.01- 31.12.2005	
	Amount	Quantity	Amount	Quantity
Germany	639.525	2.151.110	548.197	2.164.831
United Kingdom	666.439	2.094.247	464.591	1.823.995
France	325.763	1.153.621	262.351	1.052.771
Denmark	35.409	115.813	37.404	162.918
Portugal	49.187	187.055	34.607	149.830
Netherlands	79.064	225.439	79.322	322.832
Spain	263.809	942.889	217.339	874.363
Italy	269.328	978.108	216.894	883.110
Russia	218.548	786.015	140.491	564.926
Others	357.051	1.299.997	297.527	1.530.370
	2.904.123	9.934.294	2.298.723	9.529.946

25.3 The summary of contribution to gross profit and gross margin is as follows:

	01.01- 31.12.2006		01.01- 31.12.2005	
	Gross profit amount	% of sales	Gross profit amount	% of sales
Domestic				
Televisions	75.115	20	106.594	21
Monitors	--	--	1.437	11
Electronic devices	40.008	17	24.392	16
White goods	91.182	20	74.162	19
Others	17.008	11	28.955	14
Domestic total	223.313	18	235.540	19
Export				
Televisions	422.779	15	287.480	13
Monitors	--	--	1.157	10
Electronic devices	48.904	14	41.656	10
White goods	168.188	22	92.281	18
Export total	639.871	16	422.574	13
	863.184	17	658.114	15

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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25.4 The segment assets and liabilities at 31.12.2006 and 2005 and capital expenditure for the year then ended are as follows:

	Television and monitor	Electronic devices	White goods	Other	Total
31.12.2006					
Trade receivables	951.727	97.076	279.692	21.299	1.349.794
Inventories	759.968	220.018	220.174	41.606	1.241.766
Property, plant and equipment, net	505.121	59.801	451.844	4.835	1.021.601
Intangible assets, net	74.678	33.174	155.104	4.557	267.513
Unallocated assets					897.672
Total assets					4.778.346
Trade payables	1.693.199	258.825	323.939	30.365	2.306.328
Unallocated liabilities					1.149.835
Total liabilities					3.456.163
Capital expenditure	66.829	19.151	116.898	3.086	205.964
31.12.2005					
Trade receivables	1.121.299	70.435	156.899	19.215	1.367.848
Inventories	709.301	176.028	122.127	22.550	1.030.006
Property, plant and equipment, net	564.546	80.965	325.392	3.130	974.033
Intangible assets, net	89.352	39.714	2.837	6.573	138.476
Unallocated assets					880.382
Total assets					4.390.745
Trade payables	1.599.660	239.482	196.564	28.886	2.064.592
Unallocated liabilities					1.027.676
Total liabilities					3.092.268
Capital expenditure	74.881	26.270	163.864	6.307	271.322

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

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25.5 Geographical segments:

Segment sales	01.01.- 31.12.2006	01.01.-31.12.2005
Turkey	1.220.312	1.245.069
Europe	3.717.611	2.924.010
Rest of the world	293.202	287.150
	5.231.125	4.456.229
Segment assets	31.12.2006	31.12.2005
Turkey	3.418.942	3.387.930
Europe	1.069.341	836.247
Asia	290.063	166.568
	4.778.346	4.390. 745
Capital expenditure	01.01.- 31.12.2006	01.01.-31.12.2005
Turkey	137.129	213.997
Europe	1.520	910
Asia	67.315	56.415
	205.964	271.322

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.

INVESTOR INFORMATION

Ordinary General Meeting

In line with a resolution passed at a meeting of the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş., the Company's ordinary general meeting for 2006 will be held on 18 May 2007 at 09:30 am at the address of Zorlu Plaza, Avcılar-İstanbul.

Independent Auditor

Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.
Member of Grant Thornton International
Yıldız Posta Cad.
Dedeman İşhanı No: 48, Kat: 5
34349 Gayrettepe-İstanbul

Financial Information and Company News

Vestel annual reports, financial statements, auditor's reports, explanations on special events and other information about the Company may be obtained from the Company's investor relations website at www.vestelyatirimciiliskileri.com as well as from the Vestel Group Investor Relations Department by email or telephone:

Investor Relations

Figen Çevik
Corporate Finance and Investor Relations Director
Vestel Group of Companies
Zorlu Plaza 34310 Avcılar İstanbul Turkey
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Email: figen.cevik@vestel.com.tr

Share information

Vestel Elektronik Sanayi ve Ticaret AŞ's shares have been trading on the İstanbul Stock Exchange National Market under the symbol VESTL since 1990. Since 2000 they have also been trading on the London Stock Exchange as Vestel Elektronik ve Ticaret AS GDR-144A (global deposit certificates) under the symbol VELKYP.

As of 31 December 2006, Vestel Electronics' market value was on the order of USD 412 million. The trading volume of the Company's shares on ISE was worth about USD 6.5 million in 2006.

VESTEL ŞİRKETLER GRUBU DIRECTORY

Vestel Electronics

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Vestel White Goods

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Vestel Communications

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Gaziemir, İzmir, Turkey
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Vestel Durable Goods Marketing

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Vestel Digital

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Dexar Multimedia and Telecommunications

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Vestel Foreign Trade

Organize Sanayi Bölgesi, 45030, Manisa, Turkey
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Vestel Italy Srl.

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Vestel Holland B.V.

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Tel: (+31) 10 412 23 66, Fax: (+31) 10 412 23 60

Veseg Video Handelsges GmbH

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Vestel Romania

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Vestel Benelux B.V.

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Vestel Defense Industrials

Çankaya Birlik Mah. 14. Sok. No: 41 06450, Ankara, Turkey
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Ayesaş

Karamanlılar Cad. No: 7
Organize Sanayi Bölgesi Sincan/Ankara, Turkey
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Cabot Communications Ltd.

Verona House, Filwood Road, Bristol BS 16 - 3 RY, England
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Cabot İzmir

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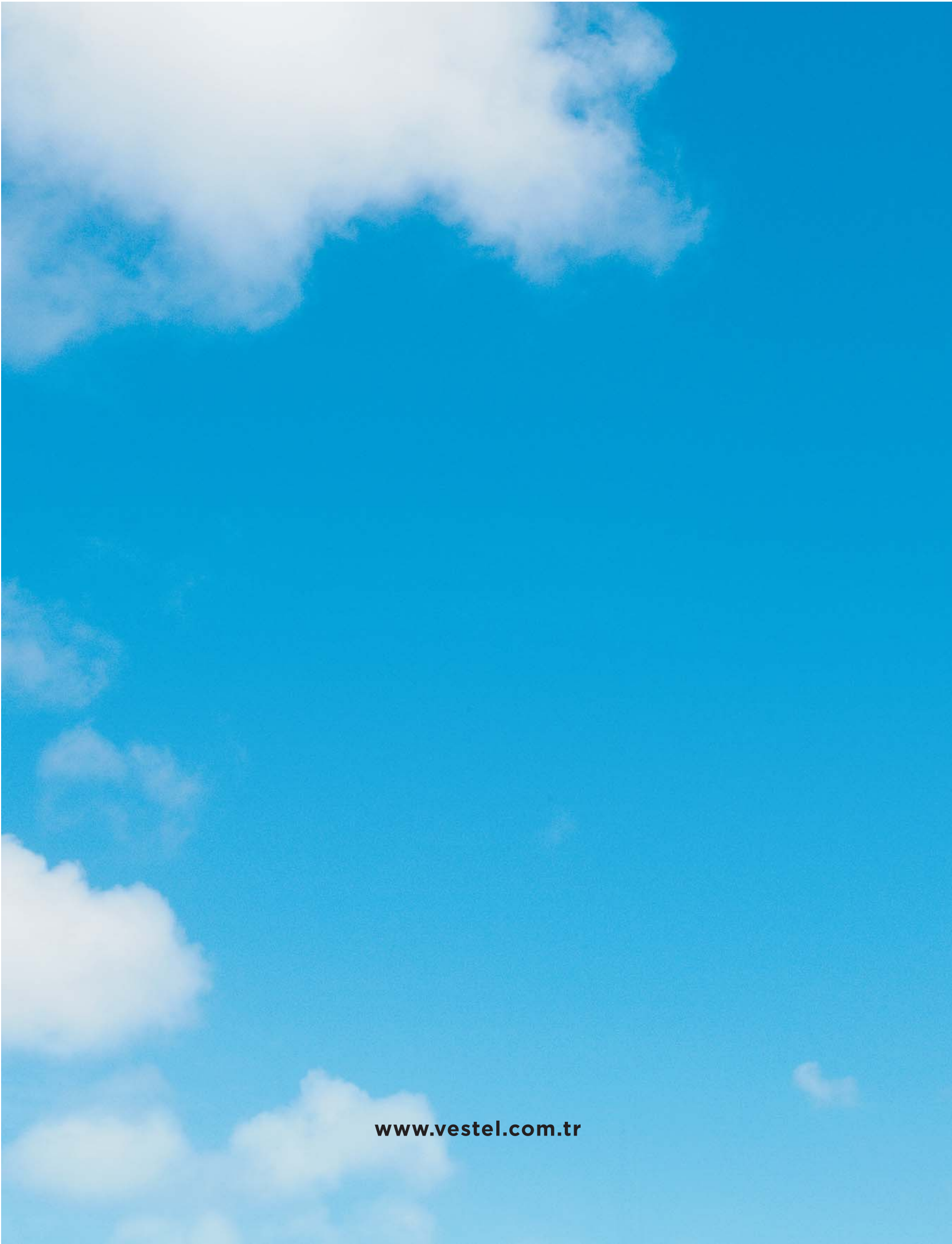
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