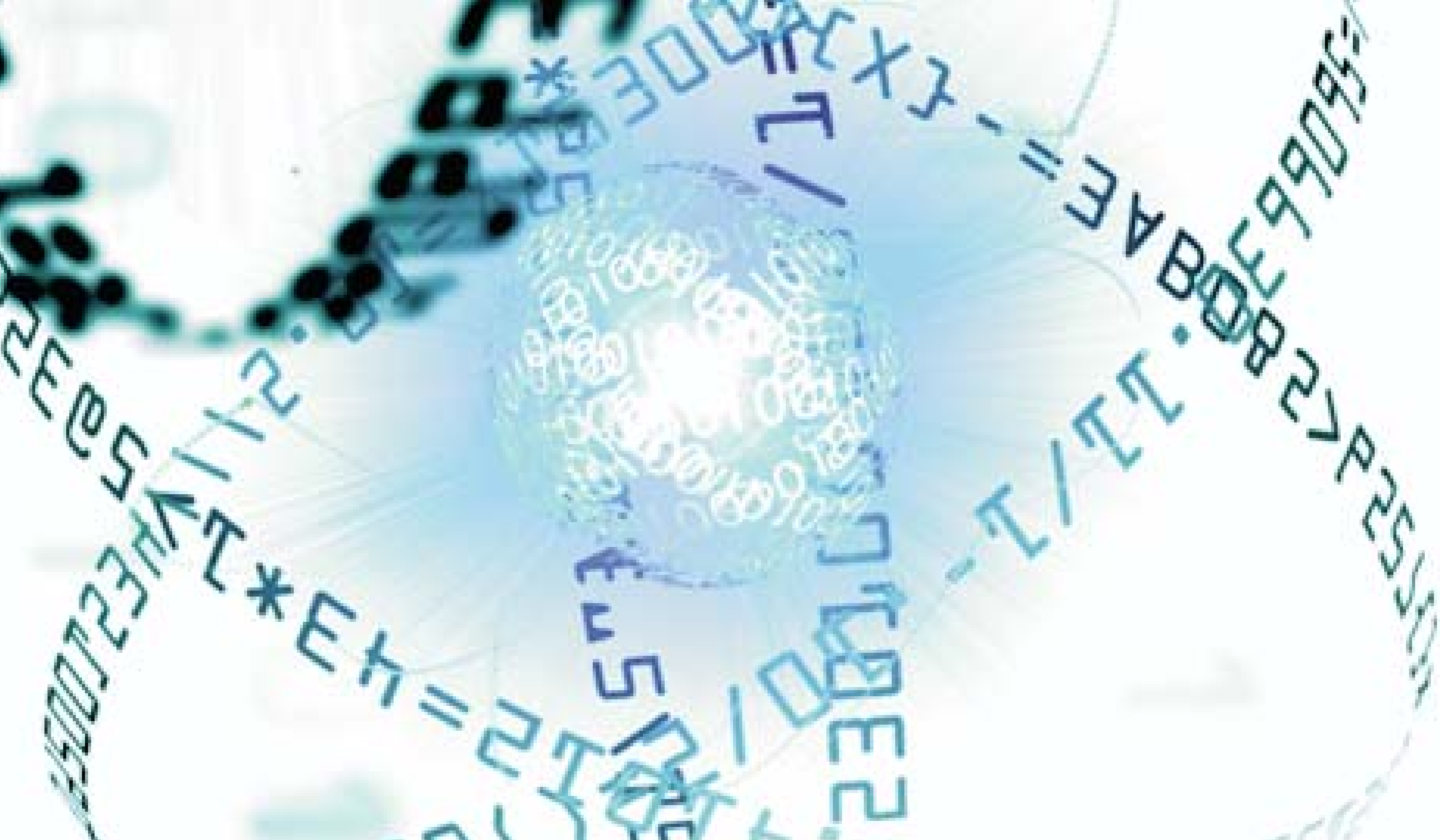

BRAND-NEW... YET UNCHANGING

2005 ANNUAL REPORT

VESTEL

ZORLU

BRAND-NEW VENTURES AN UNCHANGING PASSION

THE VESTEL GROUP OF COMPANIES (VESTEL) ENGAGES IN PRODUCT DEVELOPMENT, MANUFACTURING, SALES, AND MARKETING IN THE CONSUMER ELECTRONICS, WHITE GOODS, AND DIGITAL PRODUCTS SEGMENTS. VESTEL IS ONE OF THE WORLD'S BIGGEST ORIGINAL EQUIPMENT MANUFACTURERS (OEM) AND ORIGINAL DESIGN MANUFACTURERS (ODM). IT IS ALSO EUROPE'S BIGGEST MANUFACTURER OF COLOR TELEVISIONS AND TURKEY'S BIGGEST MANUFACTURER OF DIGITAL PRODUCTS.

11,718 EMPLOYEES

A TOTAL OF 11,718 PEOPLE ARE EMPLOYED IN VESTEL GROUP COMPANIES

1,231 POINTS OF SALE

AN EXTENSIVE SERVICE NETWORK WITH 1,231 POINTS OF SALE LOCATED ALL OVER TURKEY

USD 2.4 BILLION

TURKEY'S EXPORT CHAMPION IN 2005 WITH USD 2.4 BILLION IN FOREIGN SALES

BRAND-NEW PRODUCTS UNCHANGING QUALITY APPROACH

VESTEL-DEVELOPED PRODUCTS HAVE A STRONG APPEAL FOR GLOBAL CONSUMERS.

CORPORATE PROFILE

THE VESTEL GROUP OF COMPANIES (VESTEL) ENGAGES IN PRODUCT DEVELOPMENT, MANUFACTURING, SALES, AND MARKETING IN THE CONSUMER ELECTRONICS, WHITE GOODS, AND DIGITAL PRODUCTS SEGMENTS. VESTEL IS ONE OF THE WORLD'S BIGGEST ORIGINAL EQUIPMENT MANUFACTURERS (OEM) AND ORIGINAL DESIGN MANUFACTURERS (ODM). IT IS ALSO EUROPE'S BIGGEST MANUFACTURER OF COLOR TELEVISIONS AND TURKEY'S BIGGEST MANUFACTURER OF DIGITAL PRODUCTS.

VESTEL HAS ONE OF THE MOST EXTENSIVE SALES AND AFTER-SALE SERVICES NETWORKS IN TURKEY.

VESTEL IS A GROUP OF 22 COMPANIES THAT ARE ENGAGED IN PRODUCTION, SALES & MARKETING, R&D, DEFENSE INDUSTRY SOFTWARE, AND SATELLITE SERVICES. ELEVEN OF THESE COMPANIES CONDUCT THEIR ACTIVITIES IN COUNTRIES OUTSIDE TURKEY.

A MEMBER OF THE ZORLU GROUP, VESTEL LEADS THE MARKET WITH TECHNOLOGIES THAT IT HAS DEVELOPED AT ELEVEN R&D CENTERS LOCATED IN DIFFERENT PARTS OF THE WORLD IN LINE WITH ITS GOAL OF BEING THE “TURKISH FOR TECHNOLOGY”. VESTEL APPEALS TO CONSUMERS' TASTES IN MORE THAN 100 COUNTRIES WITH PROJECTS THAT IT HAS AUTHORED IN THE BUSINESS OF CONSUMER ELECTRONICS AND WITH WORLDCLASS QUALITY PRODUCTS.

VESTEL HAS ONE OF THE MOST EXTENSIVE SALES AND AFTER-SALE SERVICES NETWORKS IN TURKEY. WITH 1,231 POINTS OF SALE AND 748 AFTER-SALE SERVICES CENTERS, VESTEL OFFERS CUSTOMERS ALL OVER TURKEY AN EXTENSIVE LINE OF PRODUCTS RANGING FROM TELEVISIONS TO WHITE GOODS AND FROM AIR CONDITIONERS TO COMPUTERS.

VESTEL'S PRODUCTION ACTIVITIES ARE CARRIED OUT IN MANISA AND İZMIR IN TURKEY AND IN ALEXANDROV IN RUSSIA. THE COMPANY'S PRODUCTION CENTERS IN TURKEY CONSIST OF ITS TV 1 FACTORY IN MANISA, ITS HIGH-END AND PERSONAL COMPUTER PLANTS IN VESTEL CITY, AND ITS DIGITAL PRODUCTS PLANT IN İZMIR. VESTEL CITY IS ALSO WHERE VESTEL MANUFACTURES REFRIGERATORS, WASHING MACHINES, COOKERS, AND AIR CONDITIONERS. VESTEL'S PRODUCTION FACILITIES IN RUSSIA CONSIST OF TV, REFRIGERATOR, AND WASHING MACHINE PLANTS THAT MANUFACTURE PRIMARILY FOR SUCH CIS MARKETS AS RUSSIA, UKRAINE, BYELORUSSIA, AND KAZAKHSTAN.

VESTEL IS TURKEY'S EXPORT CHAMPION. WITH TOTAL NET SALES AMOUNTING TO USD 3.3 BILLION IN 2005, VESTEL'S EXPORT SALES ALSO AMOUNTED TO USD 2.4 BILLION LAST YEAR.

VESTEL ELECTRONICS' SHARES HAVE BEEN TRADING ON THE İSTANBUL STOCK EXCHANGE'S NATIONAL MARKET SINCE 1990 (SYMBOL: VESTL) AND ON THE LONDON STOCK EXCHANGE SINCE 2000.

VESTEL'S PRODUCTION MIGHT

VESTEL: THE FORCE TRANSFORMING TECHNOLOGY INTO PRODUCTION

TV FACTORY 1
MANİSA
MANISA-BASED TV FACTORY 1 WAS ORIGINALLY ESTABLISHED IN 1984 AND UNDERWENT EXPANSIONS IN 1998 AND 1999. THE FACTORY IS SITUATED ON 220,000 M2 OF GROUNDS AND HAS 95,000 M2 OF ENCLOSED SPACE.

VESTEL CITY
MANİSA
OPENED IN 2003, VESTEL CITY'S FACTORIES PRODUCE DIGITAL TECHNOLOGY HIGHEND TELEVISIONS (TFT, LCD, AND PLASMA), REFRIGERATORS, WASHING MACHINES, COOKERS, AND AIR CONDITIONERS.

THE CONSTRUCTION OF ADDITIONAL PLANT FACILITIES TO INCREASE WHITE GOODS PRODUCTION CAPACITY WAS COMPLETED IN 2005 AND THE HIGH-END TV FACTORY IS NOW OPERATING AT FULL CAPACITY.

TOTAL ENCLOSED PRODUCTION SPACE AT VESTEL CITY IS 500,000 M2. VESTEL CITY'S TECHNOLOGICAL INFRASTRUCTURE AND PRODUCTION CAPACITY MAKE IT THE BIGGEST INTEGRATED MANUFACTURING FACILITY IN EUROPE AND ALSO ONE OF THE BIGGEST OF ITS CATEGORY IN THE WORLD.

VESTEL DIGITAL'S PRODUCTION OF LAPTOP COMPUTERS IS SLATED TO BEGIN AT VESTEL CITY IN THE FIRST HALF OF 2006. VESTEL WHITE GOODS' DISHWASHER FACTORY IS SCHEDULED TO BEGIN PRODUCTION IN THE LAST QUARTER OF THE YEAR.

VESTEL COMMUNICATIONS
İZMİR
VESTEL MANUFACTURES DIGITAL PRODUCTS SUCH AS DVD AND DVB PLAYERS AT ITS FACTORY LOCATED IN THE GAZIEMIR FREE ZONE OUTSIDE İZMIR. THE PLANT HAS 26,000 M2 OF ENCLOSED SPACE.

VESTEL CIS
RUSSIA
LOCATED IN ALEXANDROV 120 KMS NORTH OF MOSCOW AND 1,000 KMS FROM THE BALTIC SEAPORT OF ST PETERSBURG, VESTEL'S TV PLANT MANUFACTURES PRIMARILY FOR THE RUSSIAN AND CIS COUNTRY MARKETS. THE PLANT COMMENCED OPERATION IN 2003 AND HAS 25,000 M2 OF ENCLOSED SPACE. PRODUCTION AT THE PLANT HAS BEEN TEMPORARILY HALTED DUE TO A FIRE IN NOVEMBER 2005. WORK ON RESTORING THE PLANT GOT UNDER WAY IN EARLY 2006. UNTIL THEN, VESTEL'S HIGH-END TV AND TV 1 PLANTS IN MANISA WILL MAKE UP FOR THE ABSENCE OF THE ALEXANDROV PLANT'S OUTPUT.

IN KEEPING WITH ITS STRATEGY OF PURSUING GROWTH IN RUSSIA AND CIS COUNTRIES, VESTEL BEGAN CONSTRUCTION OF REFRIGERATOR AND WASHING MACHINE FACTORIES THERE IN 2004. IT IS EXPECTED THAT THEY WILL GO INTO PRODUCTION BEFORE MID-2006.

KEY FINANCIAL AND OPERATIONAL INDICATORS*

IN 2005 VESTEL ONCE AGAIN ACHIEVED HIGHLY SUCCESSFUL FINANCIAL AND OPERATIONAL RESULTS IN LINE WITH ITS OBJECTIVES.

Income statement (TRY million)	**31.12.2005***	**31.12.2004**
Net sales	4,408	4,404
Cost of sales	(3,747)	(3,681)
Gross sales profit	660	723
Operating expenses	(506)	(459)
Operating profit	154	265
Net consolidated profit	86	86
Balance sheet (TRY million)	**31.12.2005***	**31.12.2004**
Current assets	3,224	2,904
Ready assets	622	689
Short-term commercial receivables	1,367	1,003
Stocks	1,030	869
Other current assets	105	277
Non-current assets	951	919
Total assets	4,334	3,822
Short-term obligations	2,510	2,041
Financial debt	138	147
Commercial debt	2,063	1,571
Long-term obligations	614	689
Shareholders' equity	1,055	980

Operational performance	**31.12.2005***	**31.12.2004**
Inventory turnover rate	100.3	85.0
Receivable turnover rate	113.2	82.0
Payable turnover rate	200.9	153.7
Cash flow rate	12.6	13.3

Capital structure	**31.12.2005***	**31.12.2004**
Debt/assets	0.72	0.71
Debt/shareholders' equity	2.95	2.79

* Based on consolidated balance sheets and income statements audited in accordance with generally accepted principles and standards as published by the Capital Markets Board.
** Excerpted from consolidated financial statements prepared in accordance with CMB communique 11/21.
*** Excerpted from consolidated financial statements prepared in accordance with CMB communique 11/21.

BRAND-NEW TECHNOLOGY
UNCHANGING VISION

ONE OF THE FUNDAMENTAL ELEMENTS OF VESTEL'S VISION IS THE DEVELOPMENT OF TECHNOLOGIES AND THEIR TRANSFORMATION INTO PRODUCTS THAT WILL GIVE IT A SUPERIOR EDGE IN THE MARKET.

THE STAGES OF VESTEL'S DEVELOPMENT

VESTEL'S UNDERLYING GOAL IS TO PRODUCE LONG-TERM VALUE AND ACHIEVE SUSTAINABLE GROWTH BY DEVELOPING ITS CORPORATE COMPETENCIES AND ITS ABILITY TO GENERATE REVENUE.

MULTIDIMENSIONAL GROWTH

VESTEL'S SUCCESS OVER THE LAST ELEVEN YEARS IS ROOTED IN ITS ABILITY TO MANAGE GROWTH ON MANY DIFFERENT DIMENSIONS. AT DIFFERENT STAGES OF THE GROUP'S DEVELOPMENT, THE RIGHT STRATEGIC DECISIONS WERE MADE AND IMPLEMENTED AT THE RIGHT TIMES WITH THE RESULT THAT VESTEL CREATED INCREASINGLY MORE ADDED VALUE FOR ALL ITS STAKEHOLDERS.

1994-1997: Applications engineering and single-product focus

In the earliest stage of its strategic development, Vestel engaged in applications engineering from the standpoint of technology while focusing its attention on the production of television sets. With Europe as its target market, the Company produced for “Category-B” brands. Basing its market strategy on precisely understanding a finely-segmented market, offering models with different features at different times, and providing a large number of models, the Company eventually was manufacturing a thousand different television models.

1997-2000: Development engineering and product diversification

In the second stage of its strategic development, Vestel switched from applications engineering to development engineering and began diversifying its production line. It was during this stage that white goods and some digital products were added. In line with this, R&D started to gain importance and the Company's first R&D unit based outside the country was set up in Silicon Valley in the US. Keeping a close watch on current worldwide developments in technology, Vestel was able to develop products simultaneously with global giants and ship them to market just as quickly.

It was also during this period that Vestel developed its first strategic business partnerships with “Category-A” brands in the European market such as Mitsubishi, Hitachi, and JVC.

2000-2005: Technology production

The progress made in development engineering propelled Vestel on its way to technology development and into the stage of transforming that technology into products.

With its ability to rapidly reshape its product line, Vestel moved directly into the market for flat-screen products, becoming the leading supplier of such products in addition to being able to offer them to the European market simultaneously with the world's giants.

Enabled by its vision to spot and analyze developments in technology well in advance, Vestel acquired Cabot Communications Ltd (England) in 2001. Cabot employs a team of a hundred people in its Bristol and İzmir R&D centers to produce all of the software needed for Vestel digital products. The Company is also the supplier for the world's most important home electronics brands.

In late 2003, Vestel made its first venture into the defense industry through newly-set up Vestel Defense Industrials.

Around the same time, Vestel opened its first production facility in Russia and began manufacturing and making sales in that country under the Vestel name. This 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 in the white goods sector as well.

At the same time that it is increasing its shares of domestic markets in electronic and white goods, Vestel is also accelerating its efforts to improve its sales and service network. The first examples of Vestel “concept stores” equipped with larger floor space so as to be able to display a greater range of products and brands were recently opened. The number of these stores reached 22 in 2005 and it is planned to increase that figure to at least 100 before the end of 2006.

In conjunction with its concept store project, Vestel has 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 electronic and white goods that are not currently being made by Vestel itself.

In 2005 the Vestel Group of Companies opened its 9th R&D center in the form of Vestek located in the Arı Technocity on the Maslak campus of İstanbul Technical University.

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 2005 Vestel acquired Aydın Yazılım ve Elektronik Sanayi A.Ş., 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.

2005 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 institutionalization on the one hand while simultaneously playing a greater role in world markets on the other.

Vestel is determined to take its position as being the European TV market's premier OEM and ODM even further. At the same time, Vestel will also be defending its current market share in the domestic market as well.

The investment forays undertaken in white goods in recent years will continue in 2006.

Vestel continues to pursue its production and branding strategy within the region of geographical expansion that it has identified for itself. In the wake of its initial successful venture into Russia, the Group intends to pursue growth by making Vestel-brand sales in CIS countries (focusing on Azerbaijan, Georgia, Armenia, and Ukraine), the Middle East (Syria, Iraq, and Iran), and in other developing markets in regions such as North Africa and South Asia.

INTEGRATED PRODUCTS

WE FORESEE THAT INTEGRATED PRODUCTS ARE GOING TO BECOME INCREASINGLY MORE IMPORTANT IN THE PERIOD IMMEDIATELY AHEAD.

THESE ARE PRODUCTS THAT COMBINE INFORMATION TECHNOLOGY (LAPTOP COMPUTER), TELECOMMUNICATIONS (MOBILE PHONE), AND ENTERTAINMENT (GAMES ETC) IN A SINGLE BOX WITH THE AIM OF SERVING THE USER MORE EFFECTIVELY IN HIS EVERYDAY LIFE.

THE MOST IMPORTANT STEP FOR VESTEL IN THIS PROCESS WILL BE THE ENHANCEMENT OF ITS UPPER HAND IN INFORMATION TECHNOLOGY THAT WILL COME WHEN ITS LAPTOP COMPUTER FACTORY COMES ON STREAM IN EARLY 2006. THROUGH ITS PRODUCTION OF LAPTOP COMPUTERS VESTEL WILL BE THE AUTHOR OF YET ANOTHER INNOVATIVE FIRST IN THE MARKET WITH A PRODUCT PORTFOLIO THAT HAS BEEN CAREFULLY SEGMENTED AND DETAILED ACCORDING TO AGE AND PROFESSIONAL GROUPS.

VESTEL COMBINES IN ITSELF ALL THE STRENGTHS OF THE THREE DIFFERENT DIMENSIONS THAT INTEGRATED PRODUCTS INCORPORATE. IN INFORMATION TECHNOLOGY, VESTEL TRANSFORMS ITS TECHNOLOGICAL MUSCLE INTO PRODUCTS THROUGH THE PRODUCTION OF LAPTOP COMPUTERS. ITS STRENGTH IN EMBEDDED SOFTWARE GIVES IT AN ADVANTAGE IN TELECOMMUNICATIONS. IN CONSUMER ELECTRONICS, IT ENJOYS TREMENDOUS COST ADVANTAGES THANKS TO ITS ABILITY TO MAKE HIGH-VOLUME PURCHASES OF COMPONENTS FROM SUPPLIERS. ALL OF THESE STRENGTHS ARE FURTHER AMPLIFIED BY VESTEL'S INHERENT PRODUCTION, MODEL, AND LOGISTICAL FLEXIBILITY.

VESTEL'S STRATEGY

VESTEL'S STRATEGIC GOAL IS TO ACHIEVE SUSTAINABLE AND CONTROLLED INCREASES IN REVENUES AND PROFITABILITY THROUGH THE PRODUCTION, SALE, AND MARKETING OF ITS PRINCIPAL BUSINESS ACTIVITIES OF CONSUMER ELECTRONICS, DIGITAL PRODUCTS, AND WHITE GOODS.

TO ACHIEVE THIS GOAL, VESTEL'S STRATEGY IS INFORMED BY THREE MAIN CONCEPTS.

INCREASING ITS SHARES OF EUROPE'S HIGHLY SEGMENTED MARKETS WHILE ALSO OPENING NEW AVENUES OF GROWTH

VESTEL REGARDS INCREASING ITS SHARES OF EUROPE'S HIGHLY SEGMENTED MARKETS WHILE ALSO OPENING NEW AVENUES OF GROWTH AS THE WAY TO MOST EFFECTIVELY MANAGE THE ONGOING TRANSITION TO HIGH-END PRODUCTS AND PARTICULARLY TO FLAT-PANEL TVS IN THE EXTREMELY SATURATED EUROPEAN TELEVISION MARKET.

FOR THE PURPOSE OF INCREASING ITS MARKET SHARE IN CATEGORY-A PRODUCTS, VESTEL WILL BE FOCUSING ON ITS TECHNOLOGICAL INFRASTRUCTURE AND ON ITS VAST KNOWLEDGE AND EXPERIENCE WITH THE REGULATORY AND CONSUMER DYNAMICS OF THE EUROPEAN TELEVISION MARKET.

PRODUCT DIVERSIFICATION

FOR THE PURPOSE OF FURTHER DIVERSIFYING ITS PRODUCT LINE, VESTEL WILL BE MAKING MAXIMUM USE OF ITS PRODUCTION STRENGTHS AND ECONOMIES OF SCALE TO PURSUE GROWTH IN EVERY LINE OF BUSINESS.

A GREATER GEOGRAPHICAL PRESENCE

WHILE DEFENDING ITS ALREADY STRONG POSITIONS IN THE TURKISH AND EU MARKETS, VESTEL WILL ALSO BE MAKING VESTEL-BRAND SALES AS IT EXPANDS ITS OPERATIONS IN CIS COUNTRIES (FOCUSING ON AZERBAIJAN, GEORGIA, ARMENIA, AND UKRAINE), THE MIDDLE EAST (SYRIA, IRAQ, AND IRAN), AND IN OTHER DEVELOPING MARKETS IN REGIONS SUCH AS NORTH AFRICA AND SOUTH ASIA.

IN LINE WITH THIS STRATEGIC OBJECTIVE, VESTEL IS KEEPING ITS EYE ON INVESTMENT OPPORTUNITIES AND IS ALSO ON THE LOOKOUT FOR WAYS TO ENTER OTHER LINES OF BUSINESS THAT WILL COMPLEMENT THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES.

VESTEL’S COMPETITIVE EDGE

VESTEL'S INFRASTRUCTURE AND TECHNOLOGY COMBINED WITH ITS CORPORATE STRENGTHS IN PRODUCTION AND SALES GIVE IT A COMPETITIVE EDGE UNDER MARKET CONDITIONS OF EVERY KIND.

PRODUCT DIVERSITY

VESTEL RESPONDS TO THE DIFFERENT NEEDS OF ITS CUSTOMERS IN EU COUNTRIES, WHICH MAKE UP ITS PRIMARY MARKET, WITH A HIGHLY DIVERSIFIED PRODUCT STRATEGY.

IN CONSUMER ELECTRONICS, VESTEL IS BY FAR THE WORLD'S MOST FLEXIBLE MANUFACTURER. AN ORDER FOR 100 UNITS IS JUST AS IMPORTANT TO VESTEL AS IS AN ORDER FOR 10,000 AND THIS IS BECAUSE THE COMPANY IS ABLE TO TAILOR ITS MASS PRODUCTION PROCESSES PRECISELY ACCORDING TO AN ORDER'S REQUIREMENTS. THIS TRANSLATES INTO AN ABILITY TODAY TO PRODUCE 20 MILLION UNITS A YEAR IN ITS THREE MAIN BUSINESS LINES INCORPORATING AS MANY AS 300 DIFFERENT BRANDS AND 3,000 DIFFERENT MODELS.

COMPREHENSIVE LOGISTICAL SUPPORT AND PRODUCT FLEXIBILITY

VESTEL REGARDS ITS LOGISTICAL SUPPORT AND DISTRIBUTION COMPETENCIES AS ESSENTIAL TO ITS ABILITY TO SERVICE CUSTOMERS' ORDERS FOR A WIDE RANGE OF PRODUCTS IN MANY DIFFERENT QUANTITIES. THE COMPANY'S GEOGRAPHICAL PROXIMITY TO EUROPE NATURALLY GIVES IT SIGNIFICANT LOGISTICAL AND COST ADVANTAGES COMPARED WITH ITS ASIAN COMPETITORS.

SUPERIOR SERVICE COMPETENCIES

UNLIKE ITS ASIAN COMPETITORS, VESTEL IS ABLE TO PROVIDE SEAMLESS SERVICE INCORPORATING ALL THE STAGES OF DESIGN, PRODUCTION, AND POINT-TO-POINT DISTRIBUTION AND THIS IS ANOTHER REASON WHY IT IS PREFERRED BY EUROPEAN CUSTOMERS.

ECONOMIES OF SCALE

WITH ITS LARGE SCALE TV PRODUCTION, VESTEL IS ONE OF THE WORLD'S BIGGEST MANUFACTURERS OF TELEVISION SETS. THIS ENABLES IT TO TAKE GREAT ADVANTAGE OF ECONOMIES OF SCALE NOT JUST IN TV MANUFACTURING BUT ALSO IN THE INCREASINGLY MORE IMPORTANT BUSINESS OF WHITE GOODS AS WELL. THIS MEANS THAT VESTEL IS ABLE TO COMMAND THE BEST PRICES POSSIBLE FROM ITS SUPPLIERS WHEN ORDERING THE COMPONENTS THAT ARE THE BIGGEST ELEMENT OF COST IN CONSUMER ELECTRONICS AND WHITE GOODS MANUFACTURING.

IN THE BUSINESS OF CONSUMER ELECTRONICS, VESTEL IS ONE OF THE THREE BIGGEST CUSTOMERS IN THE WORLD FOR COMPONENT MANUFACTURERS.

CUSTOMS DUTY ADVANTAGE

THE CUSTOMS UNION BETWEEN TURKEY AND THE EU IS ANOTHER NATURAL COMPETITIVE ADVANTAGE THAT VESTEL ENJOYS. THANKS TO THE CUSTOMS UNION, VESTEL'S PRODUCTS ENTER EU COUNTRIES DUTY-FREE AND THIS ALSO PUTS IT IN A SUPERIOR POSITION WITH RESPECT TO ITS

ASIAN COMPETITORS, AS DO THE ANTI-DUMPING RULES THAT THE EU ACTIVATES AGAINST FAR EASTERN MANUFACTURERS FROM TIME TO TIME.

STRONG MARKET POSITION AND BRAND

CONTROLLING A BIG MARKET SHARE IN THE EUROPEAN TV MARKET, VESTEL IS STRONGLY POSITIONED THERE. HAVING DEVELOPED SOUND AND LONG-TERM RELATIONSHIPS WITH ITS MAIN CUSTOMERS, VESTEL ADHERES TO A STRATEGY REFRAINING FROM COMPETING DIRECTLY WITH ITS CUSTOMERS' OWN BRANDS IN EUROPE.

IN TURKEY, VESTEL IS A BRAND WITH A HIGH DEGREE OF MARKET RECOGNITION. VESTEL BELIEVES THAT THIS VISIBILITY WILL HAVE AN IMPORTANT LEVERAGING EFFECT ON ANY NEW PRODUCTS THAT IT PUTS ON THE MARKET, ESPECIALLY IN THE CASE OF WHITE GOODS, WHICH ARE STILL IN THEIR INITIAL GROWTH STAGE.

BRAND-NEW GOALS UNCHANGING VALUES

A CORPORATE CULTURE, ETHICAL VALUES, AND CONCEPTS OF OPENNESS AND TRANSPARENCY THAT ARE SHARED BY MANAGEMENT AND PERSONNEL ALIKE PROVIDE THE GUIDELINES FOR ALL OF VESTEL'S ACTIVITIES.

AND IN THE FUTURE, JUST AS IN THE PAST, VESTEL'S CORPORATE VALUES ARE WHAT WILL CARRY ITS IDENTITY AS A GLOBAL COMPANY EVEN FURTHER AHEAD…

CHAIRMAN'S MESSAGE

Vestel's ability to achieve its goals year after year and the progress that it makes towards still greater objectives encourage us all to work even harder. In that respect therefore 2005 was yet another successful year in which the Company once again posted good results.

Certainly our performance and its impact on our financial statements cannot be dissociated from the favorable conditions provided by the macroeconomic environment last year. Historically Vestel has continued to grow even under highly volatile economic conditions both in Turkey and globally. Nevertheless the climate of political and economic stability that prevailed in our country 2005 and the real growth registered in its economy clinched our companies' success last year.

The momentum that Vestel has achieved in its growth remains strong and the overall rate of growth registered by the Group in 2005 was 15%. We retain our title as Turkey's leading exporter and Vestel ranks third as the world's biggest original equipment and original design manufacturer. Our leadership in TV production in Turkey and Europe is unchallenged and we are moving into the same position in new-generation technologies such as flat TVs and digital products.

A number of major investments launched in previous years were brought to completion in 2005 and Vestel's infrastructure has become even stronger than ever. Manufacturing capacities in white goods have been increased and our new cooker factory was completed and went into production last year. The high-end factory is operating at full capacity, augmenting our competitive strength in digital products.

With the inclusion of its facilities in Russia, Vestel now has more than 800,000 m2 of enclosed production space, which makes it one of the world's strongest players in its sector.

Good management: The key to success

The “market warfare” that is being waged globally has become increasingly more fierce over the last few years. The only way to be successful in this contest is through good management of all of one's resources and that dictum applies as much to countries as it does to companies.

This competition is further sharpened by worldwide production surpluses in many categories of goods and a high degree of market saturation in traditional markets such as Europe. Turkey is strategically and logistically located right in the middle of a potentially huge market reaching from Eastern Europe on the west eastward into the Middle East, the Caucasus, and countries such as Pakistan, India, and China. Combined with abundant natural resources and, most important of all, a youthful and educated population, that translates into tremendous production potential. It is within our own hands to realize that potential by mobilizing all our resources in the best possible way through investments that will further increase our competitive strength.

Vestel's competitive edge We as Vestel see the source of our competitive strength as lying in the point we have reached in R&D and technology and in the investments that we undertake to move even further ahead in that direction.

Vestel today has 11 R&D centers: 2 in Manisa, 3 in İzmir, 2 in İstanbul, 2 in Ankara, and 1 each in England and Taiwan. Research projects are going on at all of these centers aimed not just at adding new features to existing products in light of changing market conditions and consumer demands but also at differentiating them and enabling different products to function in an integrated manner with one another. Other projects at these centers are investigating technologies that have not yet reached the production stage but will likely emerge to the fore in the years ahead.

Looking at our current position in technology, we can see that our greatest strengths lie in digital products and software. Digital technology is something that Vestel gives the utmost importance to and we have substantially completed the changeover to digital products in most categories where it is applicable. IDTV and HDTV units are accounting for an increasingly greater share of our total output. Our own R&D base Cabot develops software for digital products and controls a substantial share of that market worldwide.

Vestel will once again be demonstrating its leadership in product development and technology with the first domestically manufactured laptop computers that will go into production in early 2006. Everything in these machines from hardware to ROM code is being produced in-house by Vestel. They will be a clear demonstration of Vestel's production strength in personal computers and will have a strong impact on our competitive strength and take it to a whole new level.

On the consumer side we also enjoy strong competitive advantages. Model and price flexibility based on a continuously growing product portfolio and an extensive and effective service network that provides sales, logistical, installation, and repair support give us a distinguished position in the market and nourish our steady growth.

A long-term strategy that brings us closer to our goals

When we took over Vestel eleven years ago, we identified a long-term strategy to serve as our guide. First we made Vestel a global company. Today we have become one of the best-liked companies in Turkey and one of the country's most preferred brands. All our products embody elements of design, quality, and feature diversity that enable them to appeal to consumers in Turkey and in the 108 countries to which they are exported.

Vestel today engages in strategic collaborations with some of the world's most distinguished brands. In addition to the strong partnerships that we have developed with these brands as an OEM, we are now also providing increasingly more service as an ODM (original design manufacturer) as well. We take pride in having become an organization which sets trends in technology and design and which shapes markets.

The result of perceptive strategies and insightful growth and development is that Vestel has now reached the point where its infrastructure, technology, production strengths, and sales abilities enable it to appear in global markets under its own name.

Our next objective therefore is to become a global brand and we have already set out on that path by starting in our country's natural hinterland. When we look at our most successful competitors around the world we see that this is the same course that they followed.

As a first stage, we have begun by establishing ourselves as a brand name in Russia and the Turkic republics. Our TV, refrigerator, and washing machine factories in Russia are now in production and have already achieved significant market shares. The marketing and sales aspects of this are being structured around the concept store and sales organization strategy similar to what we have proven to be successful in Turkey.

Confident of the future

In order to ensure our sustainable success and growth under conditions of international competition we need to make a difference by dedicating ourselves to our work, coming up with new ideas, producing, and being innovative. We must be mindful of this need on every level: as individuals, as companies, and as a group. This is the fundamental basis for every thought and action contributing to the creation of a strong economy and a strong country with strong institutions. Vestel is an organization that regards this truth as the cement that binds all of its corporate behavior.

All of the successes that Vestel has ever achieved have been the products of the team spirit and teamwork of the managers and personnel that make up one great family. So long as we all share in the same beliefs, the same strength, the same commitment, and the same dreams nothing can ever prevent us from achieving even greater successes.

In closing, I extend my thanks to everyone working for the future of Turkey and of Vestel.

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 Technical 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 began his career at Koç Holding in the R&D department in 1978. He has served on the executive committees of many major national and international firms. Dr Argüden currently heads the executive committee of an R&D consultancy active in the areas of corporate strategy, reorganization, and total quality management. The World Economic Forum selected him as one of its "100 Global Leaders for Tomorrow". Dr Argüden has been a member of the Vestel Board of Directors since 2005.

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 Nazif Zorlu
Chairman
(1944, Denizli) Ahmet Nazif 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 assistant 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 head of the Vestel Executive Committee.

CEO'S ASSESSMENT

2005 was an important year for Vestel. In addition to authoring news successes in global markets, we also reaped the results of the five-year strategic plan that we launched in 1999 and in which we set out our objectives in each of our principal business activities. The fact that we have achieved 75% of that plan should be a source of pleasure and pride for us all. But it should also be remembered that these results were achieved despite the shocks of the deep crisis from which the Turkish economy suffered in 2001. Considered in that light, this performance is still more evidence of Vestel's ability to overcome even the most difficult of conditions as one of Turkey's leading industrial concerns.

The economic environment in 2005

It is thought that global economic growth slowed down somewhat to about 4.2% in 2005. Due to the adverse effects of higher oil prices and lower output, the growth in the volume of world trade is also put at about 6.5%.

The overall rise in global liquidity continued in 2005 as international capital flows moved strongly towards emerging markets such as Turkey.

For the Turkish economy, 2005 was also a very important year. Resumed increases in output and investment, greater interest in the country on the part of international investors, high-profile and big-ticket privatizations, and the start of EU accession negotiations are just four of the year's positive developments that first come to mind.

The economic growth that Turkey experienced for three years in a row remained uninterrupted in 2005. While the growth in GNP was not as high as it had been in 2004, it was still a respectable 7.6% in 2005. Inflation remained on its downward course with year-on rises of 7.72% and 2.66% in the consumer price and producer price indexes respectively. While there were some problematic issues such as an overly strong Turkish lira and an overly large current account deficit, the general expectation is that the Turkish economy will remain on course and continue to grow in 2006 as well.

In 2005 Vestel had net sales worth TRY 4,408 million (USD 3.3 billion), and registered a gross profitability of 15%.Foreign sales accounted for a 72% share of total sales. The Company's net profit in 2005 was TRY 86.4 million (USD 64 million).

When sales are broken down by product group turnovers we see that the biggest share was contributed by the TV group. In domestic sales, consumer electronics accounted for the biggest share followed by white goods in second place. In the latter group, the product segment with the highest rate of year-on growth (20%) was washing machines.

A strong brand on the domestic market

Vestel's net sales to the domestic market in 2005 amounted to TRY 1,109 million (USD 827 million).

The Vestel Group's domestic sales are carried out by Vestel Durable Goods Marketing. That company's sales through its dealership network accounted for 76% of the total last year. In addition to these sales, Vestel also makes lot sales directly to corporate customers consisting of major hotels, hospitals, schools, and retail chains.

Vestel commands a very strong position in the domestic market in consumer electronics (especially TVs) and white goods. In 2005 Vestel is the leader in TV market, while its market shares in air conditioners (25%), refrigerators (20%), and washing machines (17%) put it among the front runners in those categories as well.

Fire at our Russian factory

Our Russian factory, which is an important link in our global marketing strategy, unfortunately suffered from a destructive fire in November 2005 that forced it to suspend production. We are currently working with the insurers on covering the material damage. Our biggest consolation is that none of our people suffered any physical harm.

Work is in progress to repair the damage so as to be able to resume production. It is expected that washing machine production will get started again in the first quarter of 2006 followed in turn by refrigerator production. We anticipate resuming TV production in July of the year.

Our product and service delivery channels

The elements that make up our domestic and international sales and after-sales services networks rank high among our most valuable assets. Vestel products reach consumers today through 1,231 points of sale. After-sales services are provided by 4,300 personnel operating out of 748 service points.

Our marketing and sales organization is ideally structured so as to be both productive in making sales and effective in providing after-sales services. The perfect amalgamation of high product quality, excellent logistical support, and superior after-sales services is vitally important to our ability to ensure continued customer satisfaction. Vestel's service call center is on duty round the clock and makes a continued and sustained effort to ensure that this system works so that customers' problems are dealt with promptly and effectively through proactive follow-up.

Our multi-brand sales strategy continues to be successful. Vestel Marketing also engages in the distribution and sale of goods made by some of the world's leading brands. One of the more important developments in this area in 2005 was our business partnership with Whirlpool, a US manufacturer of white goods that are the biggest sellers in the European market.

Strategies and projects that shape the future

As the author of many innovative projects in consumer electronics, Vestel bases its R&D strategy on two primary objectives:

- **Developing existing technologies that will give it the upper hand in the market**
- **Leading the way with new technologies that will nourish the Group's future growth and enable it to maintain its competitive stance on a long-term basis.**

We firmly believe in the importance and value of taking a long-term view in R&D. Vestel invests an average of USD 80 million in R&D every year and employs an R&D staff consisting of more than 600 engineers.

Including Cabot Bristol in England and Cabot İzmir in Turkey, which specialize in software and embedded code, Vestel has eleven R&D centers that undertake original research into new technologies while also keeping a close watch on worldwide developments in digital technologies and adapting them as quickly as possible to our own products.

Having substantially completed the changeover to digital products in most categories where that technology is applicable, Vestel is a strongly positioned leader of the market for digital TV software.

Two other digital technology products in which we are particularly strong are satellite receivers and decoders. Vestel-developed software is sold to the world's leading brown goods brands. Having established ourselves solidly in the UK market, we are now exploring ways to increase our effectiveness in other European countries as well.

In line with our objective of increasing our weight in software development, India is our top priority in our R&D investment plans at this time.

One of Vestel's basic strategies is to be in the forefront of new technologies and to be one of the first to productionize and take them to market for this is the chief way to maximize the added value that is generated. The fact that software is becoming an increasingly more important element of our product line elevates this strategy into one of Vestel's greatest strong points.

Vestel is committed also to putting the competencies it has acquired in software to work in the defense industry as well. Following up on the formation of Vestel Defense Industrials in 2003, we added Aydın Yazılım to our group in 2005. 70% of this Company's activities are focused on developing software for military applications. Aydın Software works in collaboration with 13 US companies and is licensed to export software to the United States.

Products that consumers prefer

Vestel ranks foremost among the companies that appeal to the greatest number of customers in Europe and that best understand what the market wants and can supply it. And not just in Europe either: Vestel products are preferred in more than a hundred countries worldwide and the basic reasons for this popularity are technological superiority and a highly diversified catalogue of models able to satisfy every taste.

Our computer production project at our Manisa facilities is moving along at full speed and the first laptop units are scheduled to leave the factory in late January 2006. As this project is being undertaken entirely in-house with Vestel in charge of everything from design to hardware and, most important of all, card software, it will be opening a whole new dimension for our group. Bringing together all of our R&D, software, and manufacturing competencies, these laptops represent an important milestone in Vestel's development. The collaborations that we enter into with world brands as an OEM also make it possible for us to grow stronger and establish ourselves as an ODM in the mature markets of developed countries. Meanwhile our strategy of entrenching ourselves under the Vestel brand in developing countries makes us stronger in those markets as well.

As the first stage of the latter strategy, we have organized ourselves to market and sell Vestel-branded products in Iran, Iraq, Russia, and the Turkic republics. In all these countries we are structuring our marketing and sales according to a concept store and multi-brand model similar to our service network here in Turkey.

Vestel and tomorrow

A corporate culture, ethical values, and concepts of openness and transparency that are shared by management and personnel alike provide the guidelines for all of Vestel's activities. And in the future, just as in the past, we will never forgo those principles. Our commitment to them is what will ensure the uninterrupted increase in our performance while also advancing Vestel's position as a global company in the world's league tables. So long as we can call on the trust of our business partners and the loyalty of our customers, Vestel and its products will continue to be a part of everyone's lives for the greater benefit and happiness of all.

Ömer Yüngül
Chairman of the Executive Committee

EXECUTIVE COMMITTEE

İzzet Güvenir
Executive Committee Member
(1955, İzmir) 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 an air conditioner production manager. 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.

Levent Hatay
Executive Committee Member
(1963, Oklahoma) Levent Hatay graduated from Dallas Southern Baptist University (Department of Electronics Engineering) in 1984. He holds a master's degree in engineering management and a doctorate in process research. After serving in positions at Aygaz and Altınyıldız, he joined Vestel as a general manager responsible for durable consumer goods marketing in 1999. Mr Hatay has been a member of the Executive Committee responsible for marketing, sales, and branding since 2005.

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 been a member of the Executive Committee responsible for global trade and OEM sales.

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 1995 Mr Ekmekçiler has been a member of the Executive Committee responsible for Vestel Electronics, Vestelkom, Vestel Digital, and Vestel Russia.

BRAND-NEW MARKETS UNCHANGING CUSTOMER FOCUS

VESTEL TAKES CUSTOMER SATISFACTION TO THE HIGHEST LEVELS BY PERFECTLY COMBINING ITS ABILITIES TO TURN TECHNOLOGICAL INNOVATIONS INTO PRODUCTS THAT MAKE OUR LIVES EASIER WITH ITS SUPERIOR PRODUCTION STRENGTHS. VESTEL MAINTAINS ITS UNASSAILABLE MARKET POSITION WITH PRODUCTS THAT PERFECTLY SUIT GLOBAL CONSUMERS' LIFESTYLES TODAY.

THE TURKISH ECONOMY IN 2005

CPI 7.7%: THE LOWEST YEAR-ON RISE IN 37 YEARS…

Another year of stability for the Turkish economy…

An important event in Turkey's economic history took place in 2005 with the launching of the new Turkish lira that went into circulation on January 1st. This historic changeover took place without a hitch.

A new three-year stand-by agreement under the IMF-backed economic program that is one of the most important factors contributing to economic stability in our country also went into effect in 2005. Due to factors such as the start of EU accession negotiations, high levels of international reserves, and an economic conjuncture generally favorable to developing economies, foreign direct investment inflows into Turkey were strong in 2005.

Economic growth remained on course in 2005 with the year-on rise in GNP weighing in at 7.6% making it the fourth consecutive year of uninterrupted growth in the Turkish economy.

In line with its fundamental mission of achieving and maintaining price stability, the Turkish Central Bank (CBT) continued its inflation targeting program with a focus on combating hidden inflation in 2005. CPI inflation in 2005 was 7.72%, below the 8% target that CBT had set and also the lowest year-on rise in consumer price inflation in 37 years. Producer price inflation last year was a low 2.66%.

Exports in 2005 were up 16% year-on and reached USD 73.3 billion while imports rose 19.3% to USD 116.4 billion in value. The country's export performance slipped somewhat last year for a variety of reasons such as an overall slowdown in global growth, political and economic uncertainties in EU countries (which are Turkey's most important export markets), stiffer competition (particularly in textiles and garments) resulting from the lifting of quotas, and imported inputs made more expensive by higher oil prices. The strong rise in imports was fueled by increased use of imported inputs substituting for local ones that had become dearer due to the appreciation in the new Turkish lira and to generally high levels of international commodity prices last year.

The impairment in the country's current accounts balance that began in 2002 continued in 2005. In 2004 the current account deficit amounted to USD 15.6 billion or 5.2% of GDP; in 2005 it reached USD 22.9 billion or 6.2% of GDP.

Despite this high current account deficit and strong performance in borrowing and foreign portfolio and direct investment, CBT's foreign currency reserves increased some USD 17.8 billion in 2005. The bank's total reserves, which were USD 36 billion at the beginning of the year, reached USD 50.5 billion by the end.

There was another noteworthy decrease in the consolidated budget deficit in 2005, which contracted to TRY 9.7 billion. The non-interest surplus outperformed budget targets and reached TRY 35.9 billion.

Responding to the start of EU accession negotiations, heightened attention on the part of foreign investors, and the downward trend in inflation, the İstanbul Stock Exchange's ISE-100 index closed the year at 39,777.

VESTEL IN 2005

In 2005 Vestel
- **Continued to increase both production and sales**
- **Accelerated its own-brand investment and new product development activities**
- **Completed primary investments in electronics and white goods.**

Vestel sold a total of 21,654,157 product units in 2005 and booked net sales worth TRY 4,407,738,000 (USD 3.3 billion). The Company's gross profitability was 15%. Foreign sales accounted for a 72% of total sales last year. The Company's net profit in 2005 was TRY 86,400,000 (USD 64 million).

Looking at total sales on the basis of product groups, the biggest share consists of televisions. In its domestic sales, consumer electronics account for the biggest share followed in turn by white goods. The fastest-growing product category in white goods in 2005 was washing machines, the turnover from which was up 20% year-on.

A strong brand in the domestic market

Vestel's net sales proceeds in the domestic market in 2005 amounted to TRY 1,108,769,000 (USD 827 million).

The Vestel Group's domestic sales are carried out by Vestel Durable Goods Marketing. That company's sales through its dealership network accounted for 76% of the total last year. In addition to these sales, Vestel also makes lot sales directly to corporate customers consisting of major hotels, hospitals, schools, and retail chains.

Vestel commands a very strong position in the domestic market in consumer electronics (especially TVs) and white goods. In 2005 Vestel is the leader in TV market, while its market shares in air conditioners (25%), refrigerators (20%), and washing machines (17%).

Continuously enriching its product line and rapidly transforming state-of-the-art technology into products that can be offered to customers, Vestel believes that the observed demand in digital products and white goods is such as to create additional growth in the market. In view of this, the Company's objective will be to take maximum advantage of this growth to further increase its own market share.

Effective marketing and sales organization

One of the most potent forces supporting Vestel's market position is its excellent marketing and sales organization and its strong after-sales services network.

To maximize effectiveness in marketing, sales, and distribution, Vestel has divided the domestic market up into twelve regions. With a sales team numbering more than fifty people, Vestel offers its products to customers through 1,231 points of sale located all over the country.

With its customer and quality-focused approach, Vestel attaches great importance to after-sales services too. An after-sales services network consisting of 1,231 authorized outlets, 748 service points, and more than 4,300 people enables the Company to take a fast, effective, and solution-focused approach to deal with its customers' needs.

Vestel's extensive authorized dealer and service networks fully comply with EU norms. Vestel-certified service personnel provide installation, repair, and maintenance services for consumer electronics, personal computers, and white goods. Authorized Vestel services are organized into two regional departments whose territories cover the western and eastern parts of the country respectively.

Vestel employs the Manugistics system to optimize its logistical operations that allows it to resolve even the most complex delivery and shipping problems in the most efficient way possible within the constraints of time and cost. This system provides complete process effectiveness through a robust infrastructure that allows orders to be tracked online and in real time as they move through production to delivery to the dealer and from dealer to customers.

Under the heading of after-sales services, Vestel also operates a call center that works with its customer services department. The Vestel call center responds to incoming calls while also conducting surveys to determine the levels of customer satisfaction with the Company's products and services.

The unchallenged leader in exports

Vestel has been Turkey's export champion now for seven years in a row. The Company owes this unrivaled position to an exportation model that it has shaped through its strong strategic partnerships with some of the world's leading brands.

In 2005 Vestel had total foreign sales worth USD 2.4 billion and exported products to more than a hundred different countries. Televisions account for the biggest share of Vestel's exports: Vestel alone is responsible for a big share of all the units exported from Turkey. In its export portfolio, Vestel is increasing the weight of the technologically superior TFT, LCD, and plasma models that are in the greatest demand in the European market and it has stepped up its production of these units accordingly.

Vestel's export customers are major retailers, mail-order companies, and wholesalers. Vestel supplies televisions to Europe's biggest retail chains such as Dixons, Conforama, Carrefour, Makro, Metro, and KESA Electricals. Vestel also produces for Japanese brands such as Hitachi, Toshiba, JVC, Panasonic, Sharp, Mitsubishi, Akai, Funai, Sanyo, and TEAC and these goods are intended primarily for the European market.

Committed to strengthening its strategic production ties with major brands in the European market while also increasing its market share, Vestel takes great pains to avoid causing any brand conflict in its export markets.

Sure-footed progress in branding

Vestel follows a three-pronged strategy:
• **Strengthening its position in the EU market where it is active as an OEM and ODM.**
• **Venturing into new markets in consumer electronics and white goods.**
• **Focusing on high-tech, high added value electronic products (laptop computers and high-end products).**

Vestel enters new markets with the objective of conducting own-brand marketing activities and increasing its profit margins.

Under the heading of its new market and branding strategy, Vestel has created a structure to sell Vestel-brand products in Russia and CIS countries (Ukraine, Georgia, Azerbaijan, and Armenia), in the Middle East (Syria, Iran, and Iraq), in South Asia (India and Pakistan), and in North Africa (Egypt). In addition to the concept stores that are based on a multi-brand sales model that includes the Vestel brand as well, Vestel has also begun to set up its sales and after-sales services organizations in those markets as well.

Vestel CIS plant

In November 2005 a severe fire at the Vestel CIS TV factory in Alexandrov completely destroyed the facility and made it necessary to suspend production until the factory can be rebuilt. It is now planned to resume production after construction is completed in the last quarter of 2006. As the Vestel CIS facility was completely insured against such losses, the investment cost of rebuilding the plant will be modest and it should be possible to complete the work in a short time. Until the plant can get back into production, Russian market demand is being supplied by products made in our Turkish facilities, which significantly minimizes the impact of our lost production.

Vestel is determined to take maximum advantage of the potential in the Russian and surrounding markets and to expand the scope of its brand marketing strategy there. To accomplish this, the Company has decided to enter the Russian white goods market as well. The white goods factory investment being undertaken by Vestel CIS is proceeding on schedule and its refrigerator and washing machine production lines should be completed during the first half of 2006.

R&D: New technology means new products

One of the biggest forces powering Vestel's rapid advance towards becoming a global giant through the technologies that it develops is its R&D activities.

Vestel's R&D mission has two primary objectives: developing existing technologies that will give it the upper hand over its competitors in the market and leading the way with new technologies that will nourish the Group's future growth and enable it to maintain its competitive stance on a long-term basis.

An ability to shape the course of future technologies as a company that is instrumental in determining and formulating technological standards gives Vestel a strong competitive edge when introducing new products to markets.

Underlying Vestel's success in international markets are the investments the Company continuously makes in electronic product and software R&D. Paralleling the importance that it gives to developing new products, Vestel undertakes R&D investments in the UK, USA, Hong Kong, Taiwan, Manisa, İzmir, and İstanbul in order to keep abreast of worldwide developments in technology. More than 600 engineers are employed in these centers as part of Vestel's strong R&D organization.

Vestel is especially adept in its ability to appeal to customers in European markets and to fully understand the ins and outs of those markets. Vestel began investing in digital technology through Cabot well before digital broadcasting got started in Europe with the result that when it did, it was already well ahead of its competitors and has stayed out in front ever since.

A total of 100 engineers work at Cabot Communication's Bristol headquarters, Vestel's biggest R&D unit outside Turkey, and at Cabot İzmir, which is operating under the auspices of the Institute of High Technology in Urla.

Through Cabot, Vestel has become specialized in the embedded software technology that is used in consumer electronics. This technology gives Vestel tremendous strength in the brown goods market and allows it to shape trends there. Cabot is the only software house today supplying DVB-T software for the European market. Vestel conducts its R&D activities in Manisa through two organizations.

The Central R&D unit has a team of 135 people that provide mechanical design and support services.

The High-End R&D unit employs a team of 125. This unit is responsible for the electronic design of all the televisions manufactured by Vestel.

Another distinctive feature of R&D at Vestel is concerned with investigating new technologies that have not yet been turned into products but have the potential to open new horizons in consumer electronics. For this purpose, Vestel set up Vestek, an R&D company located at İstanbul Technical University's Arı Technocity in 2005.

Vestek's work focuses primarily on developing new technologies for Vestel that can be transformed into products. By investigating technologies that have the potential to be the stars of the future, Vestek supplies the ideas and data used by our other R&D units.

Projects focused on the future

With the support of its superior R&D muscle, Vestel puts its leadership in technology to work in its products. The ability to perfectly combine production strong with a talent for transforming technological innovation into products gives Vestel an important competitive advantage from the standpoint of maintaining its market position.

Paralleling the new worldwide trend of combining different products in the same box, Vestel has been giving attention to developing technologies and designs that will integrate different groupings of electronic devices such as TV, home cinema system, and digital satellite receiver in a single unit. Vestel foresees that integrated products that bring information, telecommunications, and consumer technologies together are going to become crucial to its ability to compete in the future.

Another developmental axis of integrated products is the increasing presence of new technologies that make life easier in home electronics. Alternative energy products, medical products, payment systems, security systems, and nanotechnology products are just a few of the innovations that this vision is likely to bring.

Ongoing investment activities

In 2005 Vestel completed all of the primary electronics and white goods investments that it had planned and achieved the perfect infrastructure that it needs to support its production activities in the near term.

With the completion of the high-end factory investment at Vestel City, Vestel reinforces its standing as Turkey's biggest digital device manufacturer.

Vestel also completed investments that increased its production capacities in white goods.

Vestel's total investment outlays in 2005 came to USD 200 million.

Effective cost control

Vestel rigorously controls its costs in order to maintain its competitive edge and increase its operating profit. Vestel's cost control policy is rooted in two basic concepts: maximizing productivity in all production processes and keeping stock, production, and financing costs sustainably low.

Deriving increasingly greater benefit from economies of scale through planned growth in production volumes and by virtue of its standing as a high-volume manufacturer, Vestel is able to command the best possible prices from its suppliers as a result of the increase and diversification of the components that are common to different products and production processes.

Maintaining an effective cost-control structure, achieving multi-source production with the support of R&D, and reducing operating costs and waste rank among Vestel's most important priorities.

One of the methods by which Vestel reduces group-wide costs is the use of SAP R/3, an advanced enterprise resource planning system, in its operations and accounting functions, particularly in the areas of product pricing, sales control, budgeting, and stock valuation.

A respected player in international financial markets

Vestel is a company that is well known and highly respected in international financial markets.

Strong, good relations with banks and other institutional investors that go back many years make it possible for Vestel to tap international markets for financing on the very best possible terms. In 2005, Vestel continued to work closely with international banks and financial institutions

Under a Board of Directors decision dated 5 May 2005, Vestel issued seven-year corporate bonds at 8.75% interest worth a total of USD 225 million. The funds secured in this way were used to redeem USD 200 million worth of five-year bonds that had been issued in 2002 at 11.5% interest and that would have matured in 2007.

In 2005 Vestel CIS secured a 6.5-year project finance loan amounting to USD 28 million from the European Bank for Reconstruction and Development. This loan is to be used to finance investments at the Company's white goods production facilities in Alexandrov.

Vestel and human resources

Vestel is a community of people who identify with its corporate culture, are devoted to their work, and are open to growth, development, and innovation.

A total of 11,718 people (1,879 white collar and 9,839 blue collar) are employed in Vestel Group companies.

Investing continuously in high-quality human resources, Vestel provides its employees equality of opportunity and every means possible whereby they may progressively develop themselves and advance their careers.

Vestel's success is fundamentally rooted in superior human resources who have a strong corporate identity and believe in the value of teamwork, collective thinking, and shared objectives. Vestel's human resources policy is based on three main tenets:

•Recruit the right people who are best suited to the Company's needs from the broadest possible pool
•Provide employees with ongoing training opportunities to support their professional and personal development so as to be able to fill management position vacancies through the internal promotion process
•Maximize human resource productivity through employee motivation.

Vestel and the environment

Recognizing its responsibilities as one of the world's leading companies in consumer electronics, Vestel carries out all of its operations with a continuous eye on the environmental risks inherent both in its production processes and in the products that it makes. Vestel's commitment to being a good corporate citizen that is always sensitive towards environmental issues is absolute.

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. In line with this belief, potential environmental risks have been identified for every unit of the Group and all activities are conducted with these risks in view.

Vestel has held an ISO 14001 Environmental Management System Certificate continuously since 1998. The Company most recently was audited for its environmental impact and it was established that none of its operations were in violation of environmental protection standards.

Internal control at Vestel

To ensure the effectiveness and productivity of its internal control system, Vestel has set up an audit committee that reports directly to the Board of Directors and one of whose members is an independent director. This committee continuously monitors the attitudes and behavior of the

Company's management with respect to the internal control system. In this process the internal control unit of Zorlu Holding also plays an active role, periodically reviewing and assessing Vestel's internal control system and risk exposures and reporting its findings to Company boards. The internal control unit is staffed by internal auditors who hold international certification. When necessary, external auditors are called in to provide support as well.

Another of the Audit Committee's duties is determining whether or not suggestions and recommendations made by internal and external auditors concerning the effectiveness of the internal control system have been heeded.

The Vestel internal control system is governed by a well-defined framework of policies, regulations, and procedures. All workflows and associated guidelines have been fully incorporated into Vestel's SAP system.

Risks associated with information technologies are also taken into account in annual auditing plans and the identified areas of information technology risk exposure are checked at regular intervals.

THE VESTEL GROUP OF COMPANIES

VESTEL ELECTRONICS

Publicly traded 48.41%
Collar Holding 51.59%

LEGAL NAME Vestel Elektronik Sanayi ve Ticaret A.Ş.
FOUNDED 1984
PRINCIPAL BUSINESS ACTIVITY Production of CRT, TFT-LCD, and plasma televisions
NUMBER OF EMPLOYEES 5,900

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.

In TV manufacturing in Turkey, Vestel Electronics has been the author of many firsts. In addition to 37-87 cm screen standard and combi CRT televisions, it is also the market leader in the design and production of new-technology TFT-LCD and plasma TVs. The annual production capacity in TFT-LCD and plasma units Vestel Electronics reached with the addition of the high-end factory whose investment it completed at Vestel City in 2005, puts the Company solidly in the front ranks of this segment in the European market. Vestel Electronics also manufactures televisions that are capable of receiving the digital and high-definition broadcasts that are becoming increasingly more common in Europe and its greatest strength in this segment is its strong 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 were 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, internet access, TFT, and plasma features.

In addition to its own branded products, Vestel Electronics has been producing goods for such electronics global giants as JVC, Hitachi, Sharp, Sanyo, and Toshiba for two and a half years 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 time, 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 leaner production processes and shorter production times that generate greater customer satisfaction and profitability.

With its unit TV production in 2005, Vestel Electronics is Europe's biggest television manufacturer and ships its goods to more than 100 countries worldwide.

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

VESTEL WHITE GOODS

Vestel Electronics 35.00%
Ahmet Zorlu 26.50%
Olgun Zorlu 26.50%
Zorlu Holding 10.00% Other 2.00%

LEGAL NAME Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.
FOUNDED 1997
PRINCIPAL BUSINESS ACTIVITY Design and manufacture of white goods
NUMBER OF EMPLOYEES 3,646

Vestel White Goods designs, manufactures, and sells white goods with a particular focus on refrigerators. The Company was founded in Manisa in 1997. It began producing refrigerators in 1999, split air conditioners in 2000, washing machines in 2003, and cookers in 2005. The Company plans to commence production of dishwashers towards the end of 2006.

Vestel White Goods' highly flexible production lines give it the ability to respond to customers' needs quickly. In less than a decade since it was founded, it has become one of the leading manufacturers in the sector, not just in Turkey but worldwide. 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 project.

A new refrigerator factory was completed in April 2005.

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 decor. 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 in Vestel City supplies a big portion of all the air conditioners exported from Turkey. Expansion investments at the plant have increased annual production capacity, which is currently sufficient to supply all the demand of theTurkish market.

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.

When designing its cookers, the Company carefully took 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 designs also took into account environment and safety directives (RoHs, WEEE, etc) that were still in draft form at the time and were scheduled to go into effect in 2006 with the result that the products already complied with the directives when they went on the market.

The Company's washing machine factory in Manisa 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. ISO 14001 Environmental Management System certification will be obtained in 2006 after investments currently in progress at the plant are completed.

VESTEL COMMUNICATIONS

Vestel Foreign Trade 51.32%
Vestel Electronics 36.82%

LEGAL NAME Vestel Komünikasyon Sanayi ve Ticaret A.Ş.
FOUNDED 1975
PRINCIPAL BUSINESS ACTIVITY Consumer electronics
NUMBER OF EMPLOYEES 1,650

Vestel Durable Goods 11.22% Ahmet Zorlu 0.64%

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 1,650 people, 102 of them engaged in R&D, in 26,500 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.**
- **Is the only 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.**
- **Is the only 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.

Vestel Communications manufactures as both and ODM and OEM. The bulk of its output is intended for export. 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 in Europe and looking into 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 relations established with major Japanese firms in 2003 turned into full-fledged collaborations in 2004 and these too have been important contributors to Vestel Communications' success in this area. These collaborations continued in 2005.

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 is to go into force in the EU as of 1 July 2006.

VESTEL DURABLE GOODS MARKETING

Vestel Electronics 33.03%
Vestel Foreign Trade 66.97%

LEGAL NAME Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.
FOUNDED 1991
PRINCIPAL BUSINESS ACTIVITY Marketing and sale of Vestel products in the domestic market
NUMBER OF EMPLOYEES 336

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

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, Zanussi, Moulinex, Tefal, Rowenta, Palmone, Samsung, and Motorola. 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 2005 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 utilization rates to as high as 90%.

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 have been moved into Vestel showrooms and shops instead. The number of these outlets reached 1,231 as of year-end 2005. In addition to Vestel brand brown and white goods these Vestel dealerships also offer customers Whirlpool and Zanussi white goods; Tefal, Moulinex, and Rowenta small home appliances; Samsung and Motorola mobile phones; and Palmone and JVC consumer electronics. 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 plans to increase the number of its concept stores to 100 and to make its 1,300-outlet strong dealership network the second largest in Turkey's durable consumer goods sector by the end of 2006.

Vestel Durable Goods Marketing's rates of growth in 2005 were above the sector averages in all product categories. In 2005 the Company commanded market shares of 20% in refrigerators, 17% in washing machines, 25% in air conditioners, while it was the leader in the TV market.

Over the last three years, Vestel Durable Goods Marketing has been phasing Vestel brand products out of wholesale channels and replacing them with the Regal brand that has been specially designed for this segment. Regal brand products first went on the market in 2002 and currently supply about 15% of the Company's total turnover.

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 strength, a line of products that appeal to Turkish consumers' tastes, effective and highly developed delivery channels, a multi-brand marketing strategy, a high level 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 2005.

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 again continued in 2005. 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

Vestel Durable Goods 96.00%
Vestel Foreign Trade 1.00%
Dexar Multimedia 1.00%
Ahmet Nazif Zorlu 1.00%
Olgun Zorlu 1.00%

LEGAL NAME Vestel Dijital Üretim Sanayi A.Ş.
FOUNDED 2005
PRINCIPAL BUSINESS ACTIVITY Digital media and PC products
NUMBER OF EMPLOYEES 529

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 has set its sights on becoming one of the world's leaders 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 developed and has begun making Turkey's first WiFi card and its first portable DVD player conforming to EU standards.

In its other business line, personal computers, Vestel Digital has 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 is to be further expanded with more advanced models incorporating new technologies as they become available. 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 automated insertion machines 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 MULTIMEDIA AND TELECOMMUNICATIONS

Vestel Electronics 99.01%
Other 0.99%

LEGAL NAME Deksar Multimedya ve Telekomünikasyon A.Ş.
FOUNDED 2000
PRINCIPAL BUSINESS ACTIVITY Telecommunications
NUMBER OF EMPLOYEES 35

Dexar is a telecommunications service provider and operator set up to provide basic satellite communication services and to support them with high added value services.

One out of every three firms that availed themselves of satellite ground services in Turkey in 2005 purchased them from Dexar. This market share makes Dexar the country's biggest satellite services provider.Dexar's services include setting up high-speed point to multi-point data transmission networks; bidirectional internet access, IP multicasting, distance learning, intranet, and bandwidth on demand (BOD) services; and hosting and collocation facilities.

Dexar's customer portfolio consists of such leading corporate and institutional names as Roche, Aksa, General Directorate for Disaster Recovery, Telecommunications Agency, Ziraat Bank, Superonline, Başak Insurance, Betek, Kandilli Observatory, TPAO, BAT, Loreal, Meteksan, Alarko, İpragaz, and EUAŞ.

Dexar also provides telecommunications and infrastructure support for members of the Zorlu Group. Some of the firms in this category are Vestel Electronics, Vestel CIS, Vestel Communications, Vestel Digital, Vestel Durable Goods Marketing, Vestel Defense, Vestel Electronics R&D, Korteks, Zorlu Energy, Zorlu Linens, Cabot Technology Development, and DenizBank. Dexar also provides Zorlu companies with internet access, IT and network management, WAN, web design, hosting, and software support services as well.

Highlights at Dexar in 2005

- **In Interpro's 2004 survey of the top 500 information technology companies in Turkey, Dexar ranked first in the “satellite services” category. The results of the 2005 survey were not yet known at the time this report was in preparation.**

- **The number of customers taking advantage of the Company's DirecWay bidirectional broadband internet access service increased more than 30% last year and topped a thousand.**

- **In addition to telecommunications services, Dexar has also begun to provide integration and support services for Vestel-brand IT products.**

- **In December 2005 Dexar launched a project to provide distance education for Vestel's after-sales services network. In the first phase of this project, 150 service points located around the country are making use of Dexar-supplied products and systems every day to provide training on issues related to product descriptions, maintenance, and repairs. This network will be further expanded in 2006.**

As one of the sector's most experienced players, Dexar quickly increased the number of its satellite services customers when the telecommunications market in Turkey began to undergo deregulation. The Company has set its sights on increasing the number of its regularly served customers to 2,000 in 2006. The integration and support services for Vestel-made IT products that Dexar began providing in 2005 will also be accelerated with the objective of further expanding its range of services and strengthening its existing market position.

VESTEL FOREIGN TRADE

Vestel Electronics 99.17%
Other 0.83%

LEGAL NAME Vestel Dış Ticaret A.Ş.
FOUNDED 1987
PRINCIPAL BUSINESS ACTIVITY Export-import
NUMBER OF EMPLOYEES 120

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 France, Germany, Holland, Italy, Romania, Russia, Spain, and the UK.

With a huge array of products ranging from televisions to DVD player/recorders and from refrigerators to split air conditioners, Vestel Foreign Trade is responsible for the international marketing and sale of the products 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 subsidiaries had total international sales worth USD 2.4 billion in 2005, 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 the European television 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.

VESTEL CIS LTD.

Vestel Foreign Trade 100%

LEGAL NAME Vestel CIS Ltd.
FOUNDED 2003
PRINCIPAL BUSINESS ACTIVITY Production and sale of brown and white goods
NUMBER OF EMPLOYEES 921

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. The Company is currently working with the insurers on covering the material damage. Vestel CIS Ltd is also engaged in a washing machine and refrigerator factory project that will come on stream with annual production capacities of 500,000 units in each product category and thus enable it to further tap the tremendous potential that exists in the rapidly growing Russian market.

VESTEL IBERIA

Vestel Foreign Trade 91.04%
Vestel Holland B.V 8.96%

LEGAL NAME Vestel Iberia
FOUNDED 1998
PRINCIPAL BUSINESS ACTIVITY Marketing and sales
NUMBER OF EMPLOYEES 12

Founded in 1998, Vestel Iberia is responsible for the marketing and sale of Vestel products in Spain and Portugal.

Vestel Iberia offers a wide range of products to the Portuguese and Spanish markets that includes televisions, air conditioners, and white goods. The Company is seeking to put its competitive advantages to work in order to strengthen its market position and increase its market share.

VESTEL UK LTD.

Vestel Foreign Trade 100%

LEGAL NAME Vestel UK Ltd.
FOUNDED 2004
PRINCIPAL BUSINESS ACTIVITY Marketing and sales
NUMBER OF EMPLOYEES 10

Vestel UK Ltd is the newest addition to Vestel's European marketing and sales network. Having completed its second year of operation, the Company 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 and maintenance and repair support and it further strengthens the competitive position of Vestel products in the UK market.

VESTEL ITALY SRL

Vestel Foreign Trade 51.00%
Finprel SRL 49.00%

LEGAL NAME Vestel Italy SRL
FOUNDED 2001
PRINCIPAL BUSINESS ACTIVITY Marketing and sale
NUMBER OF EMPLOYEES 16

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

Seeking to quickly expand its presence in the Italian market, Vestel Italy is also planning to begin marketing and sales activities in the countries that make up the country's natural hinterland.

VESTEL HOLLAND BV

Vestel Foreign Trade 100%

LEGAL NAME Vestel Holland BV
FOUNDED 1995
PRINCIPAL BUSINESS ACTIVITY Logistical support and sales
NUMBER OF EMPLOYEES 3

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

VESTEL BENELUX BV

Vestel Foreign Trade 51.00%
Teds International BV 49.00%

LEGAL NAME Vestel Benelux BV
FOUNDED 2003
PRINCIPAL BUSINESS ACTIVITY: Marketing and sales
NUMBER OF EMPLOYEES 5

Vestel Benelux commenced operations in 2003 and is responsible for the marketing and sale of Vestel products in Benelux countries (Belgium, Netherlands, and Luxembourg).

VESTEL ROMANIA

Vestel Foreign Trade 100%

LEGAL NAME Vestel Electronica SRL
FOUNDED 2004
PRINCIPAL BUSINESS ACTIVITY Marketing and sales
NUMBER OF EMPLOYEES 2

Vestel Romania was founded in 2004 to market and sell Vestel products in Romania, which is due to join the EU on 1 January 2007. The Company is engaged in a variety of activities concerning the sale of OEM products in line with the changes taking place in Romania as it approaches EU membership. It is also making preparations to launch Vestel branded products in the country as well.

VESTEL FRANCE SA

Vestel Foreign Trade 99.88%
Other 0.12%

LEGAL NAME Vestel France SA
FOUNDED 1996
PRINCIPAL BUSINESS ACTIVITY Marketing and sales
NUMBER OF EMPLOYEES 20

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

VESEG GMBH

LEGAL NAME Veseg GmbH
FOUNDED 1995
PRINCIPAL BUSINESS ACTIVITY Marketing and sales
NUMBER OF EMPLOYEES 64

Vestel Foreign Trade 51.00%
Schmid Trading GmbH 39.00%
Yoon Choo Schmid 10.00%

Veseg was founded in 1995 to market and sell Vestel products in Germany and neighboring countries. The Company sells products under the SEG brand in Germany, Austria, and Switzerland.

VESTEL DEFENSE INDUSTRIALS

Vestel Communications 20.00%
Ahmet Zorlu 30.00%
Olgun Zorlu 20.00%
Zeki Zorlu 10.00%
Vestel Electronics 10.00%
Other 10.00%

LEGAL NAME Vestel Savunma Sanayi A.Ş.
FOUNDED 2003
PRINCIPAL BUSINESS ACTIVITY Defense industry technologies marketing and sales
NUMBER OF EMPLOYEES 53

Vestel Defense was founded in late 2003 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 Defense 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, and nanotechnology-based high-tech materials in the effort to give the Group a competitive advantage in these areas on a global scale.

AYESAŞ

Vestel Defense 60.00%
L-3 Comm. Inv. Inc 40.00%

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
NUMBER OF EMPLOYEES 251

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 Army, Navy, and Air Force, the Undersecretariat for Defense Industries, NATO, Boeing, Lockheed-Martin, Sikorsky, Thales, Rockwell-Collins, 1-3 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.**

R&D AT VESTEL

2005 was also a productive year at Vestel from the standpoint of R&D.

R&D work was turned into innovative and competitive products that have a strong appeal for consumers. In addition to new products improvements and enhancements were also made in models currently in production for the purpose of improving manufacturing productivity as well as increasing customer satisfaction.

Vestel's Manisa-based R&D organization also continued to grow and develop in 2005. The most important organizational move was the launching of Vestek. Located in the Arı Technocity on the Ayazağa campus of İstanbul Technical University, Vestek is expected to play a key role in productionizing Vestel R&D activities. Vestek is currently working on the development of software for home electronics applications.

Another important development in the area of R&D last year was the formation of Vestel Digital. While its new laptop computer factory was being set up at the Vestel City complex in Manisa, Vestel Digital began working on product design and development.

There was a net 40% rise in employment numbers in Vestel's R&D units in 2005 and more than 600 R&D personnel are now on the Vestel payroll. It is expected that there will be additional growth in the R&D team in 2006 on the order of 20%.

R&D at Vestel Electronics

Vestel Electronics' R&D activities in 2005 were carried out at the Main and High-End centers in Manisa, at Vestelkom and Cabot İzmir in İzmir, at Vestek in İstanbul, at Cabot UK in Bristol, and at Vestel USA in Mountain View.

In all of the Company's R&D activities, the primary focus was issues related to platform digitalization and high-definition. Infrastructure work was accelerated in 2005 to further entrench the tradition of "learning R&D". Using the "Vestel R&D" system, Vestel employees are now able to access all information made publicly available over the corporate intranet. In-house training on technical issues was reorganized and put on a regular basis.

Shared research platforms set up with universities in Turkey and abroad are making important contributions to academic-industrial cooperation. This cooperation, which extends even to the holding of classes on campus, has proven beneficial to product development. Another dimension in Vestel Electronics' R&D work last year is represented by the joint applications made for the EU Sixth Framework Program.

Manisa Main and High-End

Mechanical and electronic design work on CRT and LCD televisions was carried out at the Company's Main and High-End R&D centers in Manisa. Conducted in line with project management strategies by an R&D team of 260 people, the design work undertaken in 2005 yielded successful results. The centers' activities are carried out by project groups individually responsible of the aspects of industrial design, mechanical design, mechanical productionization, industrial applications, intellectual property rights and contracts, design verification, and hardware and software engineering.

Work was carried out last year to increase productivity in standard CRT products and to add new features to existing products. In LCD products, the focus was on filling out the product line, expanding it by adapting new technologies to products, and improving productivity and customer focus. A highly significant number of new mechanical and electronic products were developed. As a result of the combination of R&D developments and sales network success, the Company now has an important share in the European market in LCD products.

In 2005 products with screens ranging between 14 and 37 inches and equipped with many different options and features were developed. Vestel has readied itself to be able to supply the full range of televisions capable of receiving terrestrial digital broadcasting, which is still in the trial stage in our own country, and it leads the way in this area in Europe. Vestel Electronics also turned out its first HD-ready products in 2005.

Vestel's products are authorized to receive international certification. The Company's R&D laboratories contribute significantly to Vestel's ability to develop and bring new products on stream quickly.

In plasma televisions, the first 50 inch products were developed in 2005 and many new features were also added to existing 42 inch units. Recently completed mechanical structures made it possible to offer customers a variety of model options.

R&D at Vestel Communications

Undergoing a reorganization in 2005, Vestel Communications also brought many new products on stream last year. In a sector characterized by extremely stiff competition, Vestel Communications' R&D activities resulted in major progress in the DVB-T, DVB-S, and DVB-C formats as well as in digital communications. Standard DVD players and AV receivers and DiVX products were supported with the addition of many new models. Design work on DVD recorders was completed in 2005.

Vestelkom's R&D team of 102 specialists is divided into groups individually responsible for mechanical design, software design, design verification, and special projects. In 2006 the team will be working on adding more features to products so as to further enhance their performance.

Cabot Communication Ltd. UK

R&D work has been going on at Bristol-based Cabot in England since 2001. In 2005, the Company was 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 İzmir

Cabot İzmir's activities in 2005 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. 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 DVD recorder products.

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

Vestek is an R&D center that commenced operations in August 2005 in the Arı Technocity on the Ayazağa campus of İstanbul Technical University. It employs a staff of 35.

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 2005 Vestek worked on image processing, image quality, USB applications, and visual verification etc in order to provide support for Vestel products on such issues. The results of these efforts will be applied to increasingly more products as time goes by.

Vestel Digital

Infrastructure work completed at Vestel Digital in the second half of 2005 and the Solution Partner agreement with Intel are expected to yield their first products in 2006. Focusing on laptop computer development, the size of the Company's R&D unit has been increased from 15 engineers to 35.

Vestel Digital's own-designed units are slated to go into production before the end of 2006.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES

CORPORATE GOVERNANCE COMPLIANCE REPORT

CORPORATE GOVERNANCE COMPLIANCE REPORT

TABLE OF CONTENTS

CORPORATE GOVERNANCE COMPLIANCE REPORT

1. Statement of compliance with corporate governance principles

Vestel Electronics Incorporated's project to install corporate governance mechanisms in the Company that was launched in late 2004 was brought to completion around the middle of 2005. Detailed explanation of the changes made within the Company and of the adaptation of the principles was publicly disclosed in the “Corporate Governance Report” that was published on the Company's corporate website and made available for the information of all shareholders, investors, and other stakeholders.

Vestel Electronics Inc is one of the most publicly traded companies in Turkey, with approximately 49% of its shares held by investors. With its shares being traded on the İstanbul Stock Exchange in Turkey and also on the London and Luxembourg stock exchanges, the Company decided to adopt these corporate governance principles in order to fulfill to the maximum degree possible its responsibilities towards its corporate and individual shareholders in Turkey and abroad. In the wake of that decision, Vestel Electronics Inc's Board of Directors, management, and employees gave their support at every stage of the effort to entrench corporate governance principles at the Company. It was after the adaptation of corporate governance principles at the Company that the Corporate Governance Compliance Report was publicly announced in which it was stated that Company activities would be conducted in line with the principles of transparency, equitability, responsibility, and accountability. These activities on the part of Vestel show that it is committed to 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.

In this statement, the Company reveals the degree to which it is in compliance with CMB Corporate Governance Principles as well as the issues on which it is not and the reasons for non-compliance. The activities undertaken by Vestel Electronics Inc to achieve compliance with corporate governance principles are briefly described below.

- Vestel made changes in its Board of Directors in line with corporate governance principles to increase its effectiveness. These changes involved appointing two independent board members and structuring the board to bring it into compliance with corporate governance principles.
- An Audit Committee was established under a board decision dated 15 June 2005. Two independent board members were elected by the shareholders at a general meeting and independent board member Ekrem Pakdemirli began serving as the committee's head. The principles governing the Audit Committee's activities are set down in writing.
- A Corporate Governance and Appointments Committee was established under a board decision dated 15 June 2005. Two independent board members were elected by the shareholders at a general meeting and independent board member Yılmaz Argüden began serving as the committee's head. The principles governing the Governance and Appointments Committee's activities are set down in writing.
- A secretariat responsible to the Board of Directors has been created whose functions are to ensure that board meetings are held systematically, that meeting minutes are properly maintained and archived, and that board members have convenient access to the Company's information.
- An Investor Relations Unit has been set up within the Company for the purpose of managing relations with investors. This unit has also been given the responsibility for the corporate website as well as for publicly disclosing all information about the Company.

CORPORATE GOVERNANCE COMPLIANCE REPORT

- A public disclosure policy has been prepared in writing and was submitted to those attending the general meeting.
- The corporate website was revised in line with corporate governance principles.
- A majority of shareholders at the annual general meeting held on 30 May 2005 voted to amend the Company's articles of incorporation to bring them into compliance with corporate governance principles. These amendments in main outline are as follows:
- New rights were granted to minority shareholders with the addition of the phrase “Minority rights shall be exercised by any shareholder representing one-twentieth of the Company's capital” in line with the amendment made by the Capital Markets Act (Statute 4487) in the 10% rate prescribed in article 11 of the Turkish Commercial Code. (Article 23)
- Minority shareholders have been given the right to call upon the Board of Directors to convene. (Article 16)
- Shareholders controlling in aggregate at least 5% of the Company's issued capital have been given the right to call upon the Board of Directors to convene, provided that they make the request in writing and state their reasons for doing so. (Article 21)
- Minority shareholders have been given the right to introduce motions concerning general meeting agenda items. (Article 21)
- An article was added to the articles of incorporation stating that the Company's shares may be freely transferred. (Article 6)
- An article was added to the articles of incorporation stating that a majority of the members of the Board of Directors must consist of non-executive members and that only persons satisfying specified criteria may be elected to seats on the board. In addition, Vestel has introduced an upper age limit for board membership, which is not stipulated in CMB Corporate Governance Principles but which is an internationally recognized principle, and added this to its articles of incorporation as well. (Article 12)
- An article was added to the articles of incorporation stating that at least one-third but not less than two of the members of the Board of Directors must be independent members. In addition, Vestel has made it a requirement that the chairman or deputy chairman of the board must be an independent member, which is not stipulated in CMB Corporate Governance Principles but which is an internationally recognized principle, and added this to its articles of incorporation as well. (Article 12) In line with this, an independent member was elected deputy chairman.
- A requirement was added to the articles of incorporation stipulating that independent members who cast dissenting votes on issues before the board must publicly disclose their reasons for doing so. (Article 16)
- A secretariat responsible to the Board of Directors was created and given the responsibility of notifying board members of meetings at least seven days in advance and of ensuring that board members kept effectively informed about matters. (Article 16)
- For the purpose of achieving regular attendance at board meetings, a rule was added to the articles of incorporation stating that any member that missed three consecutive meetings without the board's permission is deemed to have resigned his seat. (Article)
- For the purpose of ensuring that sound decisions are taken at board meetings, a rule was added to the articles of incorporation stating that board members may not attend board meetings discussing issues that are of direct interest to themselves or to their relatives. (Article 16)

• To encourage and increase shareholder participation in general meetings, a rule has been added to the articles of incorporation requiring that such meetings be announced at least three weeks in advance. (Article 21) In addition, information about the meeting's agenda is also to be published along with the announcement and made available at the Company's headquarters an on its website. (Article 21)
• A rule has been added to the articles of incorporation requiring every company officer (including members of the Board of Directors) as well as candidate board members and candidate statutory auditors to be present at general meetings. (Article 21) Participants at such meetings must also be given information about candidates as stipulated in the articles of incorporation. (Article 21)
• A rule has been added to the articles of incorporation requiring that decisions allowing board members to compete with the Company be approved by a majority of those attending a general meeting. (Article 17)
• Rules governing the committees reporting to the Board of Directors and the principles of these committees operation have been added to the articles of incorporation. (Articles 35, 36, 37)

In addition to these specific instances of achieving compliance with corporate governance principles, there are a number of issues on which the Company is not in compliance. These issues and the reasons for non-compliance are touched on briefly below.
• Cumulative voting: The Company does not make use of 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.
• Individual right to request appointment of a special auditor in the articles of incorporation: A request to have a special auditor appointed is not an individual right that is provided for due to the high level of public participation in the Company's capital and the structure of shareholding interests in the Company. Nearly half of the Company's shares are publicly traded and these shares are divided up into a large number of very small shareholdings. Because of this, the number of the Company's investors is much greater than is the case in most other companies. Due to this profile of Vestel investors, granting every shareholder the right to demand the appointment of a special auditor could pose problems for the Company and this is why the articles of incorporation contain no provisions on this issue. According to CMB Corporate Governance Principles, the inclusion of this right is optional.
• Demergers and buying, selling, or leasing substantial amounts of company assets and property: 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 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.
• Independent members do not constitute a majority on the Corporate Governance Committee: As a newly-formed body, the Corporate Governance Committee is also responsible for setting the corporate governance structure in place throughout the entire company. As a requirement of this responsibility, more than two board members were included on the committee as a first step and these individuals actively participate in the committee's meetings and assume responsibilities. This structure of the Corporate Governance Committee is temporary.
The provisional presence of the CEO, who is not supposed to be a member of this committee according to corporate governance principles, is for the purpose of enabling him to keep a close watch on the committee's duties and the functioning of the corporate governance structure.

CORPORATE GOVERNANCE COMPLIANCE REPORT

Vestel Electronics Inc put its corporate governance principles into effect throughout the entire company for the purposes of creating an approach to management that is responsible, accountable, and open with respect to all its shareholders no matter what the size of their stakes in the Company may be; of creating a transparent corporate structure that is capable of earning the confidence of investors, customers, employees, and the markets where its shares are traded; of supporting efforts to continuously increase the Company's market value; and of ensuring the continuity of the returns that its investors secure on their investments in the Company.

Acknowledging the contributions that corporate governance principles have already made to the Company, Vestel Electronics Inc's goal is to achieve even greater compliance with those principles with the involvement of all its management and employees and to bring the Company to the highest level of compliance as compared with its competitors both at home and abroad.

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 Selim Yuna.
- The Corporate Finance and Investor Relations Unit reports to the head of the Corporate Governance and Appointments Committee 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 2005 were the following:
- Merrill Lynch Conference, USA
- Bond Roadshow, USA & UK
- ING Conference
- Investor visits with Express Yatırım, France & Germany
- Ata Yatırım Conference
- Deutsche Bank Conference
- About 20 face-to-face contacts
- During the reporting period about ten questions were responded to by e-mail and about a hundred 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 110 requests for information that were received. 90% of the requests for information were concerned with the Company's activities and financial performance; the remaining 10% were concerned with investments, stock price movements, general meetings, etc.

• For the purpose of increasing the ability of shareholders to exercise their important right to obtain information, the corporate website was redesigned in early 2005 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 an individual right that is provided for in the Company's articles of incorporation. The reason for not granting this as an individual right is the high level of public participation in the Company's capital and the structure of shareholding interests in the Company. Nearly half of the Company's shares are publicly traded and these shares are divided up into a large number of very small shareholdings. Because of this, the number of the Company's investors is much greater than is the case in most other companies. Due to this profile of Vestel investors, granting every shareholder the right to demand the appointment of a special auditor could pose problems for the Company and this is why the articles of incorporation contain no provisions on this issue. The Company received no requests for the appointment of a special auditor in 2005.

4. Information about general meetings

• Vestel held its ordinary general meeting for 2004 at 10:30 AM on 30 May 2005 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 6303 of Türkiye Ticaret Sicili Gazetesi dated 13 May 2005 and in the 13 May 2005 issues of the newspapers Hürriyet and Sabah. 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 seventeen days in advance of the meeting date (including the date of mailing and the date of the meeting). 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 TRL 159,099,886,960,000, 51.65% or 82,186,743,367 shares representing TRL 82,186,743,367,000 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.

• 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. Statements made by one shareholder that were not in the nature of a motion were heard by company officers and noted down.
• 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 Vestel 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 Company's dividend payment policy is stated in the articles of incorporation. The Company's dividend payment policy was also publicly disclosed in its annual report for 2004. The proposal for 2004-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 2004 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.

7. Transferring 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.

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 head of the Investor Relations Unit monitors and follows up on public disclosure policy.

9. Special circumstance announcements

• A total of 27 special circumstance announcements were made in 2005. Neither CMB nor ISE requested any additional information concerning these special circumstance announcements.

• All of the Company's special circumstance announcements made at stock exchanges outside the country are simultaneously made in Turkey as well. Similarly, special circumstance announcements made to ISE and CMB are simultaneously made to the appropriate stock exchanges abroad.

• All special circumstance announcements were made in time and the Company was not subjected to any sanctions on this account.

• The Investor Relations Unit is responsible for making special circumstance announcements.

10. The corporate website and its content

• Vestel Electronics' corporate website was overhauled in late 2004 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 non-corporate ultimate controlling shareholders

• The Company has no non-corporate ultimate controlling shareholders.

• The Company's shareholder structure is as follows:

Shareholder	Nominal value (TRY)	% shareholding interest
Collar Holding BV	82,000,000.00	51.59
Publicly held	77,017,886.96	48.41
Total	**159,099,886.96**	**100.00**

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
Ekrem Pakdemirli	Vice Chairman of the Board of Directors
Şule Zorlu	Board Member
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
Fahrünisa Arı	Statutory Auditor
Cem Köksal	Member of the Executive Committee
Cengiz Ultav	Member of the Executive Committee
İhsaner Alkım	Member of the Executive Committee
Özer Ekmekçiler	Member of the Executive Committee
İzzet Güvenir	Member of the Executive Committee
Levent Hatay	Member of the Executive Committee
Necmi Kavuşturan	Member of the Executive Committee
Sertaç Beller	General Manager
Mehmet Keskiner	Assistant General Manager for Factories
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
Selim Yuna	Corporate Finance and Investor Relations Director
Şenol Toygar	Business Evaluation Officer
Coşkun Özkan	Internal Audit Manager
Ergün Güler	Finance Manager
Hamdiye Yalçın	Accounting Manager
Salih Muratoğlu	Logistics Manager
İdris Tilmensağır	Production Planning Manager
Raşit Çiloğlan	Budget Manager
Aykut Halit	Grant Thornton Independent Auditors
Ramis Uzunoğlular	Grant Thornton Independent Auditors
Fahrünisa Arı	Arılar Independent Auditors
Şerif 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 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.

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 2005 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 formation of the Board of Directors; non-executive board members

Name	Position	Age	Term of office	Classification	Educational background	Previous experience
Ahmet Nazif Zorlu	Chairman	60	3	Non-executive	Primary school	-
Ekrem Pakdemirli	Deputy Chairman	67	1	Independent	University	Minister of Finance and Customs Faculty member of Bilkent University and Başkent University
Şule Zorlu	Board Member	28	3	Non-executive	University	Served successively in various capacities in Vestel Group companies
Ömer Yüngül	Board Member	49	3	Executive	University	Vestel White Goods
Enis Turan Erdoğan	Board Member	49	3	Executive	University	Ekinciler Holding
M. Cem Bodur	Board Member	43	3	Non-executive	University	Ekinciler Holding
Yılmaz Argüden	Board Member	48	3	Independent	University	Chief Consultant to the Prime Minister Chairman of Erdemir

• 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 offer customers high-quality goods and services by keeping abreast of technology and new developments and developing new products; engage in activities within the Company to increase employee performance; maximize customer satisfaction according to the principle that "The customer is our reason for being"; avoid waste by using resources effectively; act in an awareness that we are a company operating at world standards and capable of contending with our competitors.

Vision:

To achieve continued, sustainable growth in the Company; make customer satisfaction one of our fundamental goals; ensure the production of high-quality goods and services without ever sacrificing quality; compete with major firms both in Turkey and abroad in the same sector in the areas of production and marketing and become the leader of them; strive to increase the Company's value by investing in the right places at the right times.

• 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.

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. Operating principles 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 48 times during the reporting period. The overall rate of attendance at these meetings was 89%. 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 2005.
• 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 independence 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 Communique 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.)
• 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 Communique 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 committee consists of four members at least three of whom must be board members. It is a requirement that the head of the committee be chosen from among the board's independent members. The committee's head is Yılmaz Argüden, who is an independent board member. The other members of the Corporate Governance and Appointments Committee are Ömer Yüngül, Şule Zorlu, and Selim Yuna.
• 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 2005 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 2005 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.

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 2005, the members of the Vestel Board of Directors were being paid TRY 50,000 a year each, which is commensurate with precedents in the sector. The statutory auditors were being paid TRY 2,000 a year each.
• The Company has extended no loans or credit to any board member or manager.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES

INFLATION ADJUSTED FINANCIAL STATEMENTS AT 31 DECEMBER 2005 TOGETHER WITH AUDITORS' REPORT

INFORMATION FOR INVESTORS

DIRECTORY

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT OF VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. FOR THE YEAR ENDED 31 DECEMBER 2005

To the Shareholders and Board of Directors of
Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

1. We have audited the accompanying consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (the "Company") and its subsidiaries together with the Company (the "Group") at 31 December 2005 and the related consolidated statement of income, movement in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. These standards require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd., the 100% subsidiary of the Company in Russia were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents.

The assessment of the damage resulting from the fire has been started and according to the external auditor's report of Vestel CIS Ltd. the net book value of fixed assets and stocks damaged or destroyed amounted respectively to YTL 17.899.433 of and YTL 19.830.433 together with claim for loss of profit the total damage comes to YTL 41.341.006 (note 8) which has been accounted for under "other current assets". As of the report date negotiations between the insurance company and Vestel CIS Ltd. have not yet been concluded. 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.

Furthermore the local tax authority in Russia has asked for a reimbursement of YTL 6.007.239 representing the Value Added Tax ("VAT") deducted in the past with respect to fixed assets which have been destroyed by the fire. Negotiations with the tax office have been in progress. No provision has been set aside in respect of the VAT reimbursement in question.

The external auditor of Vestel CIS Ltd. has not been able to carry out its audit as of 31 December 2005 in accordance with International Standards on Auditing and has therefore not been able to express an opinion on the accounts as of 31 December 2005.

The total assets of Vestel CIS Ltd. are YTL 166.567.964 which amounts to 3,8% of the consolidated total assets of the Group. The net loss of Vestel CIS Ltd. for year ending 31 December 2005 is YTL 1.184.871 which amounts to 1,4% of the consolidated net profit of the Group for same year. The management of the Group is of the opinion that the total fire damage of YTL 41.341.006 does not have a material effect on the operations of the Group.

4. In our opinion, except for the effects, if any, of the matters mentioned in paragraph three above the financial statements referred to above present fairly, in all material respects the financial position of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its subsidiaries at 31 December 2005 and the consolidated results of their operations and 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

Istanbul
24 March 2006

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

ASSETS	Note	31.12.2005	31.12.2004
Current Assets			
Cash and cash equivalents	5	581.086	623.077
Trade receivables	6	1.367.848	1.049.733
Due from group companies	23	225	40.281
Inventories	7	1.030.006	913.629
Other assets	8	196.166	181.168
Total Current Assets		3.175.331	2.807.888
Non-current Assets			
Trade and other receivables		13.077	10.425
Investments	9	3.069	4.866
Property, plant and equipment, net	10	974.033	860.056
Intangible assets, net	11	138.476	138.357
Other assets	8	31.728	-
Deferred tax asset	15	55.031	34.913
Total Non-current Assets		1.215.414	1.048.617
Total Assets		4.390.745	3.856.505

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

LIABILITIES AND EQUITY	Note	31.12.2005	31.12.2004
Current Liabilities			
Borrowings	12	171.934	156.792
Trade payables	13	2.064.592	1.633.908
Taxation on income	15	12.030	14.466
Other liabilities	14	183.906	159.840
Total Current Liabilities		2.432.462	1.965.006
Non-current Liabilities			
Borrowings	12	525.597	509.035
Reserve for retirement pay	16	18.456	26.003
Deferred tax liability	15	115.753	175.004
Total Non-current Liabilities		659.806	710.042
Equity and Reserves			
Share capital	17	576.862	576.862
Minority interest		160.432	110.722
General reserve	18	477.837	406.935
Net income for the year		83.346	86.938
Total Equity and Reserves		1.298.477	1.181.457
Commitments and Contingencies	19	-	-
Total Liabilities and Equity		4.390.745	3.856.505

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Note	01.01- 31.12.2005	01.01-31.12.2004
Net sales		4.456.229	4.604.903
Cost of Sales		(3.798.115)	(3.854.366)
Gross Profit		658.114	750.537
Selling expenses		(337.763)	(318.197)
General and administrative expenses		(141.642)	(138.089)
Warranty expenses		(30.972)	(30.327)
Other income/(expense), net	20	22.265	5.224
Income From Operations		170.002	269.148
Financing income/(expense), net	21	(36.085)	(74.057)
Income Before Taxation		133.917	195.091
Taxation charge			
Current		(54.699)	(41.036)
Deferred		43.592	(2.428)
Taxation on income	15	(11.107)	(43.464)
Income Before Minority Interest		122.810	151.627
Minority interest		(30.168)	(45.979)
Monetary loss	27	(9.296)	(18.710)
Net Income for the Year		83.346	86.938
Basic and fully diluted earnings per share (in full TL)	4	524	546

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Share capital	General reserve	Minority interest	Net income for the year	Total equity
Balance at 1 January 2004	576.862	367.509	65.114	82.158	1.091.643
Distribution of income					
- Transfer to reserves	-	82.158	-	(82.158)	-
Exchange differences	-	(1.552)	(427)	-	(1.979)
Transfer from minority	-	121	(121)	-	-
Consolidated subsidiaries	-	(9)	177	-	168
Deferred tax liabilities	-	(41.292)	-	-	(41.292)
Net income for the year	-	-	45.979	86.938	132.917
Balance at 1 January 2005	576.862	406.935	110.722	86.938	1.181.457
Distribution of income					
- Transfer to reserves	-	86.938	-	(86.938)	-
Exchange differences	-	(433)	(92)	-	(525)
Transfer to minority	-	-	30.260	-	30.260
Consolidated subsidiaries	-	(15.603)	19.542	-	3.939
Net income for the year	-	-	-	83.346	83.346
Balance at 31 December 2005	576.862	477.837	160.432	83.346	1.298.477

The accompanying notes are an integral part of these statements.

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Note	01.01- 31.12.2005	01.01-31.12.2004
Cash Flow Provided by Operating Activities			
Net income for the year		83.346	86.938
Adjustment to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	22	119.222	109.332
Provision for retirement pay		(3.639)	5.523
Provision for tax		11.107	43.464
Provision for doubtful receivables		1.273	4.045
Provision for expense accruals		11.746	18.730
Warranty provision		2.757	(3.853)
Other		-	(9)
Operating Profit Before Changes in Working Capital		225.812	264.170
Changes in operating assets and liabilities	22	(10.578)	(4.808)
Taxes paid		(57.135)	(36.766)
Net cash provided by operating activities		158.099	222.596
Cash flow from Financing Activities			
Changes in current borrowings, net		15.142	46.893
Changes in non-current borrowings, net		16.562	(57.622)
Changes in minority interest		34.107	45.608
Net Cash Provided by Financing Activities		65.811	34.879
Cash flow from investing activities			
Changes in investments		1.797	91
Changes in tangible and intangible assets		(285.167)	(265.415)
Changes in other investing activities	22	(34.380)	14.884
Net book value of fixed assets disposed		51.849	24.927
Net Cash Used in Investing Activities		(265.901)	(225.513)
Net Increase (decrease) in Cash and Cash Equivalents		(41.991)	31.962
Cash and Cash Equivalents at Beginning of Year		623.077	591.115
Cash and Cash Equivalents at end of Year		581.086	623.077

The accompanying notes are an integral part of these statements.

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 Istanbul Stock Exchange. The Company has been operating under Law 6224 (Foreign Capital Incentive Law) 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/Istanbul-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. (Vestel Elektronik)
The Company is mainly engaged in the production of color televisions. The Company's production facilities are located in Manisa industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for color televisions was 14.000.000 (2004: 12.500.000) 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 color televisions and commenced its production in the second half of 2003.

B. Refrigerator and air conditioning units and washing machines

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 and washing machines was 2.800.000, 700.000 and 2.000.000 (2004: 2.000.000, 350.000 and 1.150.000) units per year.

Vestel-CIS Limited (Vestel CIS)
During 2005, Vestel CIS commenced construction of white goods production facilities and started its production by the end of 2005.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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 (2004: 7.000.000) 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 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:

			Shareholding (%)	
Consolidated Company	Location	Field of activity	31.12.2005	31.12.2004
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	35,0%	35,0%
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	99,2%	99,2%
Vestel CIS Ltd.	Russia	Manufacturing	100,0%	100,0%
Vestel Dijital Üretim Sanayi A.Ş.	Turkey	Manufacturing	98,0%	-
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9%	99,9%
Vestel Savunma Sanayi A.Ş.	Turkey	Software	29,9%	29,9%
Cabot Communications Ltd.	England	Software	90,9%	82,5%
Cabot Izmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	90,5%	85,6%
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	18,0%	-
Electronics Outlet SRL	Italy	Marketing	50,8%	-
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Research and development	93,8%	-

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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, Reporting Currency

In accordance with Law No. 5083 in respect of "the Currency of the Turkish Republic" published in the Legal Gazette dated January 31, 2004, numbered 25363, which came into force from January 1, 2005, a new local measurement and reporting currency unit has been introduced. Turkish Lira (TL) currency units formerly used have been converted to New Turkish Lira (YTL) at the rate of 1.000.000 TL= 1 YTL. Both notes and coins of the former (TL) as well as the new currency units (YTL) were in circulation during 2005.

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 most recent 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%. The restatement of previous periods in the accompanying financial statements has been based on the conversion factors obtained from the Wholesale Price Indices ("WPI") published by the State Institute of Statistics of Turkey. As of 31 December 2005, the three-year cumulative rate has been 36% (31 December 2004: 70%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. These indices and the conversion factors are shown below:

Year	2005	2004	2003
Index	8.785,7	8.403,8	7.382,1
Conversion factor	1.000	1.045	1.190

The main guidelines for the above mentioned restatement are as follows:

• The financial statements of the prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current for the year ended December 31, 2005.

• Monetary assets and liabilities reported in the balance sheet as of December 31, 2005 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.

• The inflation adjusted share capital is derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property, transferred to share capital from the date they were contributed and registered so.

• The financial statements of the prior periods are restated with current purchasing power of money at the most recent balance sheet date.

• All items in the income statement are restated by applying the monthly conversion factors except for depreciation, amortization, gain or loss on disposal of non-monetary assets which are calculated based on the restated gross book values and accumulated depreciation or amortization of the related values.

• The effect of general inflation on the net monetary position is included in the income statement as monetary gain/(loss).

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Company could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Company could return or settle the same values of equity to its shareholders.

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, the 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.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

FOREIGN CURRENCY TRANSLATIONS

Convenience translation of financial statements - For the convenience of the reader, the accompanying financial statements 31 December 2005 have been translated from New Turkish Lira to EURO with the Central Bank buying exchange rate at period-ends. Such convenience translations are not intended to comply with the provisions of IAS 21 “The Effects of Changes in Foreign Exchange Rates” or Financial Accounting Standards Board No. 52 “Foreign Currency Translations” for the translation of financial statements in a highly inflationary economy. Prior to the translation, the Turkish Lira amounts have been re-measured in compliance with International Financial Reporting Standard 29, “Financial Reporting in Hyperinflationary Economies” as explained above.

Foreign currency transactions and translation - Transactions in foreign currencies during the periods 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.

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.

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

	31.12.2005	31.12.2004
US Dollar	1.3418	1.3421
EURO	1.5875	1.8268

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.

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	Nil
Land Improvements	10 to 20
Buildings	25 to 50
Machinery, equipment, installations and moulds	10 to 15
Furniture, fixtures and office equipment	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 operating leases. Lease payments on operating lease are recognized as an expense on a straight-line basis over the lease term.

Capitalized leased assets are depreciated in accordance with the depreciation policy noted above.

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. and Aydın Yazılım Elektronik Sanayi ve 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 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.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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.

Computer software development cost - Generally, costs associated with developing or maintaining computes software programs are recognized as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company and have probable economic benefit exceeding the cost beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs are recognized as assets and amortized using the straight line basis over their useful lives, not exceeding a period of 5 years.

Other intangible assets - Expenditure on leasehold improvements and computer software licenses and amortized using the straight line basis over their useful lives, varies between 5 to10 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 to the average of the closing bid prices of the last five days proceeding on the balance sheet date.

INVENTORIES

Inventories are stated at the lower of cost, restated at the equivalent purchasing power at 31 December 2005, and net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads (based on normal operating capacity) 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 carried at original amount less an estimate made for doubtful receivables. The management believes that the estimated amount will be adequate to absorb possible future losses on existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables. Bad debts are written off when identified.

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).

ALLOWANCE FOR UNEARNED INTEREST
Unearned interest is calculated at the rate of 13,8% (31 December 2004: 21%) per year for New Turkish Lira and 3,5% (31 December 2004: 2,6%) per year for foreign currency on receivables and payables at the balance sheet date.

BANK BORROWINGS
Interest-bearing bank loans and overdrafts are recorded at 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 STATEMENTS
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. 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 probable 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, all restated in equivalent purchasing power at 31 December 2005.

Other revenues earned by the Company is 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.

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 labor 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.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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

	31.12.2005	31.12.2004
Net profit attributable to shareholders (YTL thousand)	83.346	86.938
Weighted average number of ordinary shares in issue ('000)	159.100.000	159.100.000
Basic and diluted earnings per share (in full TL per share)	524	546

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	570.557	623.077
Other	10.529	-
	581.086	623.077

The maturity of time deposits was between January 2006 and January 2007 and the interest rate was 2% per year for foreign currency and 14% for New Turkish Lira per year (31 December 2004: the interest rate was 1,85% for foreign currency and 36,7% for New Turkish Lira per year).

6. TRADE RECEIVABLES

Trade receivables		
- Third parties	1.090.297	741.748
- Related parties (note 23)	647	1.682
Notes receivable		
- Third parties	300.336	323.726
Less: unearned interest on receivables	(14.703)	(9.771)
Less: allowance for doubtful receivables	(8.982)	(8.938)
Other	253	1.286
	1.367.848	1.049.733

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

The movement of doubtful receivables is given below:

	31.12.2005	31.12.2004
Beginning balance	8.938	4.893
Charge for the period, net	1.278	5.464
Proceeds from doubtful receivables	(833)	(846)
Monetary gain	(401)	(573)
Ending balance	8.982	8.938

7. INVENTORIES

	31.12.2005	31.12.2004
Raw materials	320.985	309.391
Work in process	42.589	39.693
Finished goods and merchandises	413.853	276.902
Spares and supplies	4.175	4.029
Goods in transit	248.404	283.614
	1.030.006	913.629

8. OTHER ASSETS

Current		
Prepaid expenses	25.123	31.743
Income accruals	43.655	100.915
Receivable from insurance company (*)	41.341	-
VAT receivable	59.758	38.203
Work advances	4.222	6.091
Due from personnel	753	859
Project expenses	17.273	1.614
Other	4.041	1.743
	196.166	181.168

Non-current		
Prepaid expenses	31.583	-
Other	145	-
	31.728	-

(*) Vestel CIS Limited' s property, plant and equipment used for television production, part of finished goods, components and raw materials were fully destroyed by fire on 14 November 2005. Vestel CIS Limited is negotiating insurance claims in the amount of YTL 41.341 (USD 30.810 thousand) with respect to a fire that destroyed certain Company properties, and the resulting business interruption the outcome of which is not known as of the date of these financial statements.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

9. INVESTMENTS

		Share percentage		Restated Amount	
Entity	Country	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Unconsolidated Entity					
Vestpro Electronics SA	Romania	52%	52%	301	301
Vestel USA Inc.	USA	100%	100%	233	233
Vestel Elektronika SA	Romania	100%	-	18	18
Vestel India	India	100%	-	10	-
Less: Allowance for diminution in value					
Vestpro Electronics SA	Romania			(301)	(301)
Vestel USA Inc.	USA			(233)	(233)
				28	18
Other investments					
Zorlu Enerji Elektrik Üretimi A.Ş.	Turkey	Less than 1%	Less than 1%	3.013	2.960
Vestelnet Elektronik İletişim A.Ş.	Turkey	-	2%	-	1.860
Tursoft A.Ş.	Turkey	7%	7%	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	3	3
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	12	12
				3.069	4.866

The following Companies in which the Company has a controlling interest or significant influence are not consolidated.

- Vestpro Electronics SA and Vestel USA Inc. have been inactive since 2002.
- Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş. shares are quoted at the Istanbul Stock Exchange and are shown at market value by reference to the average of the closing bid prices of the last five days preceding 31 December 2005 as required by IAS 39.

Except for Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş., the shares of the Company's subsidiaries and affiliates are not quoted at the Istanbul Stock Exchange or any other recognized market.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

10. PROPERTY, PLANT AND EQUIPMENT, net

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Restated cost						
Balance at 31 December 2004	169.373	1.074.281	2.832	72.583	72.174	1.391.243
Additions	14.437	90.695	1.489	9.240	157.849	273.710
Disposals	(11.997)	(46.746)	(109)	(2.825)	(6.558)	(68.235)
Consolidated companies	-	6.254	354	3.299	-	9.907
Translation differences	(1.998)	(935)	(133)	(264)	(687)	(4.017)
Transfers	43.818	101.024	-	1.033	(146.080)	(205)
Balance at 31 December 2005	213.633	1.224.573	4.433	83.066	76.698	1.602.403
Restated accumulated depreciation						
Balance at 31 December 2004	18.251	463.733	1.029	48.174	-	531.187
Additions	4.948	93.431	696	6.342	-	105.417
Disposals	(402)	(15.163)	(77)	(1.107)	-	(16.749)
Consolidated companies	-	6.201	174	2.614	-	8.989
Translation differences	(147)	(136)	(28)	(163)	-	(474)
Transfers	-	42	-	(42)	-	-
Balance at 31 December 2005	22.650	548.108	1.794	55.818	-	628.370
Net book value as of						
31 December 2004	151.122	610.548	1.803	24.409	72.174	860.056
31 December 2005	190.983	676.465	2.639	27.248	76.698	974.033

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

Leased assets included in the table above comprise plant and machinery amounting to YTL 34.231 (2004: YTL 41.394) net of accumulated depreciation. Leased assets are pledged as security for the related finance lease obligations.

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 Beyaz Eşya to increase its refrigerator and washing machine production capacity and new investment made in cooker and dishwasher segment during 2004 and 2005.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

As of 31 December 2005, disposals from property, plant and equipment includes restated cost and accumulated depreciation amounting to YTL 20.403 and YTL 2.503 related to fully destroyed Vestel CIS plant (Russia) used for television production on 14 November 2005.

11. INTANGIBLE ASSETS, net

	Goodwill	Research and development cost	Other intangible assets	Total
Restated cost				
Balance at 31 December 2004	72.637	38.545	140.356	251.538
Additions	2.672	-	11.864	14.536
Disposals	-	-	(395)	(395)
Consolidated companies	-	-	2.273	2.273
Translation differences	(1.184)	-	(271)	(1.455)
Transfers	-	-	205	205
Balance at 31 December 2005	74.125	38.545	154.032	266.702
Restated accumulated amortization Balance at 31 December 2004	14.212	5.544	93.425	113.181
Additions	-	2.330	11.475	13.805
Disposals	-	-	(32)	(32)
Consolidated companies	-	-	1.607	1.607
Translation differences	(168)	-	(167)	(335)
Balance at 31 December 2005	14.044	7.874	106.308	128.226
Net book value as of				
Balance at 31 December 2004	58.425	33.001	46.931	138.357
Balance at 31 December 2005	60.081	30.671	47.724	138.476

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 comprises internally generated expenditure on R&D development costs on the above projects where it is reasonably anticipated that costs will be recovered through future commercial activity.

Other intangible assets mainly comprise leasehold improvements and computer software licenses and rights.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

12. BORROWINGS

	Current		Non - Current	
	Foreign Currency	YTL Equivalent	Foreign Currency	YTL Equivalent
31.12.2005				
New Turkish Lira borrowings	-	1.049	-	-
Foreign currency bank borrowings				
-USD ('000)	27.184	36.476	249.141	334.297
-EURO ('000)	82.215	130.516	118.644	188.347
Finance lease liabilities, net				
-USD ('000)	1.273	1.708	1.774	2.380
-EURO ('000)	1.376	2.185	362	573
		171.934		525.597
31.12.2004				
New Turkish Lira borrowings				
and accrued interest on bank borrowings	-	1.771	-	-
Foreign currency bank borrowings				
-USD ('000)	13.204	18.526	216.351	303.562
-EURO ('000)	68.835	131.464	103.722	198.092
Finance lease liabilities, net				
-USD ('000)	1.440	2.021	3.064	4.300
-EURO ('000)	1.576	3.010	1.614	3.081
		156.792		509.035

The effective interest rates of foreign currency loans and New Turkish Lira loans vary between 2,7% and 11,4% (2004: - 2,8% and 12% and) and 0% (2004- 0% and 15%) respectively.

Summary maturity schedule of bank borrowings were as follows:

	31.12.2005	31.12.2004
Due in one year	171.934	156.792
Due between one to five years	215.747	504.626
Over five years	309.850	4.409
	697.531	665.827

Letters of guarantee and notes amounting to YTL 67.740 (USD 15.000.242 and EURO 29.992.000) have been given as collateral for Turkish Eximbank and other credits (2004: YTL 34.104 (EURO 18.411.066)).

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

Property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans and bank guarantees on letters of credit.

13. TRADE PAYABLES

	31.12.2005	31.12.2004
Trade payables		
- Third parties	1.516.343	1.175.968
- Related parties (note 23)	1.272	2.838
Letters of credit	243.850	159.400
Letters of credit discounted	248.925	209.211
Notes payable	56.872	88.660
Less: unearned interest on payables	(3.285)	(3.387)
Other	615	1.218
	2.064.592	1.633.908

14. OTHER LIABILITIES

Income tax and social security payables	20.038	14.775
Advances received	18.373	20.837
Warranty expense provision	39.252	36.495
Accrued expenses	11.746	18.730
Forward expense accruals	62.526	66.603
Deferred project income	20.263	-
Due to personnel	6.663	454
Other	5.045	1.946
	183.906	159.840

15. TAXATION ON INCOME

The Corporation Tax rate on the profits for the calendar year 2004 was 30%. However according to Law 5035 published on 2 January 2004 the Corporation Tax rate for the taxable profits of 2004 only has been determined as 33%. Taxable profits are calculated by addition of tax disallowed expenses to and deduction of tax exempt income from the profit disclosed in the statutory income.

The tax legislation provides for a provisional tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, provisional taxes for the year 2004 was calculated and paid at the rate of 33%.

The part of profits distributed in dividend to individuals and non-resident companies are subject to withholding tax as follows:
• Up to 24 April 2003, the rate was 5,5% and 16,5% respectively for public and non public companies.
• 24 April 2003-31 December 2003 the rate was 11%.
• After 1 January 2004 (applicable to profits of year 2003 distributed in year 2004) the rate has become 10%.

However the following are exempt from withholding tax:
• Dividends out of profits obtained up to 31 December 1998.
• Dividends out of profits exempted from Corporation Tax obtained up to 31 December 2002.
• Investment allowances relating to fixed assets purchased before 24 April 2003 which allowances bare tax at 19,8%.
• No withholding tax has been payable on undistributed profits, profits added to share capital (bonus shares) and dividends paid to other resident companies.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to 24 April 2003 the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax 19,8% was applied to the total amount of qualifying capital investments. With effect from 24 April 2003, the investment scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to 24 April 2003 were entitled to carry forward these and apply the 19,8% withholding tax to these amounts in the manner described above.

Tax losses that are reported in Corporation Tax return can 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 Law nr. 5024 published on 30 December 2003 has introduced changes and additions to the taxation of companies with effect from 1 January 2004, as follows:
• Taxable profits as from 1 January 2004 will be based on financial statements adjusted for the effects of inflation; such adjustments for inflation will be made in respect of each quarterly tax period during the year.
• The adjustments for inflation will be based on the increase in Wholesale Price Indices published by the Turkish Institute of Statistics.
• The adjustment for inflation has to be made if cumulative inflation rate for previous 36 months exceeds 100% and the inflation rate for previous 12 months exceeds 10%. If the 100% and the 10% condition do not apply simultaneously there will be no requirement to adjust for inflation. The Council of Ministers may reduce the ceiling from 100% to 35% or increase the 12 monthly limits from 10% to 25%.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

• The financial statements at 31 December 2003 must be adjusted for inflation through the following formula:

Total of adjusted assets

Less: - Total of adjusted liabilities (-)

- Adjusted share capital (-)
- Adjusted share premium account

"Difference"

• The "difference" will be termed "accumulated profit/loss" and will form part of shareholders' equity.
• The accumulated profit ascertained as above will not be subject to any tax. If the difference results in an accumulated loss, this loss will not be deductible from future profits. The losses deductible from profits of 2004 and future years will only be the losses for 2003 and previous years as disclosed in the Corporation tax declarations for 2003 and previous years on historical basis.
• The adjustments to share capital and to other accounts forming part of shareholders' equity may be added to share capital by way of bonus shares. Issue of such bonus shares will not considered as distribution of profit.
• Corporation Tax calculation for year 2003 will be based on the regulations valid up to 31 December 2003.
• The following will be discontinued as from 1 January 2004.
  - fiscally allowed revaluation of fixed assets
  - valuation of stocks on a LIFO basis
  - cost increase reserve for fixed assets
  - the part of financing costs disallowed for tax purposes
  - depreciation of up to 20% which as left to the option of the taxpayer. Instead depreciation rates will be ascertained by the tax administration on basis of economic lifetime.

Law Nr: 5024 related to inflation accounting for tax purposes calls for a cumulative inflation rate of over 100% for previous 36 months and over 10% for previous twelve months. As the 36 months inflation rate has fallen under 100% and 12 months inflation to 10%, No application for inflation accounting up to the reporting date.

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

	31.12.2005	31.12.2004
Corporation and income taxes	54.699	41.036
Less: Prepaid taxes	(42.669)	(26.570)
Taxes payable	12.030	14.466

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.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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 31 December 2005 and 2004 using the expected future tax rates were as follows:

	31.12.2005		31.12.2004	
	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax
Deferred Tax Asset				
Warranty expense provision	32.879	9.864	29.161	8.748
Retirement pay provision	16.173	4.852	18.760	5.628
Unearned interest on receivables	14.246	4.274	9.771	2.931
Capitalized finance charges written off on inventory and fixed assets	12.728	3.818	15.571	4.679
Finance lease liabilities	2.056	617	5.990	1.797
Provision for doubtful receivables	6.536	1.961	7.186	2.156
Interest income on marketable securities	-	-	-	-
Expense accruals	67.273	20.182	8.599	2.580
Investment incentive allowances	21.500	2.193	53.469	5.454
Taxable loss	4.788	1.436	-	-
Other	19.450	5.834	3.129	940
		55.031		34.913
Deferred Tax Liability				
Temporary differences arising from restating:				
-Inventories, prepaid expenses and fixed assets	189.073	56.749	267.617	80.295
Income accruals	182.590	54.777	301.053	92.723
Unearned interest on payables	9.800	2.940	3.387	1.016
Other	4.302	1.287	3.234	970
		115.753		175.004

16. EMPLOYEE TERMINATION BENEFITS

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each 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.

Such payments are calculated on the basis of 30 days' pay limited to a maximum of YTL 1,727 (2004: YTL 1,5477 (historic)) per year of employment at the rate of pay applicable at the date of retirement.

The liability is not funded, as there is no funding requirement.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

As of 31 December 2005, in the accompanying financial statements in accordance with revised IAS 19 (Employee Benefits) the Group 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. Revised IAS 19 has been applied for the first time in the financial statements for the period ended 31 December 2005. The effect of the change in this accounting policy has been accounted for prospectively in the current year income statement as the effect on opening retained earnings was not deemed to be material.

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

	31.12.2005	31.12.2004
Opening Balance	26.003	20.480
Charge for the period	5.639	9.881
Change in accounting estimate	(8.741)	-
Consolidated entity	593	-
Disposals	(3.908)	(1.867)
Monetary gain	(1.130)	(2.491)
Closing balance	18.456	26.003
Number of personnel employed as of year end:	11.845	11.286

Personnel cost:

	01.01- 31.12.2005	01.01- 31.12.2004
Gross salaries, wages and employer's share of social insurance	200.181	142.911

17. SHARE CAPITAL

The authorized share capital of the Company comprised 220.000.000.000 shares of par value YTL 0,001 each at 31 December 2005. The issued and paid up share capital of the Company comprised 159.099.866.960 shares of par value YTL 0,001 each at 31 December 2005 and 2004.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

As of 31 December 2005 and 2004 the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding	
	%	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
Restated share capital equivalent to purchasing power of New Turkish Lira		576.862

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

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 December 2005 the Company had contingent liabilities of YTL 164.165 (2004: YTL 94.971) 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 Company has committed to realize exports amounting to USD 540.423.000 as of the balance sheet date.

c) Under the terms of the Customs Union Agreement with the European Union, with effect from 1 January 1998 television tubes (a major component of television sets) became subject to Customs Tax of 14,2% when sourced from countries outside the European Union or certain specified underdeveloped countries.

d) Property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans and bank guarantees on letters of credit.

e) 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 Company continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future.

f) The Group signed a loan agreement with Vakıflar Bankası for USD 114,4 million. Group companies and the majority shareholder of the Company were guarantors to the agreement. Additionally, a Group company has signed a loan agreement with the same financial institution for YTL 20 million and the Company and Group companies were guarantors to this credit facility.

g) Claims from court cases started by the group and pending as of 31 December 2005 amounted to YTL 5.723, USD 45.000 and EURO 285.000. Claims from court cases started and pending against the group as of the same date was YTL 135.

Included among the court cases started by the group are receivables totaling YTL 4.626 and tax claim of YTL 944 which have been provided for in full. In addition a provision of YTL 110 has been set aside in respect of court cases opened against the group.

h) A lawsuit has been initiated against the Company by two companies which engaged in the production of household appliances for the invalidity of the patent certificate. The Company 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. The Company does not believe that this litigation will have a material adverse effect on the results of operation or financial condition of the Company.

i) Vestel CIS Limited's property, plant and equipment used for television production, part of finished goods, components and raw materials were fully destroyed by fire on 14 November 2005. In addition, construction in progress also suffered fire damage. Vestel CIS Limited is negotiating insurance claims in the amount of YTL 41.341 (USD 30.810 thousand) with respect to a fire that destroyed certain Company properties, and the resulting business interruption the outcome of which is not known as of the date of these financial statements.

j) Company is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of YTL 5.967 (USD 4.477 thousand), the outcome of which is uncertain due to relevant Russian tax legislation. No provision for any loss relating to this insurance claim and VAT reclaim has been made in the financial statements.

k) Total obligation of the Company related to operational lease agreements is amounted to YTL 2.559 (31.12.2004: 5.624 YTL).

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

20. OTHER INCOME/(EXPENSE), net

	01.01-31.12.2005	01.01-31.12.2004
Scrap and other sales	14.434	12.043
Export commission and freight related income	7.428	6.528
Insurance claims refund	776	687
Profit on sale of fixed assets	635	1.608
Idle capacity expenses	(7.170)	-
Reversal of unnecessary provision	11.652	-
Miscellaneous income	4.250	4.629
Loss on sale of fixed assets	(6.717)	(18.447)
Miscellaneous expense	(3.023)	(1.824)
	22.265	5.224

21. FINANCIAL INCOME/(EXPENSE), net

Foreign exchange gain/(loss) on imports, borrowings exports and other receivables	39.360	(33.181)
Interest expense	(55.970)	(62.317)
Letters of credit expenses	(32.075)	(16.860)
Finance lease interest expenses	(768)	(1.160)
Factoring expenses	(3.411)	(2.529)
Interest income from demand deposits	75.445	119.387
Fair value gain/(loss) on forward contracts	(36.308)	(62.731)
Bank commissions and other financial expenses	(22.358)	(14.666)
	(36.085)	(74.057)

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

22. SUPPLEMENTARY CASH FLOW INFORMATION

	01.01- 31.12.2005	01.01-31.12.2004
Depreciation and Amortization:		
Cost of sales	97.868	86.395
Selling expenses and general and administrative expenses	21.354	22.937
	119.222	109.332
Changes in operating assets and liabilities:		
Trade receivables	(319.388)	(108.817)
Inventories	(116.377)	(269.794)
Due from related parties	40.056	12.787
Prepayments and other current assets	(14.998)	47.270
Trade payables	430.684	290.168
Other payables and current liabilities	(30.555)	23.578
	(10.578)	(4.808)
Changes in other non-current assets and liabilities:		
Trade receivables	(2.652)	14.957
Other assets	(31.728)	(73)
	(34.380)	14.884

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.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

The most significant of these transactions carried out with related parties:

	Due from related parties		Due to related parties	
Related party	Trade receivables	Other assets	Trade payables	Other liabilities
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	-
31.12.2004				
Vestelnet Elektronik İletişim A.Ş.	-	40.162	6	-
Zorlu Holding A.Ş.	-	-	2.705	-
Korteks Mensucat Sanayi A.Ş.	78	-	120	-
Vestel USA Inc.	400	15	-	-
Zorlu Linen Dokuma A.Ş.	946	-	-	-
Other related parties	258	104	7	-
	1.682	40.281	2.838	-

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.

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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 December 2005 is shown below:

	USD ('000)	EURO ('000)	GBP ('000)	YTL Equivalent
Cash and cash equivalents	48.832	103.508	179	230.238
Trade receivables	249.875	378.138	1.120	938.058
Inventories	174.305	123.640	217	430.642
Other receivables	45.766	8.038	629	75.564
Assets	518.778	613.324	2.145	1.674.502
Borrowings	279.372	202.597	-	696.483
Trade payables	916.939	450.592	979	1.947.833
Advance received	8.439	3.272	47	16.622
Other liabilities	15.101	-	-	20.263
Liabilities	1.219.851	656.461	1.026	2.681.201
Net foreign currency position	(701.073)	(43.137)	1.119	(1.006.699)

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 are at fixed 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.

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.

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 Trade-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 Trade-CIS (Vladimir Region/Russia)

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

Segment information about these businesses is presented below:

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

	01.01- 31.12.2005		01.01- 31.12.2004	
	Sales Amount	Sales volume	Sales amount	Sales volume
Television	2.797.912	10.868.211	3.018.137	10.144.162
- Domestic	499.189	1.338.265	333.521	879.050
- Export	443.839	1.779.806	631.733	1.905.020
- Foreign marketing companies	1.854.884	7.750.140	2.052.883	7.360.092
Monitor	24.125	267.749	11.713	74.829
- Domestic	12.737	96.986	11.686	74.779
- Export	14	26	27	50
- Foreign marketing companies	11.374	170.737	-	-
Electronic Devices	545.342	7.314.755	677.700	8.131.372
- Domestic	148.371	1.028.466	107.778	687.778
- Export	54.848	995.718	114.929	1.182.406
- Foreign marketing companies	342.123	5.290.571	454.993	6.261.188
White goods (2004: White goods and other)	902.191	3.203.442	897.353	-
- Domestic	398.113	832.743	510.395	-
- Export	182.787	938.669	192.025	-
- Foreign marketing companies	321.291	1.432.030	194.933	-
Other	186.659	-	-	-
- Domestic	186.659	-	-	-
	4.456.229		4.604.903	

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

26.2 The breakdown of television exports by country is as follows:

	01.01- 31.12.2005		01.01- 31.12.2004	
	Sales Amount	Sales volume	Sales amount	Sales volume
Germany	548.197	2.164.831	646.259	2.101.778
United Kingdom	464.591	1.823.995	362.787	1.172.586
France	262.351	1.052.771	260.304	857.220
Denmark	37.404	162.918	31.466	105.614
Portugal	34.607	149.830	45.811	151.815
Netherlands	79.322	322.832	96.103	314.500
Spain	217.339	874.363	315.345	1.051.701
Italy	216.894	883.110	261.726	878.473
Russia	140.491	564.926	189.768	628.886
Others	297.527	1.530.370	475.047	2.002.539
	2.298.723	9.529.946	2.684.616	9.265.112

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

	01.01- 31.12.2005		01.01- 31.12.2004	
	Gross profit Amount	%	Gross profit Amount	%
Domestic				
Televisions	106.594	21	80.976	24
Monitors	1.437	11	1.311	11
Electronic Devices	24.392	16	21.687	20
White goods	74.162	19	91.263	18
Others	28.955	14	-	-
Domestic total	235.540	19	195.237	20
Export				
Televisions	287.480	13	386.301	14
Monitors	1.157	10	-	-
Electronic Devices	41.656	10	85.936	15
White goods	92.281	18	83.063	21
Export total	422.574	13	555.300	15
Total	658.114	15	750.537	16

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

26.4 The summary of segment assets and liabilities are summarized as follows:

Television and Monitor	31.12.2005	31.12.2004
Trade receivables	1.121.299	805.113
Inventories	709.301	630.807
Property, plant and equipment, net	564.546	536.281
Intangible assets, net	89.352	85.574
Trade payables	1.599.660	1.190.382
Electronic Devices		
Trade receivables	70.435	62.230
Inventories	176.028	164.684
Property, plant and equipment, net	80.965	77.787
Intangible assets, net	39.714	39.938
Trade payables	239.482	216.057
White goods		
Trade receivables	156.899	157.032
Inventories	122.127	89.229
Property, plant and equipment, net	325.392	243.322
Intangible assets, net	2.837	3.161
Trade payables	196.564	189.976
Other goods and services		
Trade receivables	19.215	25.358
Inventories	22.550	28.909
Property, plant and equipment, net	3.130	2.666
Intangible assets, net	6.573	9.684
Trade payables	28.886	37.493

At 31 December 2005, 92% (2004: 92%) of property, plant and equipment and 84% (2004: 78%) of inventories are located in Turkey. The rest balances are located at overseas subsidiaries in Europe of which less than 3% (2004: less than 4%) are located in Russia.

At 31 December 2005, 66% of trade receivables were from European countries (2004: 67%), 31% from Turkish domestic market (2004: 30%) and the remaining 3% from the rest of the world (2003: 5% and 2002: 4%).

At 31 December 2005, 53% of trade payables were to European countries (2004: 51%) and 22% to Turkish suppliers (2004: 26%) and the remaining 25% to the rest of the world (2004: 23%).

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

26. MONETARY LOSS

In a period of inflation, an enterprise holding an excess of monetary assets over monetary liabilities loses purchasing power and an enterprise with an excess of monetary liabilities over monetary assets gains purchasing power to the extent that the assets and liabilities are not linked to a fixed price level. This gain or loss is derived by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

	31.12.2005	31.12.2004
Opening Working Capital (Working 1)	(70.747)	233.793
Cash movements during the year		
Fixed assets expenditure	(233.751)	(239.491)
Non-current assets and liabilities	(17.691)	2.952
Sales	4.456.229	4.604.903
Purchases (Working 3)	(3.816.624)	(4.037.765)
Operating expenses	(496.570)	(458.153)
Financing expenses	(36.085)	(74.057)
Other income	22.265	5.224
Taxation charge	(54.699)	(43.464)
Minority Interest	(30.168)	(45.979)
Net Cash Inflow	(207.094)	(285.830)
Closing Working Capital per above	(277.841)	(52.037)
Closing Working Capital (Working 2)	(287.137)	(70.747)
Monetary Loss	(9.296)	(18.710)

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

Working 1: Opening Working Capital

	31.12.2005	31.12.2004
Cash and cash equivalents	623.077	541.491
Marketable securities	-	49.624
Trade receivables	1.049.733	944.209
Other current assets	221.449	281.508
	1.894.259	1.816.832
Current borrowings	(156.792)	(109.899)
Trade payables	(1.633.908)	(1.343.095)
Other current liabilities	(159.840)	(119.849)
Taxation on income	(14.466)	(10.196)
	(1.965.006)	(1.583.039)
Working capital surplus/(deficit)	(70.747)	233.793

Working 2: Closing Working Capital

Cash and cash equivalents	581.086	623.077
Marketable securities	-	-
Trade receivables	1.367.848	1.049.733
Other current assets	196.391	221.449
		-
	2.145.325	1.894.259
Current borrowings	(171.934)	(156.792)
Trade payables	(2.064.592)	(1.633.908)
Other liabilities	(183.906)	(159.840)
Taxation on income	(12.030)	(14.466)
	(2.432.462)	(1.965.006)
Working capital surplus	(287.137)	(70.747)

Working 3: Purchases

Closing inventories	1.030.006	913.629
Cost of sales	3.700.247	3.767.971
Opening inventories	(913.629)	(643.835)
	3.816.624	4.037.765

27. POST BALANCE SHEET EVENTS

a) On 3 January 2006, the Group obtained various loans from Denizbank A.Ş. amounting to USD 11.550.000. Interest rate is 4, 25% and the loan matures in stages between November 2006 and March 2007.

b) On 10 February 2006, Vestel Group obtained a syndicated letter of credit facility from a foreign financial institution amounted to USD 120.000.000. The maturity of this facility is one year. The agreement is signed by Vestel Elektronik Sanayi ve Ticaret A.Ş., Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., Vestel Dijital Üretim Sanayi A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş. and Vestel Holland B.V.. These companies were borrowers and guarantors to this facility.

c) An application has been submitted to the Capital Market Board for a public offering of shares of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. According to the explanation given by the Company's management, the Company intends to buy the shares of other shareholders' (Zorlu Holding and Zorlu Family) of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. at the price that will be formed after the public offering; work on this respect has been in progress.

29. TRANSLATED FINANCIAL STATEMENTS

For the convenience of the reader, the financial statements have been translated from New Turkish Lira to EURO with the Central Bank buying exchange rate at period-end (Note 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

(Currency: Thousands of EUROs)

	31.12.2005	31.12.2004
Current Assets		
Cash and cash equivalents	366.038	392.489
Trade receivables, net	861.637	661.249
Due from group companies	142	25.374
Inventories	648.823	575.514
Other assets	123.569	114.122
Total Current Assets	2.000.209	1.768.748
Non-current Assets		
Trade receivables	8.237	6.567
Investments	1.933	3.065
Property, plant and equipment, net	613.564	541.768
Intangible assets, net	87.229	87.154
Other assets	19.986	-
Deferred tax asset	34.665	21.992
Total Non-current Assets	765.614	660.546
Total Assets	2.765.823	2.429.294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

(Currency: Thousands of EUROs)

	31.12.2005	31.12.2004
Current Liabilities		
Borrowings	108.305	98.767
Trade payables	1.300.530	1.029.233
Taxation on income	7.578	9.112
Other liabilities	115.846	100.687
Total Current Liabilities	1.532.259	1.237.799
Non-current Liabilities		
Borrowings	331.085	320.652
Reserve for retirement pay	11.626	16.379
Deferred tax liability	72.915	110.239
Total Non-current Liabilities	415.626	447.270
Equity and Reserves		
Ordinary shares	363.378	363.378
Minority interest	101.059	69.746
General reserve	301.000	256.337
Net income for the year	52.501	54.764
Total Equity and Reserves	817.938	744.225
Total Liabilities and Equity	2.765.823	2.429.294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(Currency : Thousands of EUROs)

	01.01- 31.12.2005	01.01-31.12.2004
Net sales	2.807.073	2.900.726
Cost of Sales	(2.392.513)	(2.427.947)
Gross Profit	414.560	472.779
Selling expenses	(212.764)	(200.439)
General and administrative expenses	(89.223)	(86.985)
Warranty expenses	(19.510)	(19.104)
Other income/(expense), net	14.025	3.291
Income From Operations	107.088	169.542
Financing income/(expense), net	(22.731)	(46.650)
Income Before Taxation	84.357	122.892
Taxation charge		
Current	(34.456)	(25.849)
Deferred	27.460	(1.529)
Taxation on income	(6.996)	(27.378)
Income Before Minority Interest	77.361	95.514
Minority interest	(19.003)	(28.963)
Monetary loss	(5.857)	(11.787)
Net Income For The Year	52.501	54.764

INFORMATION FOR INVESTORS

Stock Exchange

Vestel Elektronik Sanayi ve Ticaret A.Ş. shares are traded on the National Market of the İstanbul Stock Exchange (ISE) under the symbol VESTL. Information about the Company's stock is regularly published in the economics section of daily newspapers and on the internet websites of investment brokerages as well as on the Company's investor relations web page at www.vestelyatirimciiliskileri.com on a real time basis.

Investor Relations

Vestel annual reports 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 following address:

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