

It's all in details...

Annual Report 2008

VESTEL

VESTEL  
IN 2008...

GEÇİRMELİ  
KURUTMA

EKO  
KURUTMA

SEÇENEK

IPTAL

OPTIONS

The Vestel Group of Companies (Vestel) is a strong, leading player in the Turkish and global markets for consumer electronics, white goods, and digital products.

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## Corporate Profile

**VESTEL MAKES THE  
FUTURE A PART OF  
EVERYTHING IT DOES...**

Vestel brings the future to consumers with products that have been specifically designed to be leading-edge and technology-sophisticated and yet user-friendly. Vestel products make extensive use of environment-friendly “green” technologies.

The Vestel Group of Companies (Vestel) is a strong, leading player in the Turkish and global markets for consumer electronics, white goods, and digital products.

Headquartered in İstanbul, Vestel consists of 24 companies (12 of them in other countries) that are active in manufacturing, marketing and sales, R&D, software, and satellite services.

With its proven technology and design and development competencies, Vestel is one of the world's leading OEM and ODM producers. With its presence in LCD TV, digital products, and white goods segments, in 2008, Vestel once again was a leading choice of customers in Europe, the group's principal export market.

As the biggest shareholder in most other group companies and by virtue of the innovative consumer electronics products that it has created, Vestel Electronics is the flagship company of the Vestel Group. One of Turkey's and Europe's biggest electronic goods manufacturers, Vestel Electronics is the fifth biggest producer of LCD televisions in the Europe. In 2008, Vestel Electronics exported 87% of its production.

As a member of the Zorlu Group of Companies and in keeping with its watchword of being "Turkish of technology", Vestel sets market trends through the technologies that it develops at R&D centers located in different parts of the world.

Vestel brings the future to consumers with products that have been specifically designed to be leading-edge and technology-sophisticated and yet user-friendly. Vestel products make extensive use of environment-friendly "green" technologies in keeping with the Zorlu principle of responsible business conduct that is mindful of the future.

Taking its successes in consumer electronics into the white goods segment as well, Vestel products incorporating advanced technologies and made at internationally recognized standards of quality appeal to consumers in 119 countries. With a distribution organization that has a presence in ten countries, Vestel employs an effective marketing and sales strategy that has made it the leading exporter of durable consumer goods in Turkey in terms of market share for eight years in a row.

In its home market in Turkey, Vestel has one of the country's most extensive sales and after-sales services networks. With 1,050 Vestel stores, 1,400 Regal dealerships (650 of them with Regal signage), and 400 authorized service outlets (electronics, white goods, air conditioners, and IT) Vestel offers customers all over the country an extensive product portfolio that is informed by a multi-brand strategy and by a concept-based approach to merchandising.

Vestel's production facilities are located in Manisa (Turkey) and Alexandrov (Russia). The group's high-end TV, PC, and digital products factory at Vestel City in Manisa is the power center of Vestel's consumer electronics manufacturing. Vestel City also contains plants that manufacture refrigerators, washing machines, cookers, air conditioners, and dishwashers. Vestel CIS's facilities in Alexandrov, which consist of refrigerator and washing machine plants, produce goods for CIS markets such as Russia, Ukraine, Belarus, and Kazakhstan.

In 2008 Vestel recorded net sales of USD 3.6 billion, of which USD 2.8 billion was from export sales.

Vestel Elektronik Sanayi ve Ticaret A.Ş. (Vestel Electronics Industry & Trade Inc) shares have been trading on the İstanbul Stock Exchange (ISE) National Market since 1990 under the symbol VESTL. Since 2000, they have also been trading on the London Stock Exchange. As a result of an initial public offering that was undertaken in 2006, some 31.5% of Vestel Beyaz Eşya A.Ş. (Vestel White Goods Inc)- a subsidiary of Vestel Electronics- shares began trading on ISE under the symbol VESBE.





## Financial Highlights\*

In 2008 Vestel recorded net sales of USD 3.6 billion, of which USD 2.8 billion was from export sales.

USD million	2008	2007
Net Sales	3,632	3,555
Exports/Sales	74%	75%
Operating Profit	187	-64
EBITDA	329	56
Net Profit	-316	14
Net Profit/Loss	109	127
R&D Expenditures/Sales	1.9%	1.5%
Total Assets	2,560	3,669
Shareholders' Equity	574	1,106
Net Debt	245	117
Net Working Capital	183	177
Net Debt/Equity	43%	11%
Gross Profit Margin	19.2%	11.5%
EBITDA Margin	9.1%	1.6%

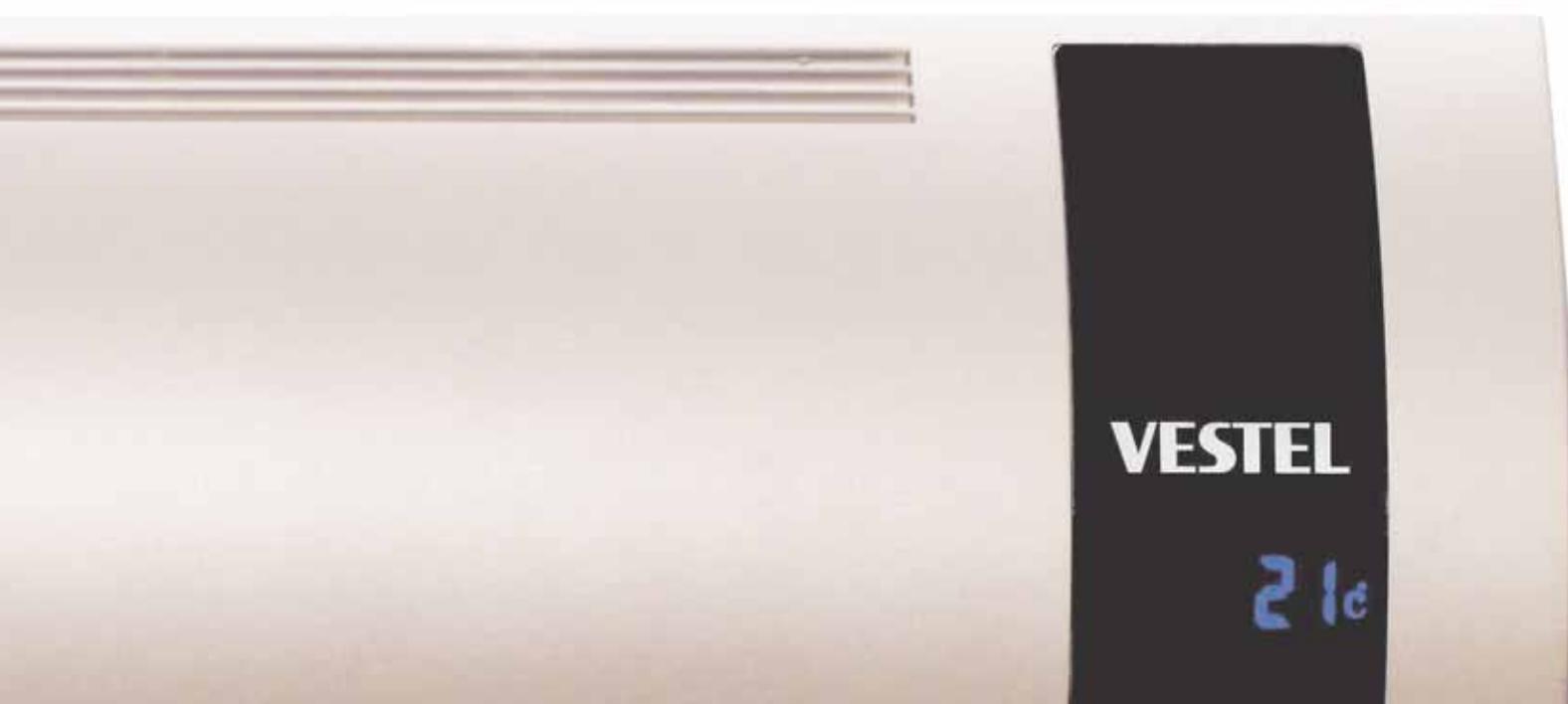
\*CMB based financials

### in 2008

- > Vestel reported an operating profit of USD 187 million in 2008 while its EBITDA amounted to USD 329 million.

Exports/Sales

**74%**



# TECHNOLOGY: IT'S ALL IN THE DETAILS

Regarding R&D as the engine powering all of its development in every respect, Vestel ensures its solid position among Turkey's leading companies through new projects that it carries out in the area of technology and product development.

Pixellence technology, which captures perfection in image rendering, Ecowash, which makes highly efficient use of water when washing, and broadband-based IPTV information exchange applications are just three examples of the impact that Vestel's vision, innovativeness, and environmental-awareness have on achieving resource conservation through the use of advanced technologies.

pixelence | 5000



FULL HD 1080p 100 Hz

**VESTEL**



## Vestel: 2008-2009 Review

With their Full HD features, Vestel Pixellence Super Slim LCD televisions offer true high resolution and clearer images with Vestel's "dust-off" Pixellence image rendering technology.

### Pixellence for perfection...

Vestel's internationally patented Pixellence technology incorporates algorithms and designs which are truly revolutionary and which achieve a whole new dimension in perfection in video image rendering.

The most important feature that distinguishes Pixellence from similar technologies is Vestel's unique, patented algorithms. Pixellence has been awarded more than 40 patents by authorities in Europe and the United States. Pixellence delivers clearer, more vivid, and more realistic images through image enhancement algorithms that eliminate errors caused by compression and in this way creates a true sense of motion.

### A new era in new-generation LCD TV

With its slim-line (33 mm) design, Vestel's Pixellence Super Slim LCD TV incorporates the latest developments in flat panel technology. With their Full HD features, the Vestel Pixellence Super Slim LCD televisions on the market today offer true high resolution and clearer images thanks to Vestel's "dust-off" Pixellence image rendering technology. Vestel Slim LCD models are available in a wide range of distinctive design and color options.

Vestel Pixellence Super Slim LCD televisions come in two screen sizes (26" and 42"). They are equipped with a USB port for displaying video, music, and image files stored on external media and with a full complement of four HDMI sockets for connecting other electronic devices such as DVD players, satellite receivers, and game consoles that deliver HD images. Thanks to its 100 Hz "Movie Sense" feature, Vestel Pixellence Super Slim LCD TVs end the problem of continuity and motion sharpness even in fast-moving images. A contrast ratio of 40,000:1 perfects the perception of reality and brightness while allowing you to experience true cinema quality in your own home. Vestel Pixellence Super Slim LCD TVs are equipped with functionally and aesthetically designed touch-operated keys that are not just easy to use but pleasing to look at.

### A new name in our portfolio: Vestfrost

Vestel has added a new dimension to its investments in white goods with the acquisition of the Vestfrost name, a trademark that is well known and highly respected in Northern European countries and in Russia. With this acquisition, Vestel intends to make the Vestfrost name, which is currently active only in the refrigerators segment, one of the world's most important white goods trademarks by expanding into other white goods and throughout the entire European market.

Vestel is also currently manufacturing under the "Finlux" and "Luxor" names-two brands which are highly visible in Scandinavian and Northern European countries and which the group acquired in 2006. Notable for their streamlined designs, these goods are providing the momentum for Vestel's entry into other countries' markets. Following up the "Graetz" trademark, which is common in countries with a Germanic tradition, Vestel has also acquired the "Telefunken" trademark for five years and signed an agreement to produce for and make sales in the Spanish, Italian, and Portuguese markets. Ventures such as these continue to strengthen Vestel's position throughout Europe.

Vestel is the first and only corporate member from Turkey accepted by the International Council of Societies of Industrial Design (ICSID), one of the most outstanding organizations in the world in the area of industrial design.

#### **Vestel Electronics once again receives high marks in corporate governance**

ISS Corporate Services, regarded as one of the world's leading authorities and rating agencies in corporate governance practices, has again confirmed Vestel Electronics' corporate governance rating score of 8.5 out of 10.

This confirmation is still more genuine evidence of the superior performance that Vestel's corporate governance practices have achieved in terms of their compliance with the corporate governance principles published by the Turkish Capital Markets Board. ISS assigned Vestel Electronics an 8.5 corporate governance rating in 2008 as well.

#### **A Vestel first in the world of interactive gaming: "I Can Football"**

Vestel has launched "I Can Football", the world's first 11 vs 11 online 3D football game playable over the internet. Located at its own [www.icanfootball.com](http://www.icanfootball.com) address, "I Can Football" appeals to online gamers as well as to football fans. It represents the first Turkish venture into the rapidly growing world of online games.

By entering this business line in our country, Vestel is proving that it intends to make its voice heard in content development as well. "I Can Football" provides a unique opportunity for Vestel to distinguish itself in an area in which it can show off its technological muscle and reach the crucially important youth demographic.

Vestel's gift to football fans everywhere "I Can Football" is the creation of Sobee, a game development company, and its founder, the award-winning game developer Mevlüt Dinç. Every aspect of "I Can Football" from software to infrastructure is the product of local talent and effort. By making it possible for 22 people to play football in real time over the internet from wherever they may be, "I Can Football" is the first online game of its kind in the world. Just one of its many features is an option to let the computer take control of the remaining players when there are not enough people available to make up two full teams.

#### **A steady stream of product awards**

Distinguishing itself in the sector through products that blend technology and aesthetics, Vestel regards design as a component of its products' added value and keeps it accordingly in the forefront of all of its production processes.

In addition to functionality and technological superiority, Vestel products are also outstanding by virtue of their innovative design details. Vestel's design strengths have been recognized by national and international awards.

##### **> Design Turkey Industrial Design Awards**

Vestel received five awards in the Design Turkey Industrial Design Awards 2008 competition, widely regarded as the most comprehensive and prestigious design evaluation program in Turkey. Vestel received "Good Design" awards in the "Electronic Equipment" category for two of its flat-screen TV models (42845 Ultra thin LCD TV and 42850 Ultra thin LCD TV) and for its Vestel Topnotch Notebook PC. In the "Electrical Household Devices" category Vestel received "Good Design" awards for the Vestel Quadro Split Air Conditioner and for the Vestel Olympus Washing Machine.

##### **> Good Design Award**

In 2008 the Chicago Athenaeum Museum of Architecture and Design bestowed its highly coveted "Good Design" award on the Pebblause Slim and Thin LCD TV that Vestel produced for the Finlux brand of consumer electronics.

##### **> Red Dot Design Award**

Vestel received two "Red Dot Design" awards for two remote control units from Design Zentrum in Germany, whose citations are recognized as international affirmations of quality in design.

##### **> Turkish Patent Institute "Golden Award"**

Vestel White Goods received the "Turkish Patent Institute (TPI) Gold Award" for its invention of an "electronic-controlled refrigerator with a two-way door hinge". This is the second TPI award that Vestel has received for its patented inventions.

TPI awards are given to help Turkish firms protect their products and services against unfair European competition in the areas of trademarks, patents, and designs while also encouraging increased investment in research and development in Turkey.

## Zorlu Group and Vestel Group

The story of the Zorlu Group dates back to its foundation in the early 1950s in a small textile atelier in the town of Babadağ in Denizli province. Growing and gaining strength in textiles by creating globally recognized brands, the Zorlu Group translated its success in textiles into the businesses of brown and white goods and digital products through Vestel and into the energy sector through Zorlu Energy. In 2006, the Zorlu Group made a bold and successful entry into real estate investment and development in order to tap the huge growth potential that it saw there and it undertook a number of investments in İstanbul as well as in İzmir and Marmaris.

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

With 25 thousand employees and total assets worth more than TL 10 billion and in keeping with its philosophy “If we’re going to go, then go as far as we can. If we’re going to ascend, then go as high as we can. If we’re going to be, then be the best we can be”, the Zorlu Group continues to increase the visibility of the Zorlu name in the global arena as well as the confidence that is felt in it.

### Zorlu Group

#### TEXTILES GROUP

Korteks  
Zorluteks  
Linens Marketing  
Zorlu Foreign Trade

#### VESTEL GROUP OF COMPANIES

Vestel Electronics  
Vestel White Goods  
Vestel Digital  
Vestel Foreign Trade  
Vestel Durable Goods Marketing  
Vestel CIS  
Vestel Defense Industrials  
AYESAŞ  
Birim  
Vestel Germany  
Vestel France  
Vestel Iberia  
Vestel Italy SRL  
Vestel Holland BV  
Vestel Trade  
Vestel UK limited  
Vestel Electronica SRL  
OY Vestel Scandinavia AB  
UTS-United Technical Services, SPOL S.R.O.  
Vestpro Electronics S.A.  
Dexar Multimedia & Telecommunications  
Vestel USA  
CABOT Communications Ltd.  
Vestel Electronic India  
Vestek Electronics Research & Development  
Deksarnet Telecommunications  
Intertechnika LLC (Russia)

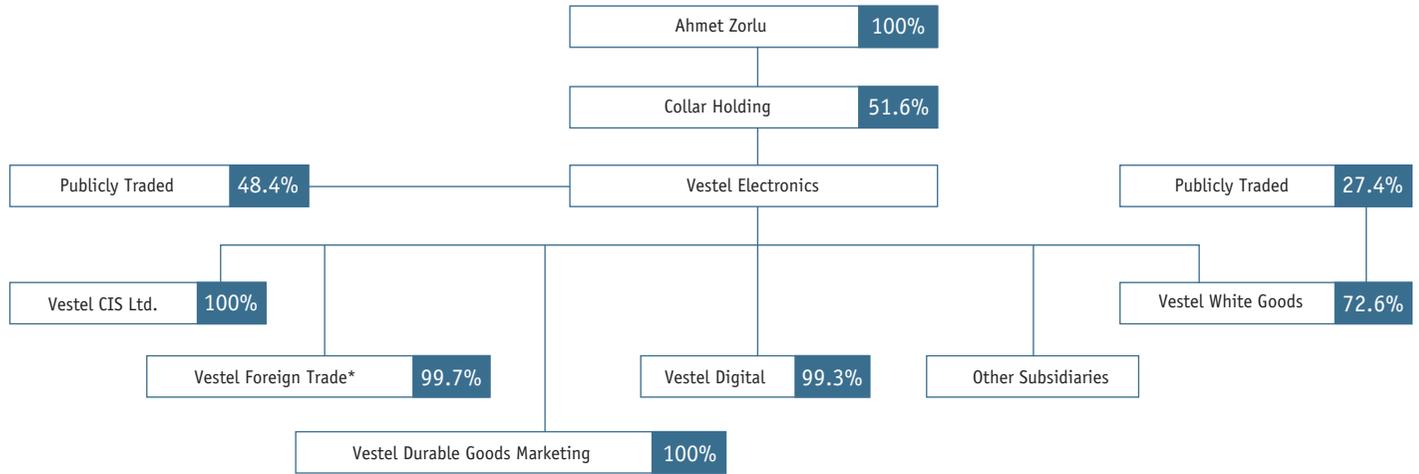
#### ENERGY GROUP

Zorlu Energy  
Zorlu O&M  
Zorlu Industrial  
Rotor  
Zorlu Hydroelectric  
Zorlu Electricity  
Zorlu Petrogas  
Amity Oil International  
Zorlu Natural Gas  
Thrace Region Natural Gas Distribution  
Gaziantep Natural Gas Distribution  
Rosmiks LLC (Russia)  
Zorlu Energy Pakistan  
Dorad Energy (Israel)  
Ashdod Energy (Israel)  
Ramat Negev Energy (Israel)  
Solad Energy (Israel)  
Zorlu Natural Electricity Generation  
Zorlu Geothermal Energy Electricity Generation  
Zorlu Intergas GMBH (Austria)  
Zorlu Energy and Construction

#### PROPERTY GROUP

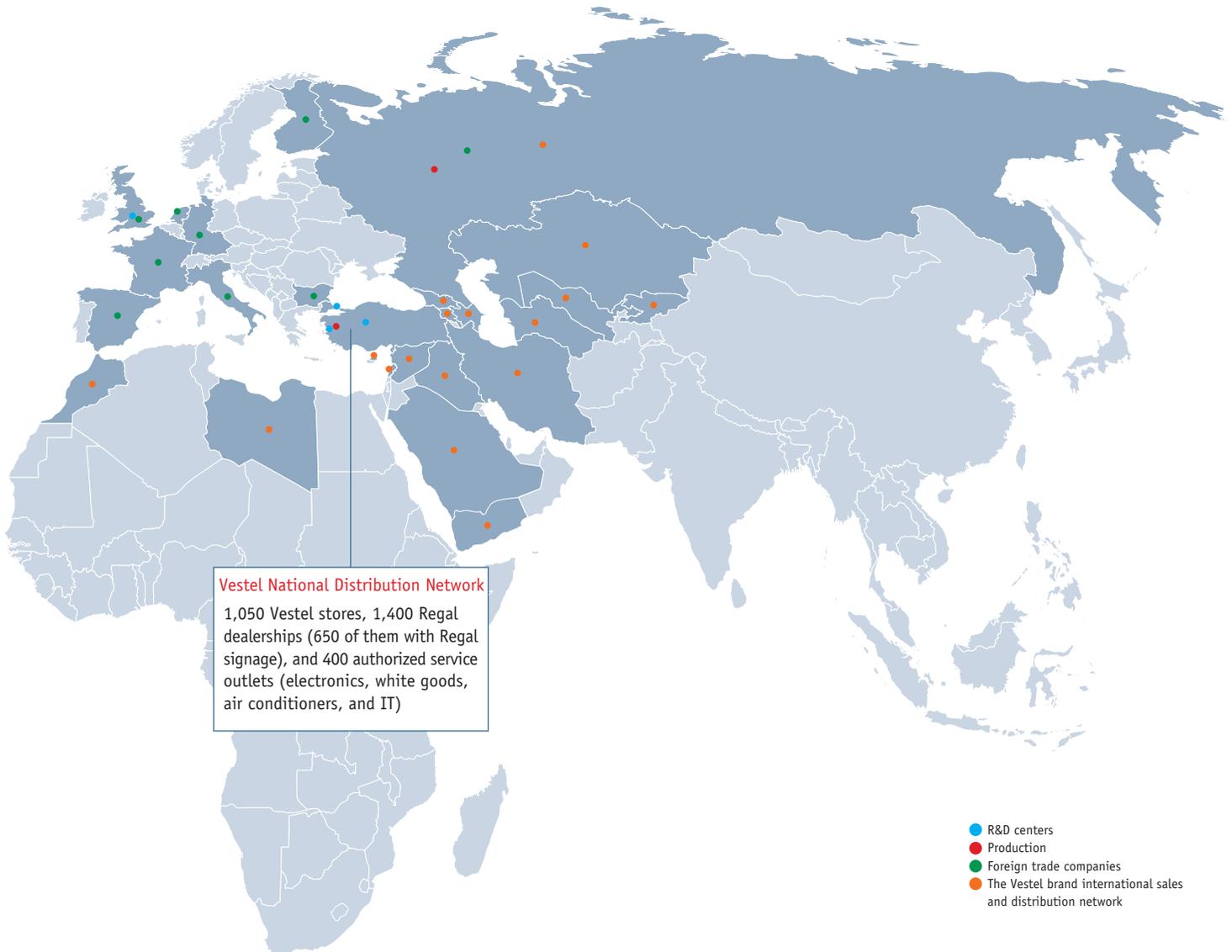
Zorlu Construction & Investment  
Zorlu Property Development & Investment  
Akmerkez (Passtel Shopping Center)  
Intermar

**Vestel Group**



\* Consisting of foreign trade companies

**Vestel Growth Area**



## Vestel's Strategies and Goals

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



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

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

In the already highly saturated European TV market, Vestel sees the process of changeover to high-end products (especially to flat-panel units) as a growth opportunity. Vestel seeks to take maximum advantage of its technological infrastructure and of its vast store of knowledge about the regulatory issues and consumer dynamics of the European TV market in order to increase its market share in "Category A" products.

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

### **Diversify products**

Vestel seeks to take maximum advantage of its production strengths and economies of scale and to pursue growth in all business lines by diversifying its product gamut. In the diversification of its products, Vestel's tremendous flexibility in developing products according to customer demand and/or geographical considerations is an important competitive advantage.

### **Expand geographical presence**

While continuing to make sales in EU countries as an OEM and ODM, Vestel adheres to a strategy of establishing and cultivating a presence for itself in Turkey and nearby countries as a brand name in its own right. Vestel-branded products are made available to consumers in Turkey and in other countries such as Russia, CIS countries (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan), the Middle East (Iran, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, United Arab Emirates), North Africa (Libya, Morocco), and South Asia.

In Vestel's OEM/ODM production and export activities, attention is being given to new territories. Exports are gaining momentum in South America (Argentina, Brazil, Columbia, Peru, Venezuela), in Asia (India, Philippines, Thailand), and in South Africa thanks to products specially designed for those markets. In 2008 Vestel began collaborating with new Pay TV operators in France and Spain.

As an adjunct of these strategic goals, Vestel also keeps on the lookout for opportunities to invest in new business lines that will complement its principal business activities.

## The Sources of Vestel's Strength

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

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

### Innovation

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

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

### Product diversity

Vestel deploys a product diversification strategy to respond to the different needs of its customers in the EU countries that make up its primary market. Already the world's most flexible manufacturer of consumer electronics, Vestel is now strengthening the same position in white goods as well. Vestel has the ability to tailor its mass production activities on an individual order basis.

### Cost advantages

- > Vestel regards its logistics and distribution competencies as a key element of its ability to respond to its customers' orders for different numbers of units by means of a broad array of products. The physical proximity of the country to the European market gives it important logistical and cost advantages compared with its Far Eastern competitors.
- > As one of the world's biggest makers of televisions and with a rapidly-growing production in white goods, Vestel is well positioned to take advantage of economies of scale and it also enjoys important advantages when procuring the components that are the prime determinants of cost in the manufacture of brown and white goods. Vestel procures a high percentage of its inputs from the numerous firms that make up Manisa's submanufacturing sector. This logistical proximity gives it an important cost advantage.
- > The customs union between Turkey and the EU is another natural competitive advantage that Vestel enjoys. The Company's ability to ship goods into EU countries duty-free further strengthens its position vis a vis Asian competition.
- > Moreover, production facilities in Russia offer advantages due to the tax regime in Russia and other CIS countries, mainly Ukraine, Belarus and Kazakhstan.

### Committed to customers

- > Unlike its Far Eastern competitors, Vestel delivers seamless service that covers everything from original design and manufacture to point distribution. This ability is what makes it the preferred choice of customers.
- > Having developed relationships with its main customers on a sound and long-term basis, Vestel does not compete directly with its customers' brands in Europe in electronics and it is adhering to the same strategy in the case of white goods as well.

## Stages of Development at Vestel: 1994-2008

In addition to complying with EU laws and regulations governing the avoidance of harmful compounds in production processes for two years, Vestel is also making great progress in the area of energy-conserving products as well.

Vestel has managed multidimensional and sustainable growth in terms of technology, products, and markets in the best manner possible and realized its targets at different stages of its development thanks to its strong strategies that keep up with change.

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

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

### **1997-2000: Development engineering and product diversification**

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

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

### **2000-2005: Technology development**

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

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

Insightfully analyzing technological developments in advance, Vestel purchased UK-based Cabot Communications Ltd in 2001.

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



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

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

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

#### **Since 2006 and into the future: New product development, technological institutionalization, and penetrating world markets**

Consumer product lifetimes are growing shorter in line with users’ rapidly changing needs. In a market whose growth and development are driven by consumer demand, R&D activities are becoming increasingly more vital. For this reason, Vestel gives great importance to the processes of technological development and institutionalization while striving to gain an increasingly stronger presence for itself in world markets.

With its huge LCD TV and white goods production capacities and infrastructure, Vestel is determined to advance its superior OEM/ODM position in the European market.

Vestel has defined a geographical region in which it adheres to a strategy of expansion on both the manufacturing and the branding fronts. In the wake of the first successful stage of this strategy in Russia, the group plans to pursue further growth by selling its products under the “Vestel” trademark in other developing markets such as CIS countries (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan), the Middle East (Gulf countries, Iran, Iraq, Jordan, Lebanon, Oman, Saudi Arabia, Syria, United Arab Emirates, Yemen), North Africa (Libya, Morocco), Cyprus, and South Asia.

Vestel is concentrating its R&D activities in LCD technologies on software projects aimed at improving image rendition. The Pixellence LCD TV units that Vestel introduced to the market in 2007 created quite a stir and the Company has speeded up its efforts in this area. With more than 40 patent awards already and with an expanding line of derivatives, Pixellence technology today has demonstrated Vestel’s success in image enhancement software in the international arena.

Keeping a close eye on the trend towards thinner panels in flat-screen televisions, in 2008 Vestel introduced the thinnest LCD TV made by a domestic manufacturer in Turkey. Just 33 mm thick, the Pixellence Slim LCD is evidence not just of Vestel’s prowess in design but also of its ability to deliver state-of-the-art technical features such as Full HD, blur-preventing 100 Hz image processing, and specialized motion-rendition algorithms.

The spread of web-based TV applications (IPTV, ITV, USB TV) makes image perfection even more crucial. Thanks to its intensive efforts in this area, Vestel also leads the way in introducing to the market advanced and diversified versions of IP services that make interactive applications possible.

Convergence products are also gaining increasing importance for Vestel. Combining the advantages of a flexible production model in consumer electronics and of experience with embedded software in telecommunications with information technology strengths derived from laptop computer manufacturing, Vestel is advancing sure-footedly towards its targeted position in convergence products.

Another important landmark on Vestel’s developmental roadmap is the “Green Concept”. Environment-friendly products are becoming increasingly more important everywhere but especially so in the European market. In addition to complying with EU laws and regulations governing the avoidance of harmful compounds in production processes for two years, Vestel is also making great progress in the area of energy-conserving products as well.

# DESIGN: IT'S ALL IN THE DETAILS

In addition to such features as functionality and technological superiority, Vestel products also set themselves apart by virtue of their innovative design details.

Distinguishing itself in the sector through products that blend technology and aesthetics, Vestel regards design as a component of its products' added value and integrates it into all of its R&D and production processes.





## Chairman's Message

Vestel made its investments at the right time and in the right way with the result that today its infrastructure and its experience position it as a group with the strength and ability to compete successfully everywhere in the global economy.



**Ahmet Zorlu**  
Chairman of the Board of Directors

### **We're going through a difficult process.**

The repercussions of the collapse of the home mortgage market in the United States in 2007 spread far and wide, even to the developing countries. By the second half of 2008, their effects were showing up in real sector economic indicators throughout the world: demand was down, unemployment was up, private sector consumption withered, and international trade slowed. The result of this contraction was that most developed economies entered recession in 2008.

The global economic crisis will be at the top of the agenda in 2009 as well. At this time it is not at all clear when the crisis of confidence from which markets are suffering will be overcome; neither can we be sure how long it will be before the results of the measures that are being taken will make themselves felt. Most forecasts for 2009 indicate that the slowdown in global growth and the decline in world trade will persist at least for some time.

### **Vestel is strongly positioned.**

Vestel made its investments at the right time and in the right way with the result that today its infrastructure and its experience position it as a group with the strength and ability to compete successfully everywhere in the global economy.

Over the last decade, Vestel has progressed as far as is technologically possible in electronics and it has achieved high production capacities. At this point we do not think that it would be very productive in terms of either logistics or costs to pursue additional growth. The white goods production capacities that other companies took fifty years to build up we reached in just ten years. Nevertheless there is additional capacity for growth here. Our infrastructure is ready for it and when the time comes, we shall be undertaking our investments.

The full force of the global economic crisis began to make itself felt in Turkey in the third quarter of 2008. Contractions in Vestel's domestic and international markets had an adverse impact on the Company's sales. Thanks to our superior foresight and experience, we took the right measures at the right time so that the detrimental effects of the crisis on our performance and results were held in check. We continued production without reducing factory capacities and we achieved our targets for the year with but little deviation.

In order to show the market the confidence that the Vestel name inspires, and to raise the value of our Company's stock, we decided to increase the capitalization of Vestel Electronics by the amount of TL 160 million and moreover to do this through a cash-based rights issue.

Flexibly altering one's thinking and actions in line with crisis conditions and accommodating oneself accordingly is the first rule of survival. Vestel demonstrated its crisis management abilities by means of such measures and practices as making and implementing decisions quickly, keeping a close day-to-day watch on markets, minimizing stock levels, adhering to "just-in-time" practices in procurements and sales, tight cost controls, short-term budgets, and going into markets at the right time with competitive prices.

While we should be proud of the decisions that were made and of the results that they achieved in 2008, that does not mean that we can slack off just now-if ever. 2009 is not going to be an easy year for our country or for our group. What we are contending with is nothing less than a third world war on the economic front. To survive this conflict we must all work together as individuals, organizations, and a nation.

**Taking pride in what you do is the secret of success.**

To overcome the difficulties that confront us we must all strive with conviction and dedicate ourselves to our work. Keeping our institutions alive is the fundamental tenet that will shape all of our futures. That in turn is only possible by making a dedicated effort, by focusing on what we do, by seeking to be more productive in everything, by never sacrificing quality, and by always distinguishing ourselves through innovative thinking and approaches. Identifying with the superior values that are the strength that makes Vestel a brand that Turkey can be proud of, our human resources need to recognize and work for the sake of their common goals while also setting their individual goals and striving to achieve them.

**We believe in our companies and in the Vestel brand.**

Since the day it was founded, Vestel has always thought on a long-term basis with an eye on sustainability in its approaches. This attitude reveals itself as much in its dividend policies as in its investments. Strengthening the Company's equity is always a prime consideration.

In order to minimize the adverse effects that the current global economic crisis has on our Company by strengthening its financial structure, to show the market the confidence that the Vestel name inspires, and to raise the value of our Company's

stock, we decided to increase the capitalization of Vestel Electronics by the amount of TL 160 million and moreover to do this through a cash-based rights issue.

The fact that our biggest stockholder willingly supported this share capital increase during a period of severe economic crisis is proof positive of the faith that the Vestel name inspires.

**Progress powered by R&D**

Turkey's growth must be driven not by imports but by exports. To achieve growth through production, it is important to take measures to support domestic manufacturers and to help them survive. In the same way, encouraging and supporting R&D activities in our country and increasing exports through production that is based on innovative and advanced technologies should be high on everyone's agenda too. It is our sincerest hope that the new law aimed at encouraging research and development that was enacted in 2008 will set this vicious circle into motion.

Investing in technology and R&D is undeniably important for the future of Turkey with its youthful population too. For this reason, we think that it is crucial to make changes in educational policy so as to foster the growth and development of an R&D culture in our country and to give young people the backgrounds they need to be inquisitive and think about innovation.

We sincerely hope that the long-term investments that Turkey is making in all aspects of R&D will open the way for our country to become one of the world's leading centers of research and development.

## Chairman's Message

Through the strong R&D infrastructure and team that it has built up, Vestel repeatedly affirms its stature in technology and innovation not just in its home market but in the international arena as well.

### **The direction of Vestel's future investments is clear: R&D and product innovation**

A recognition that they were necessary if we were to survive competition at the global level was the starting point of all of our R&D activities. Acting on the basis of that awareness, Vestel has never strayed from the priority that it gives to R&D investments-and it never will. If we are exporting goods worth nearly USD 3 billion today it is because the high-tech products that we have designed are preferred by consumers and that in turn is the natural outcome of insightful strategies and good management.

Through the strong R&D infrastructure and team that it has built up, Vestel repeatedly affirms its stature in technology and innovation not just in its home market but in the international arena as well. As one of the very few concerns in our country capable of distinguishing itself through its efforts in this area, Vestel does everything possible for the sake of its sector and for the future of our country.

Our powerful vision allowed us to see that achieving the advanced level of technology which we enjoy today was no dream when we first set up our high-end factory back in 2002. Today we have the strength to compete with global giants in terms of both technology and design.

The superiority of the Pixellence technology which we developed and which makes it possible for us to achieve perfection in image rendering has been recognized at the international level. Thanks to the advances that it has made in software, Vestel has clinched its technological edge in LCD manufacturing through investments in module production. This development will play an accelerating and influential role by enabling us to reach the level we aspire to in European TV manufacturing. At the same time, it will also result in significant gains in terms of costs by reducing our dependence on outside sources. We also see an imminent and important future in web-based IP services as we turn our attentions increasingly more to added-value, advanced-technology products. Our efforts in this direction, which have already begun with IP TV, will acquire an even more advanced dimension through content development.

### **Corporate governance**

As a company with one of the highest levels of publicly traded stock in Turkey today, Vestel Electronics is committed to strict compliance with corporate governance principles in order to fulfill its responsibilities towards its national and international corporate and individual shareholders and other stakeholders.

ISS Corporate Services, recognized as one of the world's leading rating institutions in corporate governance practices, has reaffirmed the 8.5 out of 10 corporate governance rating that it announced for Vestel Electronics the previous year.

### **We must safeguard the future.**

Environmental problems such as global warming and natural resource exhaustion have taken up permanent places on everyone's agendas as clear and present dangers to human civilization. Enjoyable as the Information Age may be basking in the dynamic world of technology, every step that we take unmindful of its environmental consequences brings us all one step closer to our self-destruction.



In order to assure the long-term viability of whatever we do from now on we shall need to concern ourselves not just with production issues but also with increasing our existing natural resources, with using renewable energy sources, and with changing our lifestyles.

The Zorlu Group, of which we are a member, is a signatory to the UN Global Compact and it maintains the highest level of awareness of its global responsibilities. As a member of that group, we make the utmost effort to work together with all of our stakeholders wherever we may be engaged in activities to make this world a better place for everyone today and in the future. That is because we know very well that human civilization can only exist and survive to the degree that it remains in harmony with the natural world.

**We are also investing in alternative energy sources.**

Vestel develops projects whose aim is to achieve a more livable world by putting technological advances to work in new and different aspects of our everyday lives. One focus of Vestel's R&D efforts is to come up with solutions that make use of environment-friendly alternative energy sources.

We are currently involved in three different energy-related projects, all of which are progressing rapidly after an initial three-year startup period. Our belief that hydrogen will become an important source of energy in the near future is gaining increasingly more credence. At a symposium held in Japan on this subject, we were cited as one of the world's top three organizations active in this area. Our work on fuel cells is also moving forward without letup. The third project is concerned with using solar panels to heat seawater to create steam from which electricity can be generated while recapturing the steam as fresh water.

**Technology underlies our very existence.**

We as Vestel will continue to carry out our investments and to produce for the whole world in the future, just as we have done in the past. Because our technological muscle is supported by our solid infrastructure and by our effective after-sales services, we will go on offering our customers world-class products thanks to our strong financial resources and to the synergies arising from our group.

As one of the world's most important electronics and white goods manufacturers, Vestel will continue to develop technology that makes life more comfortable for people in the future just as it is doing today.

In closing, I extend my thanks to all our employees, shareholders, and other stakeholders.

Handwritten signature of Ahmet Zorlu.

**Ahmet Zorlu**  
Chairman of the Board of Directors

## Board of Directors



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### 1 Ahmet Zorlu

#### Chairman

(1944 - Denizli) Ahmet Zorlu began his career in a family-owned textile business. He set up his first company, Korteks, in 1976. In the years that followed, he continued to undertake new investments in the textile industry and founded Zorlu Holding in 1990. Ahmet Zorlu purchased the rights to the Vestel trademark in 1994. He is currently the chairman of Zorlu Group consisting of 57 companies active in electronics, white goods, textiles, energy and property sectors.

### 2 Prof Ekrem Pakdemirli

#### Board Member

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

### 3 Mehmet Emre Zorlu

#### Board Member

(1984 - İstanbul) Mehmet Emre Zorlu graduated from Koç University (Department of Electrical and Electronic Engineering) in 2006 after which he joined the master's program in innovation and technology management at the University of Essex in England in 2007-2008. Mehmet Emre Zorlu began working for the Vestel Group of Companies in 2009.

### 4 Yılmaz Argüden

#### Board Member

(1958 - Eskişehir) Dr. Yılmaz Argüden is a leading strategist, advisor, and board member of major public and private institutions, and NGOs. He is the Chairman of ARGE Consulting, a leading management consulting firm in Turkey. He is also the Chairman of Rothschild investment bank in Turkey; an Adj. Professor of Business Strategy at the Boğaziçi University and the MBA program of the Koç University; an author of numerous books and a columnist focusing on business and strategy issues. He is a recipient of numerous leadership, distinguished citizenship and career awards, and was selected as a Global Leader for Tomorrow, by the World Economic Forum for his commitment to improve the state of the world. He is also the National Representative of UN initiated Global Compact network.

### 5 Ömer Yüngül

#### Board Member and Chairman of the Executive Committee

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

### 6 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.

### 7 Mehmet Cem Bodur

#### Board Member

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

(Not present in the photograph)

## CEO's Assessment

Turkey's geographical location, the speed with which its business processes can be carried out, and its production quality have all been providing the country with significant advantages during this crisis. Recognizing the competitive advantages that Turkey offers compared with Far Eastern countries, European manufacturers have turned their attentions in our direction once again.



**Ömer Yüngül**  
Chairman of the Executive Committee

During the latter part of the year now behind us we were witness to volatilities in every sector that reflected the upheavals taking place in world markets. 2008 started out as a very good year for our business but when the effects of the global economic crisis began to take hold in the real sector in the second half of the year and particularly in the last quarter, we began receiving warning signals about the period ahead as well.

We are now in the midst of 2009, a year in which we hope the global crisis will come to an end but, more importantly, in which we will see the beginnings of a worldwide change in how business is done. In the wake of this traumatic period, new rules governing the world's economic order will have to be defined and put into effect. It would not be a mistake to say that putting an end to the crisis is itself contingent upon gaining as broad as possible acceptance for these rules.

In the same process, those companies that have the flexibility needed to accommodate themselves to rapid change and to internalize it are the ones that will emerge as the winners. The new order of things will be very unforgiving of even the smallest mistakes. Nevertheless, companies like Vestel that have completed all of their essential investments will be able to advance with greater confidence into the future.

### **We have never been pessimistic about Turkey, our sector, or Vestel.**

Turkey's geographical location, the speed with which its business processes can be carried out, and its production quality have all been providing the country with significant advantages during this crisis. Recognizing the competitive advantages that Turkey offers compared with Far Eastern countries, European manufacturers have turned their attentions in our direction once again.

In consumer electronics, there has been a remarkably fast move to flat-screen technology in televisions. In this changeover, more than thirty assembly plants were set up in Eastern Europe alone, most of which are now in the process of being shut down because they are proving not to be up to par in terms of either production or service turnaround times. European electronic goods manufacturers began placing smaller orders at more frequent intervals in order to avoid stock maintenance costs and also to cut back on their logistical costs. The effect of this was to shift orders away from the Far East in favor of Turkey. In the white goods market, A-brand manufacturers are shutting down their production facilities in Western Europe and relocating part of their manufacturing operations to smaller-scale Eastern European plants or to Turkey.

Vestel successfully maintained its customary position as the durable goods sector's leading exporter. With USD 2.8 billion worth of exports in 2008, Vestel clinched its standing as the sector's export champion for the eighth year in a row.

Because the sector in which we are active is one that is always dynamic and intensely competitive, the rapid business and decision-making processes our group has built up enable it go through periods of crisis without any hardship. With its superior quality and ability to respond rapidly to orders from Europe, Vestel enhances its standing as a preferred OEM/ODM by taking advantage of such developments and competitive edges. Strengthening its advantaged position in electronics, Vestel is also advancing confidently in the direction of becoming Europe's biggest white goods manufacturer. In the post-crisis period, we expect to see a surge in demand that Europe's supply side will not be able to keep up with. That too will smooth the path for Vestel's growth in this business line.

Vestel successfully maintained its customary position as the durable goods sector's leading exporter. With USD 2.8 billion worth of exports in 2008, Vestel clinched its standing as the sector's export champion for the eighth year in a row.

#### **Our future course**

If we are to have the maximum benefit of these developments and their implications, what we need to do now more than ever is to be focused on innovation in every aspect of our business. In a business such as ours where one's competitive strength is dependent on one's powers of innovation, only firms that are innovative in their thinking and producing will remain in the lead in both national and international markets.

Having completed all of its essential investments in both brown and white goods, Vestel's investments from now on will be focused entirely on product development through R&D and innovation and on new markets.

#### **R&D and innovative products**

Regarding R&D as the engine of its growth and development in every respect, Vestel ensures its strong position among Turkey's leading companies with new projects that it undertakes in the areas of technology and product development. As reported by the international consultancy Deloitte, Vestel ranks among the top three in Turkey's R&D championship league.

Vestel continues to concentrate its R&D activities in LCD technology on image enhancement software. Combining an already superior position in embedded software and the experience gained in information technology with the opportunities offered by the internet technology in the area of communications, Vestel is advancing sure-footedly towards its targeted position in convergence products.

Pixelence, some forty of whose algorithms have been awarded patents and which has been highly successful in the area of image enhancement, is currently producing even better results and gaining global recognition for its technological success now that its second generation has been rolled out.

Another indication that Vestel will always have a presence in TV production is to be seen in its investments in module (LCM) manufacturing. LCM investments impose serious demands on insightfulness and are highly risky by nature. Trial production of LCM began in 2008. When full production commences, Vestel will have a unique position as the only manufacturer of LCMs in Turkey; indeed, the only other country in Europe where modules are currently being made is Poland. Because LCMs account for about 60% of the production costs involved in making flat-panel displays, this investment will give Vestel an important competitive edge, reduce its dependence on foreign suppliers in LCD manufacturing, and result in a significant cost advantage.

Vestel continues to supply markets with products that both meet consumer expectations in product development and mesh with its own innovative approach. Customer needs, geographical features, and social and cultural expectations are all taken into account in product development. Products are introduced to consumers so as to be compatible with different customer segments and, when need be, with niche market trends as well. Our products are the recipients of countless national and international design awards that confirm our success in blending technology and design.

In the TV segment in 2008, we introduced the Pixelence Deluxe LCD series, the market's first LCD TV with fine wooden cabinets. Another new offering last year was the Vestel Pixelence Slim LCD TV, whose light, slim-line (33 mm) design compared with other LCD units is in line with the market's preference for thinner displays.

## CEO's Assessment

For several years now Vestel has been pursuing a strategy of establishing and maintaining itself in world markets by adding select international brands to its product portfolio. Two of the most outstanding examples of this are Finlux (electronics) and Vestfrost (white goods), the trademark rights to the latter of which were acquired in 2008.

Slim LCD TVs represent the most important development since flat panel units began replacing cathode-ray tubes. Vestel Slim LCDs have high resolutions thanks to their Full-HD features while Pixellence image rendering technology enables them to achieve perfection in image display.

In another area, there has been a huge worldwide increase in broadband-based IPTV information exchange applications. Vestel has reached an advanced stage in its work on IPTV-based products. Three outstanding examples of such products are PVR (personal video recorder) TV units equipped with hard disks that allow TV broadcasts to be recorded; interactive hotel TV systems that provide TV and radio broadcasts, internet connectivity, access to hotel services, and information about weather and currency exchange rates; and hospital TV systems that allow patients to view TV broadcasts and movies, place telephone calls, access the internet from a PC, take part in video conferences, and view their hospital bills.

### Different markets and different brands

With most European countries in a recession brought on by the current economic crisis, there has been a significant decline in demand in what is our primary export market. Despite this, the advantages that we enjoy in both the electronics and the white goods segments in Europe will enable us to defend our sales by taking bigger shares of smaller markets; indeed, we may even be able to increase those shares.

In another direction, the target market map that Vestel has been expanding for two years will present increasingly more opportunities in the period ahead. The markets that are particularly noteworthy by virtue of their growth potential are those of CIS countries, India, Pakistan, and countries in the Middle East and South America.

Vestel has also been accelerating its own-brand marketing activities in Turkey's hinterland, with a particular emphasis on Russia and the Turkic republics.

For several years now Vestel has been pursuing a strategy of establishing and maintaining itself in world markets by adding select international brands to its product portfolio. Two of the most outstanding examples of this are Finlux (electronics) and Vestfrost (white goods), the trademark rights to the latter of which were acquired in 2008.

### Our production is mindful of our world and its future

Because we think about the future in whatever we may do, I am proud to say that the Vestel Group is an organization that is extremely sensitive about social and environmental issues in the conduct of its business. We see our environmental responsibility as one of the most important components of our overall social responsibility. We make every effort to develop products which are efficient in resource use and which cause the least amount of harm to the environment. Vestel takes pains to ensure that the latest advances in technology are quickly and successfully reflected in its products while demonstrating its environmental awareness by making its products as environment-friendly as possible.

All of our products fully comply with all of the restrictions and requirements set forth in national and international environment-protection laws and regulations. Going beyond that however, we also make the incorporation of energy-efficient innovations made possible by technology a focal point of concern in the design and production of our products.

Minimizing power consumption in LCD TVs when they are in stand-by mode and achieving significant savings in energy use in flat-panel LED technology are just two of the many ways that Vestel seeks to make its products energy-efficient.

Recent noteworthy design trends in home appliances include exploring different color options and materials as well as a search for ways to reflect functionality more effectively in the "look and feel" of products. Techniques which use less energy, less water, or less detergent or which offer different washing options make it possible to achieve design-based product differentiation while also making products more useful and new functions more effective.

Vestel remains committed to its strategy of safeguarding both the environment and the future in the area of white goods. The Company continues to launch environment-friendly products that take ecological issues into account and reduce energy consumption while enhancing functional performance. We are also working now on technologies which make product user interfaces more ergonomic and which allow products to automatically detect what parameters should be used by default.

In addition to reflecting its philosophy of making efficient use of resources in its products, Vestel also takes pains to ensure that attention is given to the same concern in its production facilities.

Besides efforts to use energy more efficiently by compressed air, cooling water, and heating-cooling of offices and factories, we are also looking into ways to reduce electricity costs. Our factories are equipped with the latest technologies and this makes it possible for them to be more frugal in their use of electricity and natural resources. Energy conservation has become one of the main issues dealt with in Vestel personnel training activities.

Through measures such as these, Vestel is striving not only to do its part to counter the threat of global warming but also to reduce its manufacturing costs in order to offer its goods to consumers at more affordable prices.

#### The future is ours...

As Vestel continues its journey into the future it will further increase its focus on technology in its ongoing efforts to advance its position among world-league players in the consumer electronics and white goods sectors. Going beyond this however, Vestel is also moving with the same determination into other areas such as health, defense, and alternative energy. It has already begun to distinguish itself through investments in hydrogen as a fuel, solar energy, and fuel cells-three potential solutions to the problem of meeting the future's energy requirements.

Our activities in the area of defense industry software and unmanned aerial vehicles continued in 2008. We plan to begin aircraft test flights by midyear 2009. This project is a matter of some importance because of its ability to demonstrate the advanced level that Vestel has reached in its ability to use and develop technology.

We as Vestel derive our strength from our innovative point of view and from our ability to rapidly adapt to changes of every sort. The foundations of our future consist of our highly trained human resources, the sustainability of our R&D activities, and our absolute commitment to product quality. It is thanks to these that we will remain fully on course in the period ahead as well.

In closing, I extend my sincerest affection and respects to all the members of the Vestel family who join us in shaping our futures.



**Ömer Yüngül**  
Chairman of the Executive Committee



## Executive Committee



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### 1 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.

### 2 Enis Turan Erdoğan

#### Executive Committee Member

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

### 3 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.

### 4 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.

### 5 Levent Hatay

#### Executive Committee Member

(1963 - Oklahoma) Levent Hatay graduated from the Department of Electronics Engineering at Dallas Southern Methodist University in 1984 and went on to complete a Master's degree in Engineering Management, before gaining a Ph.D. in Processes Research. After serving in Aygaz and Altınyıldız, he joined Vestel Durable Goods Marketing Inc in 1999 as a General Manager. He has been working as an Executive Committee Member responsible for marketing-sales and branding since 2005.

### 6 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 the manager of the air conditioner plant. Mr. Güvenir was appointed general manager of Vestel White Goods in 2000 and he has been a member of the Executive Committee responsible for white goods and Vestel Russia.

### 7 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.

### 8 Özer Ekmekçiler

#### Executive Committee Member

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

### 9 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 human resources at Vestel Group.

# INNOVATION: IT'S ALL IN THE DETAILS

Vestel supplies markets with products that both meet consumer expectations and mesh with its own innovative approach. Customer needs, geographical features, and social and cultural expectations are all taken into account in product development. Products are introduced to consumers so as to be compatible with different customer segments and, when need be, with niche market trends as well. Vestel products are the recipients of countless national and international design awards that confirm Vestel's success in blending technology and design.



## Management's Assessment and Analysis of Operational Results

The rapid shift away from CRT in favor of LCD TV in Europe, which is the primary export market for Turkish TV manufacturers, continued in 2008. LCD TV sales in Europe were up 26% year-on-year.

### Economic review

In the last quarter of 2008, the collapse of some of the world's most prestigious financial institutions transformed a crisis that began in the US mortgage market in 2007 into a financial system crisis of global proportions.

Beginning in the second half of the latter year, the effects of the crisis spread to the developing countries and began showing up in real sector economic indicators as well. Demand was down, unemployment was up, private sector consumption shriveled, and international trade slowed. The result of this contraction was that most developed economies entered recession in 2008.

The overall rate of global growth dropped to 3.9% in 2008. Among the developed countries, the average growth rate is thought to have been only 1.5% whereas the developing countries still managed a respectable 6.9%.

As the effects of the global crisis began to hit the developing countries as well, the Turkish economy also began to undergo a contraction beginning in the last quarter of 2008.

- > In the first nine months of 2008, the Turkish economy grew 3% whereas in the last quarter it shrank 6.2%. The net result of these movements was a barely perceptible year-on-year growth rate of 1.1%. The income per capita was USD 10,436 for the year 2008.
- > The effects of the contraction revealed themselves primarily in the real sector. The monthly industrial production index in December 2008 was 17.6% lower than what it was in December 2007. On the same month-to-month basis, the manufacturing industry index declined 19.9% from 112.7 to 90.3.
- > 2008 inflation figures weighed in at 10.06% (CPI) and 8.11% (PPI). Despite rises observed in exchange rates in the last quarter of 2008, the drop in inflation registered in December of the year was largely the result of a sharp decline in domestic demand.
- > Exports in 2008 were up 23.1% and amounted to USD 132 billion while imports rose 18.7% and were worth USD 201.8 billion. The ratio of exports to imports, which was 60.3% in December 2007, rose to 68.2% in December 2008. The foreign trade deficit, which amounted to USD 62.8 billion at end-2007, was up 11.2% and reached USD 69.8 billion as of end-2008. The country's exports to the EU were down 39.4% as compared with 2007, a result that is attributable to the general worldwide contraction in international trade.

Figures from the last quarter of 2008 indicate that the rapid fall in domestic demand combined with sharp cutbacks in oil and commodity prices will cause the country's foreign trade deficit to shrink in the months ahead and that this in turn will have a favorable impact on the current account deficit.

- > Looking at 2008 as a whole, the current account deficit increased 8.4% year-on-year, going from USD 38.2 billion to USD 41.4 billion. The portion of the current account deficit being financed by foreign direct and portfolio investment has been diminishing and this trend, when considered in light of the global credit crunch, creates a risk insofar as the current account deficit is concerned. Foreign direct investments amounted to USD 22 billion in 2007 whereas in the twelve months to end-2008 they contracted 19.6% to USD 17.7 billion. In the case of portfolio investments, which generated net capital inflows worth USD 717 million in 2007, there was a net outflow on the order of USD 4.8 billion in 2008.



### Sectoral review

The rapid shift away from CRT in favor of LCD TV in Europe, which is the primary export market for Turkish TV manufacturers, continued in 2008. LCD TV sales in Europe were up 26% year-on-year in unit terms. By comparison, CRT TV sales contracted by 50% year-on-year.

In the Turkish market, CRT TV continued to account for a significant percentage of sales in 2008 although the movement away from them in favor of flat screens is accelerating here as well. According to Electronic Device Manufacturers Association figures, LCD TV sales increased 47% last year while CRT TV sales were down 30%. Accordingly, in 2008 total TV sales declined by 17% year-on-year in unit terms.

Reflecting the worldwide effects of the financial crisis, white goods sales throughout Europe, our principal export market, were down 4.4% on a unit sales basis in the twelve months to end-2008. The declines were considerably stronger in the UK (7.9%) and Spain (14.6%), where the bursting of the housing bubble made a deeper impact. In the last quarter of the year, when the effects of the financial crisis were the most sharply felt, white goods sales in the European market shrank 10%.

In the wake of a 5% contraction experienced in 2007 in the domestic market, white goods sales in Turkey remained essentially flat in 2008 across the four main product groups (refrigerators, washing machines, cookers, dishwashers) with a total of 5,166,768 units sold. On an individual product group basis, sales of refrigerators, for which the market is essentially saturated, were at the same level in 2008 but they were down 5% in both the washing machine and cooking appliance categories. Only in the case of dishwashers was there a year-on-year rise in sales and that was a non-negligible 13%.

2009 will be a year in which the effects of the economic crisis will continue to be felt. For 2010 and beyond, the outlook is that the contraction in global demand and trade will give way to an overall increase in consumption.

Both because of its geographical location and because of its relatively lower-costs, high-quality labor, and advanced component manufacturing base, Turkey has become an important production center for Europe in the brown and white goods sectors. Turkey's importance in this area has become even more evident as a result of the global economic crisis.

In addition to such considerations, Turkey itself offers considerable promise for the future in all categories of brown and white goods for such reasons as a fast-growing population, low saturation rates in some product groups, and the ability to pursue growth in the domestic market by introducing products equipped with new technologies.

## Management's Assessment and Analysis of Operational Results



### Developments on a product segment basis

#### Flat TV

Although the switch from CRT to LCD TV in the global market turned out to be even faster than anticipated, Vestel's strong insight had led it to conclude early agreements with firms that make the special integrated circuits needed for LCD TVs. The result was that the Company was able to enter the European market along with other major manufacturers and make a strong showing there.

With its superior technology and design competencies, Vestel is in a position to make LCD TVs in all size categories from 14 to 52 inches. Taking advantage of its more flexible production and costing abilities, Vestel has always had a competitive edge in being able to produce a wide range of models. Because of this, the Company produces custom-made units for A-brand manufacturers and retail chains in the European market while also maintaining a presence in its own home market under the "Vestel" and the "Regal" labels.

Although new competitors have appeared in flat TV production in Eastern Europe, the ongoing global economic crisis has reduced the number of actual producers by about half. Such developments support the growing trend towards relocating LCD production to Turkey.

In digital modules, the significant competitive edge that Vestel enjoys in both Europe and the Far East continues to strengthen the Company's market position. The digital TFTLCD TVs which Vestel produces are all full-featured integrated digital televisions (ID TV).

In keeping with its powerful vision, Vestel has undertaken an important investment that will ensure it will always have a market presence both now and in the future. The Company's new factory built to make liquid crystal modules (LCM) and backlight units (BLU), two essential components of all flat TV, was commissioned in 2008 and has begun trial production.

The tremendous successes made by Pixellence in image enhancement were reinforced with the launching of a new Pixellence Slim LCD unit just 33 mm thick in 2008.

Available in both 26 inch and 42 inch models, Vestel Slim LCD TVs come with many other attractive features besides their elegant slimness:

- > USB v 2.0 support
- > Ability to function like a PVR (personal video recorder) with an external mass storage device
- > Full HD + 100 Hz dejittering + MEMC (motion estimation and motion compensation) algorithm to overcome TFT liquid crystal displays' image and motion rendition weaknesses.

Work on Pixellence variations is continuing without letup.

Most recently, Vestel has been turning its attentions to "green concept" technologies that are more environment-friendly and to products that use less energy. The Company is developing products that draw virtually zero current when in stand-by mode and products that require less energy to operate. It is currently working on LCD TV that take advantage of the latest developments in flat-panel technology and achieve savings of up to 30-40% in energy use.

In line with its vision of increasing its control of national and international markets through international collaborations, Vestel continued to act as an OEM/ODM under long-term agreements that it has entered into with some of the world's major white goods brands.

#### White goods

Vestel continued to exhibit sustainable growth in the white goods segment in line with the strategies to which it adheres. The Company has completed most of the investments that it needs to make in the white goods product line. Henceforth it will be turning its attentions primarily to capacity increase investments in keeping with the dictates of market demand.

Vestel's Russian-CIS refrigerator and washing machine plants produce Vestel-branded products and they also provide OEM/ODM services in the same territory for A-brand manufacturers.

In line with its vision of increasing its control of national and international markets through international collaborations, Vestel continued to act as an OEM/ODM under long-term agreements that it has entered into with some of the world's major white goods brands.

Vestel took an important step forward in 2008 in white goods in line with its strategy of strengthening its presence in Europe through different brand names. Last year the Company acquired the rights to the Vestfrost trademark, which is widely recognized in Northern Europe.

White goods make up a business line in which there is but little competition from Far Eastern and Chinese sources because of shipping costs. For Europe, Turkey represents the easternmost boundary of the white goods manufacturing domain. Suffering from the effects of the global economic crisis, major manufacturers have been shutting down their plants in Western Europe and relocating their manufacturing operations to their smaller-scale plants in Eastern Europe. This move will enhance Turkey's and thus Vestel's standing as Europe's white goods production center in the post-crisis demand recovery process.

Vestel enjoys two fundamental competitive advantages in white goods:

- > As an exclusive OEM/ODM only service provider, Vestel does not compete directly with its customers' own brands.
- > Vestel's production activities take place in two markets that are important in their own right: Russia and Turkey.



## Management's Assessment and Analysis of Operational Results

In the IP world, Vestel is on the lookout for ways to expand through new services. For this reason, image-enhancement R&D activities are of particular importance to the Company's goal of having a strong position in IPTV, ITV, and similar service lines.

These features make it possible for Vestel to offer major manufacturers an attractive business model. Vestel is able to carry out manufacturing activities for a broad region that includes not just Russia and CIS countries but also Europe, the Middle East, and North Africa. Vestel increased its own capacity quickly while it translated its traditional competitive advantage in electronics into the production of white goods as well.

### Digital and convergence products

Today the world's biggest maker of digital TV, Vestel focuses its attentions primarily on the manufacture and sale of integrated digital television (IDTV) sets that allow reception of both analog and digital signals without the need for a separate set-top box. As new-generation digital TV, IDTVs receive and display analog broadcasts as well as terrestrial digital video broadcasts (DVB-T) and internet protocol (IPTV) digital broadcasts. Equipped with built-in hard disks, these receivers can also serve as personal video recorders (PVR). Broadcasts can be digitally captured for later viewing and even stopped, replayed, and fast forwarded while recording is taking place.

All of these products are marketed in versions capable of decoding both MPEG2 and MPEG4 (H.264) broadcasts and of receiving and displaying both standard-definition (SD) and high-definition (HD) broadcasts.

In the IP world, Vestel is on the lookout for ways to expand through new services. For this reason, image-enhancement R&D activities are of particular importance to the Company's goal of having a strong position in IPTV, interactive television (ITV), and similar service lines.

New algorithms continue to be devised to do away with the image degradation and side effects that are the result of MPEG compression techniques.

Measures aimed at reducing the effects of pixelation and other graphic artifacts in viewing video over the internet will also result in progress in IPTV interactive broadcasts over fiber optic cable.

In addition to making both content-on-demand and interactive applications possible, IPTV allows content senders and receivers to communicate with each other. Vestel plans to market IPTV capability both as set-top boxes and integrated into TV.

Interactive TV (ITV), which provides the possibility of access to thousands of TV channels and alternative content entirely over the internet, is another important axis of Vestel's future growth and development. The group's Vestek subsidiary is currently working on a VesTV project in this area.

Vestel is developing products such as digital signage, which can be used with different software components and applications in the same IPTV hardware, which combines information content and advertising, and which allows content to be continuously updated as needed. Work is being carried out in advanced digital signage applications such as Meeting TV and Video Wall.

Convergence products are becoming increasingly more important. All the different forms of content that are accessible thanks to the broad bandwidths made available by telecommunications services today are coming together in consumer electronics. Vestel is making highly effective use of the strong infrastructure and know-how that it has in digital media and information technologies in this new area of development.



#### Healthcare, defense industries, and renewable energy

In keeping with its overall long-range strategies, Vestel actively invests in other areas such as healthcare systems, defense industries, and renewable energy.

##### Healthcare system software

Vestel's activities in the area of healthcare system software are carried out by Birim Bilgi Teknolojileri, an information technologies company. Providing integrated software, hardware, infrastructure, and personnel solutions for the outsourced automation of hospitals' health information systems, Birim serves many medium to large hospitals located in different parts of Turkey. As a provider of integrated health information system solutions, Birim's goal is to expand its leadership in digital healthcare applications in Turkey into other countries in the region with Vestel's support.

By means of Birim's "Digital Hospital" project applications developed as part of its Hospital Information Management System, all patient-related diagnosis and treatment information is recorded in electronic format and maintained in the hospital's central computer system. In addition to a patient's day-to-day progress, all medical imaging information produced by means of X-ray, ultrasonography, tomography, and MRI can be held and viewed in electronic format. Such a system makes it possible for medical personnel to have complete access to essential information about patients and their circumstances without the need for paper and, thanks to internet access, without even having to be at the hospital.

Birim's first digital hospital application was a digital imaging and archiving system created for the Adana Ceyhan State Hospital and launched in 2008. Work on patient appointments software has also been completed and the system is now in operation on a pilot-project basis. Patient bedside monitors are now being used on a commercial basis.

##### Renewable energy projects

Vestel is working on a number of projects to generate electricity from alternative (non hydrocarbon-based) renewable energy resources such as wind, sun, etc.

As is the case elsewhere in the world, renewable energy investments in our country have the potential to create huge commercial opportunities in the future; however they must be undertaken with the realization that their costs can only be recovered on a long-term basis. Developments in such areas at the government level are being closely watched. An infrastructure that is heavily hydrocarbon-dependent and volatilities in fuel prices make this an issue that needs to be addressed with the utmost urgency and attention. Nevertheless Vestel is positioned to take the best possible advantage of any renewable energy opportunities that are likely to emerge in the near term through the systems and investments that it has developed.

The principal projects and systems that the group has developed or is working on in the area of renewable energy are listed below.

- > Systems that allow hydrogen to be transported safely and stored more compactly
- > Fuel cells that can be used to power mobile devices
  - Solid-oxide fuel cells that can supply all domestic energy needs from heating to hot water and electricity
- > Systems that can produce hydrogen for use as a fuel through the low-cost electrolysis of water
- > Patented catalysts and ceramic membranes that can be used to decompose hydrogen compounds to produce hydrogen for use as a fuel

## Management's Assessment and Analysis of Operational Results

Vestel ranked 5th in the European LCD TV market in 2008. According to ECID figures, Vestel is among the top two players in its home (Turkish) market in TV.

### Vestel Defense Group

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

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

Vestel Defense Industry seeks to become specialized in unmanned aerial reconnaissance vehicles, vessel modernization, tactical aircraft, and similar areas. Work was carried out on an unmanned aerial reconnaissance vehicle project in 2008 and it is planned to begin testing during the first half of 2009.

### Sales

Vestel's sales in 2008 amounted to USD 3,632 million (USD 3,555 million in 2007). Exports accounted for 74% of these sales.

TV segment retained its position as Vestel's principal business activity. With the rapid shift towards LCD and away from CRT TV, the share of the latter in total TV sales further declined. Vestel ranked 5th in the European LCD TV market in 2008. According to ECID figures, Vestel is among the top two players in its home (Turkish) market in TV.

Capitalizing on its increased advantage against its Far Eastern competitors due to Turkey's geographical proximity to Europe (in line with the customers' preference to order small quantities from the nearby producers for better inventory management purposes) and the shut down of some small-sized LCD TV producers in Eastern Europe due to financial difficulties (tough working capital management environment) during the crisis period; Vestel was able to increase its market share in European LCD TV Market in the last quarter of 2008 when the effects of the economic crisis were the most seriously felt.

On the white goods segment side, home appliance sales in Europe, the Company's biggest export market, were down 10% quarter-to-quarter in 2008. Vestel's own white goods exports by comparison were down only 0.9% on a unit-count basis. Thanks to its own extensive product portfolio and to the foresight that conditions would shift European demand to lower-priced goods, Vestel was able to keep the impact of the economic crisis within manageable levels.





As one of the biggest players in its home market for white goods, Vestel controlled an overall market share of 13% in 2008. Broken down by major category this corresponds to shares of 10% in dishwashers, 12% in cookers, 13% in washing machines, and 15% in refrigerators.

#### Profitability

Vestel reported an operating profit of USD 187 million in 2008 while its operating income before depreciation and amortization amounted to USD 329 million. The Company posted a net loss of USD 316 million in 2008.

Although weak conditions in its home market, severe competition in the European LCD TV market, and low-capacity operation at the group's Russian white goods plant all had a negative impact on profitability, significant rise in FX losses (majority unrealized) from the Company's short FX position in line with TL's sharp depreciation dragged the bottomline to a loss of USD 316 million in 2008.

#### Indebtedness

At end-2008 the Company's gross financial debt amounted to USD 472 million. This corresponds to a debt/equity ratio of 82%. The Company's net financial debt stood at USD 245 million as of the same date.

#### Investment expenditures

Vestel spent a total of USD 109 million on its investments in 2008.

#### Investments (USD)

Vestel Electronics	69,501,000
Vestel Digital	6,242,062
Vestel White Goods	28,390,000
Vestel CIS	5,034,339
Total	109,167,401

#### Expectations and outlook for the future

Vestel makes very good use of its ability to develop new products that appeal to new consumer habits. The broadband-based IPTV information exchange applications that are becoming widespread throughout the world is an area to which Vestel has been giving particular attention. IPTV products such as Hotel TV and Hospital TV will occupy an important place on the Company's agenda in the period ahead.

Vestel continues to strengthen its standing as an indispensable OEM/ODM for the European market in televisions, white goods, and digital products.

Due to stock-related issues, producers in EU countries prefer to work with suppliers who are located closer to their home base. This preference is what gives Vestel a competitive edge over Far Eastern sources. Vestel also enjoys significant advantages in terms of production flexibility and shorter order turnaround times.

Because of the ongoing global economic crisis, A-brand manufacturers are shifting more and more of their operations to Eastern Europe or to Turkey. With the disappearance of a number of LCD TV makers in Eastern Europe, production is relocating to our own country in general but especially in the case of small-screen units.

In the post-crisis recovery, Turkey and thus Vestel will become even stronger centers of attraction as manufacturers in Europe find themselves unable to keep up with resurgent demand in both brown and white goods.

# THE FUTURE: IT'S ALL IN THE DETAILS

Vestel regards environment awareness as one of the most important elements of its sense of social responsibility. Vestel makes every possible effort to develop products which are efficient in resource use and which cause the least amount of harm to the environment.

Just as it quickly and successfully incorporates the latest advances in technology in its production processes, Vestel wherever possible takes pains to create environment-friendly products that use less water and energy while also increasing their functional performance.





GÖRÜNTÜNÜN TOZUNU ALAN  
**PIXELLENCE\***



\* The "dust-off" Pixelence image rendering technology

## R&D at Vestel

Vestel's R&D mission is based on the principle of pioneering and developing technologies in areas that will ensure the sustainability of the Company's competitive position.

One of the biggest engines powering Vestel's rapid advance towards becoming a global technology giant is its extensive R&D activities.

Vestel's R&D mission is based on the principle of pioneering and developing technologies in areas that will ensure the sustainability of the Company's competitive position. Underlying Vestel's success in the international market for home electronics are the Company's extensive R&D investments in many different electronic products and in software.

### R&D at Vestel Electronics

Vestel has the ability to simultaneously carry out a large number of projects at different R&D locations based on customers' needs. The Company's R&D projects are organized and carried out under two main headings: Display Group projects and Set-Top Box Group projects. Vestel was one of the first firms in Turkey to have an "R&D Center" conforming to the specific requirements set out by the Turkish Ministry of Industry and Commerce pursuant to Statute 5746 concerning the support of research and development activities. Vestel Electronics has two R&D units at Manisa.

Vestel Electronics' R&D activities in 2008 were carried out by Vestek at its High-End and Main centers and its Digital R&D unit in Manisa, at the İstanbul Technical University technopark in İstanbul, and at the Middle East Technical University technopark in Ankara; and by Cabot UK in Bristol, England. Paralleling changes in global economic indicators, Vestel Electronics' R&D operations have also undergone a number of structural changes as well. Since December 2008, R&D team working on cabinet product designs and İzmir Cabot teams working on software have been carrying out their activities at Vestel Electronics' Manisa R&D center, a relocation that was undertaken to increase our competitive strength while also creating an environment more conducive to the synergetic conduct of projects.

### Manisa Main and High-End

Mechanical and electronic design activities for image receiver and cabinet products took place at the Company's Main and High-End R&D centers in Manisa. Conducted in line with the R&D team's project management strategies, the activities undertaken last year again produced successful results. The activities of Vestel's R&D units were carried out by separate teams individually responsible for industrial design, mechanical design, hardware design, software design, testing and verification, patent rights, and project support during the product development stage.

Vestel R&D projects are conducted in collaboration with a number of universities with the aim of transforming scientific knowledge and new methods into marketable products. One additional outcome of this approach is new patents. In addition to numerous international patent activities, during 2008 more than thirty patent applications were submitted to the Turkish Patent Institute in a process whereby Vestel as a firm contributes towards increasing the breadth and depth of Turkey's patent pool. These patent applications were concerned primarily with image technologies, television design, user interfaces, and power electronics.

There were notable national and international successes last year in the area of industrial design. In April 2008 Vestel Electronics was accepted as a member of the International Council of Societies of Industrial Design (ICSID), a global not-for-profit organization that promotes better design around the world. In the Design Turkey 2008 Industrial Design competition jointly conducted by the Undersecretariat for Foreign Trade, the Assembly of Turkish Exporters, and the Professional Association of Industrial Designers under the auspices of the TurQuality program, Vestel Electronics received three awards in the Electronics category. In European product test magazines and publications, many Vestel-made products were frequently cited in the "best-performing" category.

## R&D at Vestel

# Product digitalization, high-definition, portability, and connectivity technologies were the four axes of the Company's R&D efforts in 2008.

Vestel Electronics collaborates both nationally and internationally with many firms, agencies, and organizations that have a direct or indirect impact the technical aspects of its design and production activities. Throughout the design process, Vestel R&D specialist researchers and other companies' researchers work closely with concept-provider firms. The results of their efforts are conceptually integrated into embedded systems before mass production begins.

HDMI, SRS, Dolby, DiVX, and similar functions of our innovative products are tested and certified for their technical compliance by private accredited laboratories. The preliminary trials for such tests are conducted at Vestel's own R&D laboratories. The CE certifications of Vestel products are carried out by Vestel Electronics' safety and electromagnetic compliance laboratories jointly with Emitel AG, Intertek Semko, TUV, VDE, and SGS laboratories with which they are partnered in accordance with EN 17025 laboratory accreditation criteria. Other testing and approval activities were also conducted.

In line with its continuously improving quality activities, Vestel Electronics launched a comprehensive program in 2008 to reduce product return rates. Under this program, carried out under the heading of "World Class Quality", production performance indicators were identified with the aim of achieving "best performance" in line with comparisons made in production-phase criteria. Projects were set up to support efforts to achieve those performance targets. As of December 2008, significant progress had been made in approaching these targets, a result towards which R&D made a big contribution through its product development and production design activities.

Product digitalization, high-definition, portability, and connectivity technologies were the four axes of the Company's R&D efforts. In addition, Vestel keeps a close watch on potential future developments by taking part in European Union Framework Programs (FP7) and Eureka cluster project consortiums that are compatible with its own R&D vision and strategies. In the first four project calls, Vestel joined some of Europe's biggest information and communications technologies (ICT) companies and research organizations in consortiums as a project stakeholder. One Eureka project was completed during 2008. Vestel is currently taking part in one other ongoing project in the Celtic cluster.

2008 was a year in which Vestel speeded up its IP-based display product and set-top box (STB) design activities. IP technologies were successfully made use of in Patient Bedside Monitor TV and Hotel TV projects. Vestel R&D is currently contributing to future developments in this area through its involvement in the "Magneto" project of the Eureka Celtic cluster consisting of fourteen firms from seven countries.

The R&D Power Electronics group has increased our competitive strength through its work on power cards that reduce power consumption to the bare minimum. Particular attention was given to EkoTV models among the projects that were undertaken in 2008.

### **Cabot Communications Ltd UK**

Cabot Communications Ltd has been providing complete software solutions for DVB products since it joined the Vestel R&D group in 2001. In the wake of its successful introduction of its DVB-T receiver software and MHEG-5 interactivity system to the UK market, the Cabot R&D team developed a mass-storage equipped digital video recorder (DVR) for DVB products. Freeview+ features, which are rapidly becoming the standard for video products in the UK, are being incorporated into DVR models. Software support was provided for high-definition broadcasts that make use of MPEG2 and H.264 capabilities.

Cabot Communications' research team is currently working on UPnP and TCP/IP technologies on home networks.



### Vestek İstanbul

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

In 2006 Vestek created an image processing engine that compares favorably with those of Sony, Samsung, Philips, and other leading brands. The content of this engine consists of image enhancement algorithms that were developed by Vestel and whose worldwide patent rights belong to Vestel. This technology, which is being marketed under the Pixellence trademark and which was first introduced in LCD TV made in 2007, has created a considerable stir in the market.

The Pixellence slim models with 26 and 42 inch screens that were put on the market in late 2008 are acknowledged successes in terms of both technology and design and once again demonstrate Vestel's leadership in this business line. These models incorporate many cutting-edge features such as USB support, external mass storage and PVR connectivity, Full HD, 100 Hz, and motion estimation and motion compensation (MEMC).

Vestek produces audio and video compression software, video player software, and software libraries for portable devices as well as closed-circuit audio-video distribution and processing systems equipped with remote administration features such as Hotel TV and public access systems. The Company also produces interactive TV applications that are similar to Apple products such as RSS, YouTube, Flickr, and internet and Universal Plug and Play (UPnP) server TV.

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

Vestek is devoting increasingly more of its attentions to image enhancement software development. In addition to algorithms that improve video quality and reduce noise, more resources are being invested in efforts to develop image processing algorithmic sets that include motion detection and estimation with the result that the Company's experience and algorithm library in this area continues to grow. Vestek incorporated a series of video-enhancing algorithms into a single field-programmable gate array (FPGA) that is integrated into Vestel LCD TV as "Pixellence". Market response to this technology was so favorable that Vestel decided to include it in its Full HD LCD TV models as well. Vestek has begun working with STMicroelectronics to develop application-specific integrated circuits (ASIC) that containing video enhancement algorithms. This will be Vestel's first venture into ASIC applications.

The outcome of these and similar efforts is Pixellence 2, an advanced version of Pixellence that introduces a number of important improvements and new features.

- > Image processing and picture improvements are now made on an individual frame basis. The technology for processing colors within a single frame is more advanced and many of the flaws in Pixellence 1 are corrected. Colors are generally rendered more vibrantly while also maintaining the natural look of constant hues such as flesh tones.
- > Compressed image enhancement makes it possible to reduce or eliminate the artifacts of image compression such as hypercontrast, pixelation, and speckling.
- > Objects are processed differently according to their motion. 100 Hz image processing power results in a perceived framerate of 100 images a second.
- > Pixellence's unique and patented algorithms make it a true "first silicon success" for Vestel.

## R&D at Vestel



### R&D at Vestel White Goods

R&D is one of the most important ways in which Vestel White Goods hones its competitive edge and distinguishes itself. An ability to create new and pioneering technologies and to come up with designs and products that appeal to customers globally and meet their needs is the outcome of the talents and efforts of Vestel White Goods' strong R&D team.

Vestel White Goods' R&D division consists of individual departments each of which is concerned with all aspects of its own production line. Every factory has its own R&D unit that reports directly to the factory manager. In addition to these, the headquarters Technology Development Center is responsible for carrying out industrial design and innovation activities that apply to all products.

As a result of an audit carried out within the framework of Statute 5746 concerning the support of research and development activities in Turkey, Vestel White Goods was awarded "R&D Center" certification on 17 October 2008.

Vestel White Goods R&D teams carry out activities in the areas of:

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

The common objective of every Vestel White Goods' R&D unit and of the headquarters Technology Development Center is to develop individual products so as to support efforts to further increase the Company's competitive strength in international markets and to enhance customer satisfaction.

These R&D units are also specialized in resolving any technical issues that may arise with respect to products or production methods.

In line with this, R&D units and the headquarters Technology Development Center:

- > Closely monitor technical, academic, and industrial publications related to white goods and keep abreast of sectoral innovations and developments.
- > Engage in basic laboratory research looking for results that can be adapted to products as innovative features.
- > Keep a close watch on customers' needs and wishes through customer visits and by attending fairs and exhibitions. Design new products and modify existing ones accordingly.
- > Design products incorporating enhanced functions and features and improved production parameters.
- > Carry out trial production so as to obtain pre-manufacturing qualification for newly designed or improved products.

The success of the Vestel White Goods R&D team can be seen in the number of patents that the Company has applied for and received. As of end-2008:

- > 114 patent or utility model applications had been made, of which 31 had been awarded registration.
- > 46 industrial design applications had been made, of which 37 had been awarded registration.

In 2007 Vestel White Goods was the recipient of the Turkish Patent Institute's (TPI) "Golden Award", a prize given out every year with the aim of increasing Turkish companies' competitive strength. The award was for the introduction of Vestel's patented "electronic-controlled refrigerator with a two-way door hinge". This is the second TPI award that Vestel has received, the first being the "Patent League Champion" award given in 2006.

## Vestel White Goods engages in intensive R&D work to supply the market with environment-friendly products that take ecological issues into account and reduce energy consumption while enhancing functional performance.

The application for a “top basket height adjustment mechanism” developed entirely in-house by Vestel White Goods’ own engineers was awarded registration by the European Patent Office in 2008. This invention received broad coverage in the international white goods sector’s leading trade magazines.

Keeping a close watch on the sector while developing products for different target groups, Vestel has a very good understanding of consumer expectations in different parts of the world. Design and technology features are developed taking local preferences and needs into account and products are created whose functions are compatible with sociocultural, climatic, and similar constraints.

Vestel regards design as a component of its products’ added value and it keeps it in the forefront of all of its production processes. Because of this approach, the Company’s white goods are recognized as outstanding as much for their innovative design details as for their functional and technological superiority. Vestel’s industrial design team works together with R&D teams within the framework of an integrated model. The result is a reflection of Vestel’s success in design in which attention is given to a perfect amalgamation of functionality, ergonomics, and aesthetics.

In the Design Turkey 2008 Industrial Design competition jointly conducted by the Undersecretariat for Foreign Trade, the Assembly of Turkish Exporters, and the Professional Association of Industrial Designers, Vestel White Goods received two “Good Design” awards in the electric home appliances category: one for the “Vestel Quadro Split Air Conditioner” and the other for the “Vestel Olympus Washing Machine”.

Vestel White Goods engages in intensive R&D work to supply the market with environment-friendly products that take ecological issues into account and reduce energy consumption while enhancing functional performance. In addition to such issues as making use of recyclable materials, less energy, and less water and of discharging less in the way of chemical effluents into the environment, R&D activities are also focused on technologies which make product user interfaces more ergonomic and which allow products to automatically detect what parameters should be used.

### **Ecowash: Technology that knows the value of water**

The Hera 7009 energy class A dishwasher that Vestel put on the market in 2008 combines convenience and economy in a single appliance. This model is equipped with “Ecowash” technology, thanks to which substantial economies are achieved in water, time, and energy by means of one-touch settings like “Half load” and “Single basket” that allow greater control of washing programs and cycles.

The Vestel Hera 7009 achieves savings of up to 28% in water compared with conventional models and it is up to ten times more efficient than hand washing. Thanks to its intelligent sensors, the Vestel Hera 7009 detects not only how many dishes there are to be washed but also how dirty they are. The results are greater convenience for users, improved water and electricity efficiency, and superior hygiene.

## Vestel's Distribution Network

A distributor in 10 European countries, Vestel has an extensive sales and after-sales services network with a truly national reach and consisting of 1,050 Vestel stores, 1,400 Regal dealerships (650 of them with Regal signage), and 400 authorized service outlets (electronics, white goods, air conditioners, and IT).

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

Vestel Foreign Trade:

- > Exports products to more than 119 countries around the world.
- > Is a distributor in 10 European countries.
- > Has a strong competitive edge in foreign markets thanks to its flexibility in meeting customers' needs, a talent for adapting quickly to changing market conditions, and a strong and sure hand in after-sales services.

With the rapid entry of international electronic goods marketing chains, competition in the Turkish market has become even more intense. Nevertheless Vestel Durable Consumer Goods Marketing enjoys a strong competitive advantage thanks to its management competencies and distribution channels as well as to superior product quality and to the experience that it has built up in multibrand marketing. The colocation of dealerships and service outlets under the same management gives the Company the ability to respond quickly and effectively to customers' needs and problems.

Vestel Durable Consumer Goods Marketing:

- > Has an extensive sales and after-sales services network with a truly national reach and consisting of 1,050 Vestel stores, 1,400 Regal dealerships (650 of them with Regal signage), and 400 authorized service outlets (electronics, white goods, air conditioners, and IT).

- > Makes extremely active use of its call center in achieving customer satisfaction. The Vestel call center is manned by 54 people and handled 2,755 calls (860 inbound and 1,895 outbound) in 2008. The incidence of complaint based calls last year was only 3% of the total.
- > Focuses outbound calls primarily on customer satisfaction surveys, maintenance and repair service surveys, free-maintenance day information, and customer feedback calls with the aim of enhancing Vestel brand recognition and customer satisfaction.
- > Takes a customer and sales-focused approach through its "concept stores" and multi-brand strategy.
- > Is the hub of an effective dealership and service outlet management system that incorporates GIS (Geographical Information System) technology.
- > Provides live product training online to all dealers and their personnel around the country via satellite services supplied by Vestel Group company Dexar.
- > Deploys a Manugistics system to achieve a 90% level of productivity in its resource planning, logistics, and supply chain management.
- > Adheres to an active communication and marketing strategy that has made Vestel seventh among the top ten recognized brand names in Turkey.

During 2008 Vestel continued to increase the number of its "concept stores", which are based on a multi-brand sales model that includes Vestel products. As of year-end, the number of such stores had reached 222, of which 208 were in Turkey and 14 were in other countries.

A new sales and after-sales services organization is being set up to expand the Vestel trademark into new markets outside Turkey: Russia and CIS countries (Georgia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan); the Middle East (Syria, Iraq, Iran, Lebanon, Jordan, Saudi Arabia, United Arab Emirates, Yemen, Oman, and Gulf states); South Asia; North Africa (Morocco); and Cyprus. In addition to standard showrooms that sell only Vestel products, an extensive distribution network has grown up quickly in these markets thanks to wholesaling and corners through distributors.



### The Vestel brand international sales and distribution network

#### Georgia

Sales channels: 2 distributors, Vestel signage showrooms, chain stores  
Sales premises: 3 concept stores, 14 showrooms, 49 corners

#### Azerbaijan

Sales channels: 1 distributor  
Sales premises: 2 concept stores, 1 showroom, 35 corners

#### Armenia

Sales channels: 1 distributor, wholesaling, Vestel signage showrooms  
Sales premises: 6 distributor-owned showrooms

#### Uzbekistan

Sales channels: 1 distributor  
Sales premises: 1 concept store, 1 showroom, 1 "Shop'n Shop"

#### Turkmenistan

Sales channels: 1 distributor, wholesaling  
Sales premises: 8 distributor-owned showrooms

#### Kyrgyzstan

Sales channels: 1 distributor, wholesaling  
Sales premises: 2 concept stores

#### Cyprus

Sales channels: 1 distributor, stores  
Sales premises: 1 concept store, 6 showrooms

#### Syria

Sales channels: 1 distributor, Vestel signage showrooms, wholesaling  
Sales premises: 1 concept store, 3 showrooms, 240 points of sale

#### Kazakhstan

Sales channels: 1 distributor, wholesaling  
Sales premises: 4 concept stores, 3 showrooms, 13 "Shop'n Shops"

#### Iraq

Sales channels: 1 distributor, distributor-owned stores, wholesaling  
Sales premises: 11 showrooms

#### Morocco

Sales channels: 1 distributor, 3 distributor-owned stores, 1,000 points of sale, wholesaling, chain stores, distributor's mature distribution network

#### Iran

Sales channels: 1 distributor, distributor-controlled wholesaling network  
Sales premises: 30 wholesalers, 1,500 corners

#### Libya

Sales channels: 1 distributor, 5 distributor-owned stores, wholesaling, 150 points of sale, institutional sales (privately-owned construction firms, government tenders, etc)  
Sales premises: 2 concept stores, 3 showrooms

#### Yemen

Sales channels: 1 distributor, 2 distributor-owned stores, wholesaling, 40 points of sale  
Sales premises: 1 concept store, 1 showroom

#### Saudi Arabia

Sales channels: 1 distributor, 2 distributor-owned stores, chain stores, wholesaling

#### Lebanon

Sales channels: 1 distributor, 2 distributor-owned stores, chain stores, wholesaling  
Sales premises: 1 concept store, 1 showroom

## Human Resources at Vestel

Underlying Vestel's continued success are employees who share the same values such as teamwork, thinking in concert and pursuing common goals and who are earnest in their commitment to the Company.

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

Vestel has 15,500 people on its payroll, of which 2,446 are white collar and 13,054 are blue collar workers.

Underlying Vestel's continued success are employees who share the same values such as teamwork, thinking in concert and pursuing common goals and who are earnest in their commitment to the Company.

Continuously investing in high-quality human resources, Vestel gives each and every one of its employees equal opportunities and all the resources needed to develop themselves personally as well as professionally in the course of their careers.

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

Vestel attaches great importance to training on an individual company basis in order to increase the knowledge and skills of its employees. In addition to in-house and on-the-job training, Vestel also makes use of its technological resources to provide remote-learning and interactive training opportunities. The average training time provided throughout the Vestel Group during the training period between February- December 2008 was 16 hours per person. A total of 1,384 people took part in training sessions in the areas of technical development, corporate/individual development and management development, with further training sessions continuing in 2009. Thus, more than 120 training programs are currently being conducted by training firms which Vestel has entered agreements with.

## Corporate and Social Responsibility

Vestel attaches great seriousness to its duty to operate with due care for the health and safety of all those who are in contact with its products and services, and to protect the environment and nature on behalf of future generations.

### **Vestel's approach to quality, the environment, occupational safety, and employee health and its policies**

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

Vestel attaches great seriousness to its duty to operate with due care for the health and safety of all those who are in contact with its products and services, and to protect the environment and nature on behalf of future generations. In line with this, potential environmental risks which every department may carry have been defined throughout the Group and all activities are conducted with consideration and awareness of these risks.

Vestel's approach to environmental policy is based on safeguarding and improving the quality of life of its employees and customers. The main tenets of the Company's environment policy, to which Vestel is committed, are as follows:

- > Environmental issues will always be taken into account when considering new product projects and operations.
- > Environmentally harmful materials will be avoided to such an extent that is possible in the design and manufacture of products, and efforts will be taken to use materials which are less polluting.
- > Waste will be reduced, recycled, and reused to such an extent that it is possible.
- > Energy, water, and natural resources will be used as economically as possible through increases in productivity and the use of new technologies.
- > Recycled/recyclable packaging materials will be used wherever it is feasible to do so.
- > Various activities will be staged to create and encourage environmental awareness.
- > All environmentally related laws, regulations, and administrative provisions currently in effect will be strictly complied with.

### **Energy conservation at factories and offices**

In addition to reflecting its philosophy of making efficient use of resources in its products, Vestel also takes pains to ensure that attention is given to the same concern in its production facilities and to environmental awareness in all of its corporate processes.

Besides efforts to use energy more efficiently by putting compressed air and cooling water from production processes to work in heating and cooling offices and factories, ways to reduce electricity costs are also being looked into. Factories are equipped with the latest technologies and this makes it possible for them to use less in the way of electricity and natural resources. Energy conservation issues have been incorporated into personnel training programs.

Through such efforts, we are helping to combat global warming while also making it possible to manufacture products at lower costs and offer them to customers at lower prices.

### **Compressed air systems**

- > A frequency-controlled system has been installed in air compressors. Frequency-controlled compressors make it possible to automatically adjust motor speeds according to the amount of air that is being used. This prevents motors from working more than they need to and thus reduces electricity consumption.
- > Regular checks are made for leakage in compressed air systems. Leaks are reported immediately.
- > Machinery air valves have been repositioned to make them more accessible. They are kept closed when machines are not operating.

## Corporate and Social Responsibility

In addition to reflecting its philosophy of making efficient use of resources in its products, Vestel also takes pains to ensure that attention is given to the same concern in its production facilities and to environmental awareness in all of its corporate processes.

### Water cooling systems

- > Thermostatic valves have been installed on parts of machinery that need to be water-cooled. This reduces the amount of water that must be used for cooling.
- > The insulation on cooling water lines has been renewed.

### Reducing electricity costs

- > Machinery is not operated during peak use hours (17:00-22:00), when premium rates are charged.
- > Meters have been installed on machinery to keep track of how much electricity is being used.
- > Pressure and temperature controls have been automated on cooling, service, and hot water pumps. This has reduced the amount of electricity that the pumps must use.
- > Machinery capacities have been increased to enable more to be produced in less time.

### Reducing the amount of electricity used for lighting

- > Electronic-ballast fluorescent lamps are used.
- > Temperature, light, and motion detectors have been installed in appropriate places.
- > Lights are turned off when production operations are not going on.
- > Light meters measurements are made to identify places where there is too much illumination so that appropriate measures can be taken to correct the problem.

### Office/factory heating/cooling systems

- > Air conditioners are used to heat and cool offices that are too far away from factory cooling water lines.
- > Natural gas systems are regularly checked for leaks.
- > Office doors are kept.
- > Factory exits are kept closed.

### Energy conservation training

- > On-the-job training now includes energy-conservation components.
- > An energy manager has been designated as the head of a commission that meets regularly to identify energy conservation issues and determine what action needs to be taken.

Within the framework of its occupational health and safety principles, Vestel:

- > Fulfills all of the requirements of the laws, regulations and administrative provisions; complies with the rules of the organizations of which it is a member; and continuously ensures that international standards, new technologies, and employee suggestions are incorporated into its policies and practices concerning such issues.
- > Identifies and analyzes its occupational health and safety risks and develops and implements plans aimed at preventing work-related accidents and diseases.
- > Ensures that its personnel at every level are aware of their responsibilities in connection with occupational health and safety, and provides continuous training on health and safety risks to induce correct habits and behavior.
- > Adheres to the principle of "the right person for the right job" in its efforts to prevent or minimize work-related accidents.
- > Other basic working principles that the Company complies with in order to prevent or minimize work-related accidents are eliminating or reducing unsafe conditions and movements within the workplace; frequently reviewing working conditions and taking appropriate measures when problems are identified; ensuring that such measures are provided with sufficient resources to be effective; and reviewing occupational health and safety policies and practices in light of changing conditions and requirements.

### Vestel Electronics

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

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

Vestel Electronics received OHSAS 18001 Occupational Health & Safety Assessment Series certification in 2008.

### **We lead the way with nature-friendly products**

The environment and global warming have gradually assumed an ever increasing level of seriousness on the world's agenda.

Measures that need to be taken in this field are being evaluated closely in almost every country and every sector.

While some chemicals used in the production of electronics may have adverse impacts on the environment and human health during their use, others may directly reach living creatures through the soil, water or plants if they are left to nature after their expiry, bearing various risks.

According to the EU directives no. 20/20/20 to tackle global warming, white goods and TV are among a total of 14 product groups that are required to be environmentally friendly.

In addition to these measures, the availability of two EU marks on products is gradually becoming more important. One of these labels is the EU Energy mark which is mandatory on many electronic devices, such as washing machine and refrigerators, sold in the EU; the other is the EU Eco-label (Euroflower), an arbitrary practice which determines minimum requirements for the compliance of products and services with the environment as criteria.

As the EU accounts for the overwhelming majority of Vestel's sales, the Company meticulously follows the laws and regulations in effect in the EU market and in member states, as well as closely following national laws and regulations in respect to the environment and human health; carrying out its activities in line with the environmental criteria determined by the EU, it has prepared in advance for the changes to take effect.

Vestel was the first company in Turkey to use lead-free solder in its manufacturing processes. As the only manufacturer in Turkey whose products are recognized as being in compliance with the EU's Restriction of Hazardous Substances (RoHS) Directive, Vestel plays a trailblazing role in the application of environment and health-related regulations in the country.

Continuing to work on the design and manufacture of environment-friendly "green" televisions, the units that Vestel introduced at IFA 2008 in Berlin, will go on the market in the summer of 2009. Vestel makes every effort to ensure that all aspects of its business processes from raw material procurements to manufacturing and from distribution and sales to use and post-consumption recovery and recycling are as environment-friendly and in compliance with EU Ecolabel criteria as is possible.

Turning more and more of its attentions to products that use less energy, Vestel has introduced technologies that lower operating power requirements while reducing stand-by mode power consumption to nearly zero. Improvements in LCD panel technology have also achieved savings of 30-40% in energy use.

With energy-efficiency in TV becoming an increasingly more important issue, the EU has begun encouraging compliance with Energy Star criteria in brown as well as white goods.

In its Pixellence models, Vestel makes use of newly-developed LED technologies that need less energy to operate. This has not only reduced electricity consumption but has also significantly improved the dynamic contrast capabilities of the displays.

Special care is given to ensuring that disposables such as packaging materials and also user's manuals etc are made from recyclable materials insofar as is possible.

### **Vestel White Goods**

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

Vestel White Goods received OHSAS 18001 Occupational Health & Safety Assessment Series certification in 2008.

Vestel White Goods' sensitive approach to environmental, occupational safety, and employee health issues and its practices are also a reflection of the Vestel Group's corporate values.

Since June 2006, Vestel White Goods has been manufacturing all its products in compliance with the EU Restriction of Hazardous Substances Directive (RoHS) and complies with the usage limits specified in that directive for six restricted substances (lead, mercury, cadmium, hexavalent chromium (chromium VI or Cr6+), polybrominated biphenyls (PBB), and polybrominated diphenyl ether (PBDE)) in products.

As well as RoHS, Vestel White Goods also complies with the EU Waste of Electrical and Electronic (WEEE) Directive, under which every manufacturer is held responsible for the safe disposal/recycling of their own waste electrical and electronic equipment.

Priority is also given to the manufacture of class A+ or class A products at Vestel factories to ensure electricity and natural resources are used as efficiently as possible.

The Hera 7009 energy class A dishwasher that Vestel put on the market in 2008 combines convenience and economy in a single appliance. This model is equipped with "Ecowash" technology, thanks to which substantial economies are achieved in water, time, and energy by means of one-touch settings like "Half load" and "Single basket" that allow greater control of washing programs and cycles. The Vestel Hera 7009 achieves savings of up to 28% in water compared with conventional models and it is up to ten times more efficient than hand washing.

## Corporate and Social Responsibility

The “Vestel Supports Turkish Athletics” program is a social responsibility project consisting of integrated sponsorships and support activities undertaken for the purpose of encouraging interest in athletics, which are widely regarded as a benchmark for all other sports, across a broad cross-section of Turkish society.

### Vestel’s social responsibility activities

#### MEHMET ZORLU FOUNDATION

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

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

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

- > Providing financial aid and scholarships to needy young people to enable them to continue their education and training;
- > Providing assistance in the opening of schools and similar educational institutions;
- > Supporting and organizing education-related competitions and projects;
- > Assisting in the organization of education-related social activities.

The Mehmet Zorlu Foundation began fulfilling the mission of supporting education, culture and sporting activities in 2002, and has defined these areas as its main fields of activity since the day of its establishment.

Within the scope of its activities, the Foundation:

- > Provides unrequited scholarships to elementary school, high school and university students each year on the basis of their success and need. As in previous years, the Foundation provided unrequited scholarships to students (a total of 1,000 students including the children of employees working in Group companies) in the 2007-2008 academic year. Some universities which the Foundation is in cooperation with are: Akdeniz, Anatolian, Ankara, Boğaziçi, Celal Bayar, Çukurova, Dicle, Dokuz Eylül, Ege, Gazi, Hacettepe, İstanbul, İstanbul Technical University, Karadeniz Technical University, Marmara, Mimar Sinan, METU, Pamukkale, Trakya, Uludağ, and Yıldız Technical University.
- > Among the most important non-educational activities that the Mehmet Zorlu Foundation undertakes is the provision of regular monthly material support to the needy. These are assistance programs provided by members of the Foundation’s Sub-Study Group as a result of regular monthly meetings. An average of five people per month are provided with material support, reviewing donations made to the Foundation in various ways in respect to educational and health purposes.
- > Besides scholarships allocated to lighten the public burden of educating individuals who will be beneficial to their families, their country and their nation, the Foundation also builds schools. The Mehmet Zorlu Foundation continues to step up its support for the construction efforts of educational institutions needed to ensure that young people - who are the future of our country - receive the superior education they need and deserve.

Before the formation of the Mehmet Zorlu Foundation, the Zorlu Group financed the construction and operation of two schools: Hacı Mehmet Zorlu Multi-Program Lycee (Babadağ-Denizli, 1991) and Saide Zorlu Anadolu Business Professional Lycee (Avcılar-İstanbul, 1998).

Since its inception, the foundation has completed the Saide Zorlu Professional College (Bahçeşehir University, İstanbul, 2003) and the Hakkı Dereköylü Fine Arts Vocational College (in Denizli, prepared for the 2003-2004 academic year and turned over to the Ministry of National Education).

Moreover, in November 2004, the foundation initiated the construction of a 32 classroom primary school in Serdivan-Adapazarı to try and help meet the need for schools in that

earthquake-stricken region. This school, named after Mehmet Zorlu, was completed in time for the 2005-2006 Academic Year. Turned over to the Ministry of National Education, 800 pupils were admitted to the school in September.

- > The “Zorlu Theater for Children and Youths” was established by the foundation in 2003 to contribute to culture. This troupe tours cities throughout Turkey and stages theatrical performances and puppet shows, particularly for needy children.
- > The foundation continued to provide material support and cash grants to various segments in 2007.

#### **“Vestel Stands By Turkish Athletics” Social Responsibility Project**

The “Vestel Stands By Turkish Athletics” social responsibility project has been continuing since 2003. Its aims are to help Turkish athletics reach international levels of proficiency and to foster an interest in athletics in general among young Turkish people. The project’s stages are structured according to the four-year cycle of the Olympic Games. The first stage of the project was completed with the 2004 Athens Olympics, the second with the 2008 Beijing Olympics.

The “Vestel Supports Turkish Athletics” program is a social responsibility project consisting of integrated sponsorships and support activities undertaken for the purpose of encouraging interest in athletics, which are widely regarded as a benchmark for all other sports, across a broad cross-section of Turkish society. These activities are aimed at strengthening and promoting athletics among all sections of society and at encouraging young Turkish people to take an interest in the sport.

Within this overall framework, a number of activities have been carried out ranging from student athletics to contest sponsorships and from training seminars on athletics-related issues to the [www.vestelatletizm.com](http://www.vestelatletizm.com) website and the athletics statistics annual. In addition to these efforts, Vestel also provides sponsorship support for individual athletes and coaches.

Through the uninterrupted support given within the scope of this project, Vestel has so far sponsored a total of 26 athletes and 24 coaches. Athletes supported by Vestel have won a total of 197 medals in international tournaments and championships, 87 of them gold, and they have set 131 Turkish national records, including those set by a single athlete in more than one age category.

Vestel launched many new pioneering efforts in athletics in 2008.

The “Vestel Grand Prix” events sponsored by Vestel are designed to provide athletes with opportunities to compete in the short and medium-distance classes, for which there is the greatest interest and attention in Turkey, while also contributing towards athletes’ performance and to the overall advancement of Turkish athletics. The 2008 Vestel Grand Prix took place in Ankara, İstanbul, and İzmir in May. Participating athletes who racked up the most points in the competitions were awarded by Vestel.

“Vestel Record Award” is a program whose aim is to enable Turkish athletes to perform at their maximum potential in national and international meets and to reward athletes who set new Turkish national records. Under this project in 2008, Vestel handed out

awards to 18 individual athletes and coaches who established new records in their respective categories.

Vestel’s athleticism e-mail bulletin is regularly sent out to those who sign up for it. The bulletin contains news about the latest developments in athletics as well as interesting bits of information about athletes.

In memory of the late Cüneyt Koryürek (1931-2008), a journalist and author whose life was dedicated to Turkish athletics and who was killed in a traffic accident in January last year, Vestel has introduced the “Cüneyt Koryürek Athlete of the Year” award with the hopes that it will inspire Turkish athletes to achieve even greater successes. Vestel also supported the publication of Cüneyt Ağabey’in 100 Metre’si, a book of reminiscences contributed by Koryürek’s friends.

Vestel’s [www.vestelatletizm.com](http://www.vestelatletizm.com) website is a Turkish athletics reference portal containing the latest news, statistics, standings, and records as well as interesting information about athletes.

#### **“Troy: An Anatolian Legend” on stage with Vestel’s support**

“Troy: An Anatolian Legend” a lavish program of dance and spectacle by the famous Fire of Anatolia company whose subject is one of the oldest and most famous of all of Anatolia’s legendary cities, was staged for the first time in 2008 with Vestel acting as one of the sponsors.

Employing state-of-the-art theatrical electronics and technologies, “Troy: An Anatolian Legend” is a stunning display of dance and performance pyrotechnics employing hundreds of dancers, thousands of costumes and props, and a huge backstage support group. Awarded a standing ovation by audiences at its performances in Turkey, Fire of Anatolia will be taking “Troy: An Anatolian Legend” on an international tour in 2009.

#### **Vestel laptops for university football champs**

Vestel organized a football tournament for university football fans as part of its launching of “I Can Football”, the world’s first 11 vs 11 online 3D football game playable over the internet. Held on the Maslak campus of İstanbul Technical University, 32 six-man teams took part in the tournament. Every member of the team emerging as the tournament champion in a final game that ended with a score of 7 to 4, received a fully-equipped Vestel Onyx notebook computer. Each of the members of the second-place team received a Vestel Portable music Set as a consolation prize.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

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## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

### 1. Statement of compliance with corporate governance principles

In parallel with the activities related to Corporate Governance commenced in 2004 at Vestel Electronics Inc., corporate governance mechanisms started to be operated in line with the principles across the organization. For the last three years, the Company has been obtaining rating from ISS Corporate Services Inc. (ISS), a leading international rating agency, in order to have the relevant practices examined independently and to ensure its public disclosure. On the basis of the monitoring carried out in the first months of 2009, ISS Corporate Services Inc. (ISS) reviewed our Company's Corporate Governance rating of 8.5 (82.57%) on a scale of 10 and the rating remained unchanged at 8.5 (83.38%). This high score earned yet again attests to the importance attached at the Vestel Group to corporate governance and to its commitment to achieve further progress in this department. Another positive development with respect to Corporate Governance was the top place secured by our Company among publicly-held companies in Turkey in 2008 based on the results of the "Investor Relations Practices" survey conducted by Thomson Extel Surveys.

The efforts undertaken with a view to further improving compliance with Corporate Governance Principles at Vestel Electronics Inc. in 2008 are summarized below.

- The Public Disclosure Policy of the Vestel Group of Companies has been revised. Under the updated version, press statements to the printed and visual media and to data dissemination channels like Reuters, Bloomberg and Foreks etc. will be made only by the Chairman and Members of the Board of Directors and the Executive Committee. The revised Public Disclosure Policy was presented for the information of investors at the general meeting convened on 28 May 2008 and also posted on the Company's "Investor Relations" website.
- At the Corporate Governance Committee meeting held on 30 December 2008, a decision was passed to commence work for revising the Insider Trading Regulation.
- During 2008, the Internal Audit Department introduced a "risk-based approach to audit" with a view to strengthening the Internal Control System at the Vestel Group of Companies. In this context, all Internal Audit Department employees received training on this topic.

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

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

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

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

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

#### PART I: SHAREHOLDERS

##### 2. Investor Relations Unit

- On 30 May 2005 Vestel Electronics' Board of Directors created a Corporate Finance and Investor Relations Unit for the purposes of effectively managing relations with investors and achieving uniformity in communication with investors and in publicly disclosed information. This unit, which reports to the Corporate Governance Committee that was set up in the early part of 2005 as stipulated in the Company's articles of incorporation, plays an important role in the Company's compliance with corporate governance principles.
- The officer in charge of the Corporate Finance and Investor Relations Unit is Figen Çevik.
- Corporate Finance and Investor Relations Unit can be contacted on a continuous basis through the corporate website and by its direct telephone on (0212) 422 01 07.
- The principal activities carried out by the Corporate Finance and Investor Relations Unit in 2008 were the following:
  - HSBC Investors' Forum, London
  - ING Investors' Conference, Antalya
  - UBS Investors' Conference, İstanbul
  - About 30 one-on-one meetings were held in addition to the above
- During the reporting period about 60 questions were responded to by e-mail and about 60 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

- Vestel Corporate Finance and Investor Relations Unit responded in detail to information requests received in 2008 within the frame of the disclosure policy. 40% of the requests for information were concerned with the Company's activities and financial performance; the remaining 60% were concerned with investments, stock price movements, general meetings, etc.
- For the purpose of facilitating the exercise of shareholders' important right to obtain information, the corporate website was continued to be improved in 2008 to give domestic and international investors quick access to as much timely, truthful, complete, and intelligible information as possible.
- A request to have a special auditor appointed is not provided for in the Company's articles of incorporation. Due to the fact that this right is stipulated by Article 356 of the TCC in respect of the minority shareholders holding 10% stake in the capital, it was deemed unnecessary to make a separate provision for this. The Company received no requests for the appointment of a special auditor in the reporting period.

##### 4. Information about general meetings

- Vestel Electronics held its ordinary general meeting for 2007 at 09:30 AM on 28 May 2008 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 7056 of the Turkish Trade Registry Gazette dated 06 May 2008 and in the 06 May 2008 issues of the newspapers Milliyet and Dünya, as well as on the corporate website at the address www.vestel.com.tr. In addition, shareholders (all of the Company's shares are issued in bearer certificates) that had previously entrusted one share to the Company were also notified of the meeting by registered mail within the legally prescribed time. To facilitate participation in the meeting, its announcements were published in the two newspapers with high 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 15,909,988,696 shares corresponding to the Company's total capitalization of TL 159,099,886.96, 55.00% participated at the General Meeting where 8,326,396,544 shares representing TL 83,263,965.44 in capital were present in person and 424,467,300 shares representing TL 4,244,673 in capital were represented in proxy.
- 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

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

### 5. Voting rights and minority rights

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

### 6. Dividend payment policy and timing

- None of the Company's shares incorporate special rights concerning the distribution of the Company's profits. Each share of stock is entitled to an equal dividend.
- The proposal for 2007-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 did not distribute dividends due to the fact that there was no distributable profit since the Company's profit generated on 2007 activities was set-off to cover prior years' losses.
- In accord with the dividend distribution policy established in the Board of Directors meeting held on 19 March 2007, the Company decided to distribute dividends that are equal to minimum 25% of the distributable profit in cash or in the form of bonus shares to the shareholders, including 2006-year profits. The amount of dividends to be distributed shall be proposed depending on national and global economic conditions and the Company's growth plan by the Board of Directors each year at the general meeting. At the general meeting for 2007 held on 28 May 2008, the shareholders were informed that adherence to the said policy will be continued.

### 7. Transfer of Shares

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

## 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. The said policy was revised and approved by the Board of Directors during 2008. Revised Disclosure Policy was presented for the information of shareholders and participants at the 2007 Ordinary General Meeting held on 28 May 2008. The disclosure policy has also been publicly disclosed 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

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

#### 9. Disclosure of material events

- A total of 29 material event disclosures were made in 2008. Additional information was requested by the ISE concerning only two disclosures, which were provided immediately.
- All of the Company's material event disclosures made at stock exchanges outside the country are simultaneously made in Turkey as well. Similarly, material event disclosures made to ISE and CMB are simultaneously made to the appropriate stock exchanges abroad.
- All material event disclosures were made in time and the Company was not subjected to any sanctions on this account.
- The Investor Relations Unit is responsible for making material event disclosures.

#### 10. The corporate website and its content

- Vestel Electronics' corporate website was continued to be improved in 2008 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](http://www.vestel.com.tr) and is continuously kept up to date.

#### 11. Disclosure of the Company's ultimate controlling shareholders

- The Company's shareholder structure is as follows:

Shareholders	% shareholding interest	Nominal value (TL)
Collar Holding BV	51.62	90,566,142,594
Publicly held	48.38	84,890,132,446
<b>Total</b>	<b>100.00</b>	<b>175,456,275,040</b>

- Collar Holding BV, the principal shareholder in the Company, is wholly owned by Ahmet Nazif Zorlu.

#### 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

- The following is a list of the people who are in positions to have access to insider information about the Company:

Ahmet Nazif Zorlu	Chairman of the Board of Directors
Prof. Ekrem Pakdemirli	Vice Chairman of the Board of Directors
Emre Zorlu	Board Member
Dr. Yılmaz Argüden	Board Member
M. Cem Bodur	Board Member
Ömer Yüngül	Board Member & Chairman of the Executive Committee
Enis Turan Erdoğan	Board Member & Member of the Executive Committee
Şerif An	Statutory Auditor
Ahmet Günaydın Hızarcı	Statutory Auditor
Cem Köksal	Member of the Executive Committee
Cengiz Ultav	Member of the Executive Committee
Levent Hatay	Member of the Executive Committee
İzzet Güvenir	Member of the Executive Committee
İhsaner Alkım	Member of the Executive Committee
Necmi Kavuşturun	Member of the Executive Committee
Özer Ekmekçiler	Member of the Executive Committee
Sertaç Beller	General Manager (Vestel Electronics)
Alp Dayı	Assistant General Manager for Financial Affairs
Hamdiye Yalçın	Accounting Manager
Cem Kadırgan	Financial Affairs Coordinator
Deniz Gökçeler	Financial Affairs Specialist
Şeref Hamarat	Assistant General Manager for Planning & Logistics
Mehmet Salih Keskiner	Assistant General Manager for Production
Ender Yüksel	Assistant General Manager for Procurements
Raşit Çiloğlan	Budget Manager
Metin Salt	Assistant General Manager for R&D (Vestek)
Timur Tuncel	General Manager (Vestel Marketing)
Cemal Eren Ataman	Assistant General Manager (Vestel Marketing)
Ergün Güler	Assistant General Manager (Vestel Marketing)
Fatma Filiz Künüralp	Assistant General Manager (Vestel Marketing)
Serdar Anıl	Assistant General Manager (Vestel Marketing)
Fahriye Buket Kafalı	Assistant General Manager (Vestel Marketing)
Zafer Küçükates	Assistant General Manager (Vestel Marketing)
Gökhan Yıldırımlar	Accounting Manager (Vestel Marketing)
Ahmet Süha Erol	General Manager (Vestel Foreign Trade)
Seda Kaya	Assistant General Manager (Vestel Foreign Trade)
Ömer Hakan Kutlu	Assistant General Manager (Vestel Foreign Trade)
Akın Barbaros Birsen	Assistant General Manager (Vestel Foreign Trade)
Yılmaz Özkan	Accounting Manager (Vestel Foreign Trade)
Fiğen Çevik	Corporate Finance and Investor Relations Director
Başak Dalga	Corporate Finance and Investor Relations Specialist
Halil Turan	Technology Development and Industrial Design Manager
Hamza Cihan Sarı	Information Technology Director
İsmail Cın	Business Development and Project Manager
Coşkun Özkan	Internal Audit Manager
Emre Halit	Grant Thornton Independent Auditors
Gül Şahin	Grant Thornton Independent Auditors
Cengiz Avcı	Grant Thornton Independent Auditors
Sezen Mercanoğlu	Grant Thornton Independent Auditors
Necdet Beşir	Anlar Independent Auditors

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

#### 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

### 17. Social responsibility

- Vestel Electronics Inc. undertakes social efforts in the form of contributions to services in education, sports and culture offered by Zorlu Holding, and as direct initiatives taken on by the company within the frame of social responsibility principle. The Zorlu Group, which also covers Vestel Electronics Inc., signed the United Nations Global Compact in 2007, an initiative that represents a major step taken towards leveraging the principles and values espoused ever since its foundation to global social responsibility platform.
- 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.

### Part IV: The Board of Directors

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

Name	Position	Age	Term of office	Classification	Educational background	Previous Experience
Ahmet Nazif Zorlu	Chairman	64	1 year	Non-executive	Primary School	
Ekrem Pakdemirli	Vice Chairman	69	1 year	Independent	University	- Member of the Parliament - Deputy Prime Minister - Faculty member of Bilkent, Başkent and Ege Universities - Deputy Rector with Dokuz Eylül University
Emre Zorlu	Board Member	24	1 year	Non-executive	University	Served successively in various capacities in Zorlu Group companies
Ömer Yüngül	Board Member	53	1 year	Executive	University	Vestel White Goods (General Manager)
Enis Turan Erdoğan	Board Member	53	1 year	Executive	University	Ekinciler Holding
Recep Yılmaz	Board Member	50	1 year	Independent	University	- Chief Consultant to the Prime Minister
Argüden						- Chairman of Erdemir
M. Cem Bodur	Board Member	47	1 year	Non-executive	University	Ekinciler Holding (Finance Officer)

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

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

#### 19. Qualifications of board members

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

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

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

Mission: To conquer the world with technology products

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

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

#### 21. Risk management and internal control mechanisms

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

#### 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

#### 23. Principles of activity of the Board of Directors

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

#### 24. Prohibition on doing business or competing with the Company

- One of the items included on the agenda of each year's general meeting and voted on by the shareholders pursuant to articles 334 and 335 of the Turkish Commercial Code is concerned with Vestel Board of Directors members doing business and competing with the Company.
- No board member did any business or competed with the Company in 2008.
- As required by corporate governance principles, in the event of any violation of the prohibition on board members' doing business or competing with the Company, the potential conflicts of interest will be publicly disclosed.

#### 25. Code of ethics

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

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

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Corporate Governance Compliance Report

#### The Audit Committee

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

- Ekrem Pakdemirli serves as the head of the Audit Committee and he has been elected from among independent members. The other member of the committee is Cem Bodur, a non-executive Board member.

- The Company's articles of incorporation set forth that the Audit Committee must meet at least four times a year (at least once in each quarter). The management secretariat is responsible for keeping records of the decisions taken by the Committee, as well as the minutes of its meetings.
- The Committee carries out its activities in line with the operating principles put into writing in detail.

#### Corporate Governance and Appointments Committee

- Based on the Board of Directors resolution dated 17 May 2005, Vestel Electronics Inc. set up a Corporate Governance Committee in line with the CMB's Corporate Governance Principles Communiqué. The Committee is responsible for monitoring the Company's compliance with corporate governance principles and for making proposals to the Board of Directors in relation to appointments to be made at the Company.

- Yılmaz Argüden serves as the head of the Corporate Governance Committee, and he has been elected from among independent members. The other member of the committee is Emre Zorlu, a non-executive Board member.

- Attention is paid to ensure that the qualifications of the Committee members comply with those required of the Board members as set forth in the Corporate Governance Principles.

- The Corporate Governance Committee is required to meet at least three times a year.

- The Committee carries out its activities in line with the operating principles put into writing in detail. The activities carried out by the Corporate Governance and Appointments Committee in 2008 are presented below:

- Establishing corporate governance principles across the Company,
- Offering recommendations pertaining to the structure and effectiveness of the Board of Directors,
- Evaluation of the structures and operation of the Committees and making recommendations about the same,
- Structuring the Investor Relations Unit and coordinating its activities.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Corporate Governance Compliance Report

### 27- Financial benefits provided to the Board of Directors

- The attendance fees to be received by the members of the Board of Directors and the statutory auditors are determined every year by the General Assembly.
- Vestel Board of Directors members are being paid TL 60,000 as of June 2008, commensurate with the practices of the peer companies in the sector. Statutory Auditors are paid an annual fee of TL 2,580.
- The Company has not extended any loans or credits to any Board member or executive.

### Profit Distribution Policy and Proposal

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

#### Profit distribution proposal for the 01 January 2008-31 December 2008 fiscal year

The Board of Directors of the firm of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi was convened by chairman Ahmet Nazif Zorlu at the company's headquarters on 29 April 2009. The items on the agenda were discussed and the following resolutions were passed.

It is unanimously resolved by the members of the Board of Directors taking part in the meeting as follows:

To inform our shareholders at the Ordinary General Meeting that no dividends will be paid out due to the fact that the company posted loss on its activities in 2008 fiscal year both with respect to the Tax Procedural Law and Capital Market Law legislation,

Although the financial statements prepared in accordance with tax laws and Capital Markets Board Communiqué XI:25 concerning accounting standards in capital markets show a profit, as a result of the emergence of prior-year losses in the company's financial statements on account of inflation adjustments made as of 31 December 2003 in accordance with CMB Communiqué XI:21 and due to the need to set those losses off against 2007-year profits, no distributable profit remains and for that reason it has been decided to recommend to the general assembly that no dividend be paid.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Statutory Auditor's Report Summary

TO THE GENERAL ASSEMBLY OF VESTEL ELEKTRONİK TİCARET VE SANAYİ ANONİM ŞİRKETİ

Title of Association	: VESTEL ELEKTRONİK TİCARET VE SANAYİ ANONİM ŞİRKETİ
Center	: Zorlu Plaza, Avcular – İstanbul
Capital	: TL 175,456,275
Field of Activity	: Production of electronic equipment
Auditor(s) name, period in office, being partner or company's personnel	: Şerif Arı – 1 Year Ahmet G. Hızarcı – 1 Year not partner nor personnel.
Number of Board Meetings and Audit Commission meetings	: 4-8
Content of audit, audit dates and result	: In the audits made on the legal books and documents of the company, it has been concluded that records are kept fairly and accurately in compliance with accounting rules and principles.
Number and results of counting's which has been performed on association's cashier desk in accordance with Turkish Trade Law's 353rd article's 1st anecdote's 3rd definition	: Cashier's desk counting was made four times and it was resolved that stocks are in compliance with the records.
Audit dates and results that has been performed in accordance with Turkish Trade Law's 353rd article's 1st anecdote's 4th definition	: There are no securities delivered by mortgage or guarantee or bailment to company according to the monthly audits.
Complaints or frauds perceived, and legal proceedings	: There are no complaints or frauds perceived.
We have audited the accounts and transactions of Vestel Elektronik Ticaret ve Sanayi Anonim Şirketi at the period of 01.01.2008-31.12.2008 in accordance with Turkish Trade Law, association's primary agreement, other regulations and general accounting principles.	
In our opinion, the financial statements present fairly, in all material respects, the financial position of association as of 31 December 2008 and the dividend distribution proposal is in accordance with general laws and association's primary agreement.	
We present approval of the Balance Sheet and The Income Statement and acquittance of Board of Directors. 06.04.2009	

  
Şerif ARI  
Auditor

  
Ahmet G. HIZARCI  
Auditor

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Resolution of the Board of Directors

RESOLUTION DATE : 29.04.2009  
RESOLUTION NO : 2009/9  
PARTICIPANTS : Ahmet Nazif ZORLU  
Ekrem PAKDEMİRLİ  
Mehmet Emre ZORLU  
Ömer YÜNGÜL  
Enis Turan ERDOĞAN  
Mehmet Cem BODUR

MEETING AGENDA :

The Board of Directors of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi convened at the company's headquarters under the chairmanship of Mr. Ahmet Nazif Zorlu and discussed the subjects on the agenda and adopted the below-mentioned resolutions.

The Board of Directors who convened for the meeting decided unanimously to accept the 2008 Annual Report, which has been presented to the Board of Directors and is attached hereto, and to make the report available to shareholders.

BOARD OF DIRECTORS



Ahmet Nazif ZORLU  
Chairman



Ekrem PAKDEMİRLİ  
Vice Chairman



Mehmet Emre ZORLU  
Board Member



Ömer YÜNGÜL  
Board Member



Enis Turan ERDOĞAN  
Board Member



Mehmet Cem BODUR  
Board Member

**Vestel Elektronik Sanayi ve Ticaret Anonim Őirketi**  
Consolidated Financial Statements at 31 December 2008  
Together with Auditor's Report

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret A.Ş. and its subsidiaries listed under note 1 (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management's responsibility for the financial statements

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

#### Auditor's responsibility

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

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

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

#### Conclusion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

EREN Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.  
Member Firm of GRANT THORNTON International

Aykut Halit  
Partner

Istanbul, 10.04.2009

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Consolidated Balance Sheets at 31 December 2008 and 2007

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

	Note	2008	2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	343.148	512.130
Trade receivables	7	1.148.066	1.134.997
Inventories	8	786.513	1.091.379
Other assets	9	195.406	203.431
<b>Total current assets</b>		<b>2.473.133</b>	<b>2.941.937</b>
<b>Non-current assets</b>			
Trade receivables		1.349	6.441
Financial assets available-for-sale	10	794	1.713
Property, plant and equipment	11	1.016.997	1.023.279
Intangible assets	12	349.872	301.844
Other assets		23.790	19.446
Deferred tax asset	17	65.818	42.304
<b>Total non-current assets</b>		<b>1.458.620</b>	<b>1.395.027</b>
<b>Total assets</b>		<b>3.931.753</b>	<b>4.336.964</b>

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

**Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi**  
**Consolidated Balance Sheets at 31 December 2008 and 2007**  
(All amounts in thousands of Turkish Lira ("TL") unless indicated otherwise.)

	Note	2008	2007
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	13	306.894	236.948
Trade payables	14	1.995.187	2.062.835
Taxation on income	17	587	11.642
Provision for expenses	15	99.753	58.474
Other liabilities	16	108.626	109.433
<b>Total current liabilities</b>		<b>2.511.047</b>	<b>2.479.332</b>
<b>Non-current liabilities</b>			
Borrowings	13	406.900	425.417
Trade payables		1.351	--
Employee termination benefits	18	17.883	19.208
Provision for expenses	15	12.617	11.700
Other liabilities		63	112
Deferred tax liability	17	62.409	56.841
<b>Total non-current liabilities</b>		<b>501.223</b>	<b>513.278</b>
<b>Equity</b>			
Share capital	19	593.218	576.862
Translation reserve		17.695	23.724
Minority interest		136.374	142.788
General reserves	20	172.196	600.980
<b>Total equity</b>		<b>919.483</b>	<b>1.344.354</b>
<b>Commitments and contingencies</b>	<b>21</b>		
<b>Total liabilities and equity</b>		<b>3.931.753</b>	<b>4.336.964</b>

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Consolidated Income Statements for the Years Ended 31 December 2008 and 2007

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

	Note	2008	2007
Revenue		4.693.941	4.627.011
Cost of sales		(3.795.280)	(4.101.699)
<b>Gross profit</b>		<b>898.661</b>	<b>525.312</b>
Warranty expenses		(48.640)	(35.612)
Selling expenses		(427.807)	(417.484)
General and administrative expenses		(219.383)	(168.913)
Other income	23	65.896	49.857
Other expense	23	(28.766)	(48.120)
<b>Operating profit/(loss)</b>		<b>239.961</b>	<b>(94.960)</b>
Financing income	24	1.004.134	849.227
Financing expense	24	(1.651.306)	(692.472)
<b>Profit/(loss) before taxation</b>		<b>(407.211)</b>	<b>61.795</b>
Taxation on income	17	4.499	(30.929)
<b>Net profit (loss) for the year</b>		<b>(402.712)</b>	<b>30.866</b>
<b>Attributable to:</b>			
Equity holders of the Company		(411.509)	14.662
Minority interest		8.797	16.204
<b>Net profit (loss) for the year</b>		<b>(402.712)</b>	<b>30.866</b>
Basic and fully diluted earnings (loss) per share - TL		(0,02)	0,00

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Consolidated Statements of Changes in Equity for the Years Ended 31.12.2008 and 2007

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

	Share capital	Translation reserve	General reserves	Minority interest	Total equity
<b>Balance at 01.01.2007</b>	<b>576.862</b>	<b>29.782</b>	<b>585.286</b>	<b>130.253</b>	<b>1.322.183</b>
Translation differences	--	(6.058)	--	247	(5.811)
Change in minority interest	--	--	914	(914)	--
Acquisition of subsidiary	--	--	(117)	5.410	5.293
Gain on investments taken to equity	--	--	235	--	235
Dividends paid	--	--	--	(8.412)	(8.412)
Net profit for the year	--	--	14.662	16.204	30.866
<b>Balance at 31.12.2007</b>	<b>576.862</b>	<b>23.724</b>	<b>600.980</b>	<b>142.788</b>	<b>1.344.354</b>
Share capital increase	16.356	--	(16.356)	--	--
Translation differences	--	(6.029)	--	(639)	(6.668)
Change in minority interest	--	--	--	(477)	(477)
Loss on investments taken to equity	--	--	(919)	--	(919)
Dividends paid	--	--	--	(14.095)	(14.095)
Net profit (loss) for the year	--	--	(411.509)	8.797	(402.712)
<b>Balance at 31.12.2008</b>	<b>593.218</b>	<b>17.695</b>	<b>172.196</b>	<b>136.374</b>	<b>919.483</b>

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Consolidated Cash Flow Statements for the Years Ended 31.12.2008 and 2007

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

	Note	2008	2007
<b>Profit (loss) before taxation</b>		<b>(407.211)</b>	<b>61.795</b>
Adjustment to reconcile profit (loss) before taxation to net cash provided from operating activities:	25	312.756	270.741
<b>Operating (loss) profit before changes in working capital</b>		<b>(94.455)</b>	<b>332.536</b>
Changes in operating assets and liabilities	25	188.029	153.969
Taxes paid		(21.137)	(34.683)
<b>Net cash provided by operating activities</b>		<b>72.437</b>	<b>451.822</b>
Cash flows from investing activities			
Purchases of financial assets available-for-sale		--	(3.892)
Purchases of property, plant and equipment		(120.304)	(162.124)
Purchases of intangible assets		(80.903)	(50.459)
Proceeds from sale of property, plant and equipment		12.138	2.498
<b>Net cash used in investing activities</b>		<b>(189.069)</b>	<b>(213.977)</b>
<b>Cash flows from financing activities</b>			
Changes in current borrowings		61.268	(296.249)
Changes in non-current borrowings		(18.517)	30.758
Interest received		37.799	37.284
Interest paid		(68.218)	(80.801)
Dividends paid		(14.095)	(8.412)
<b>Net cash used in financing activities</b>		<b>(1.763)</b>	<b>(317.420)</b>
Translation differences		(50.784)	7.021
<b>Net decrease in cash and cash equivalents</b>		<b>(169.179)</b>	<b>(72.554)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>512.130</b>	<b>584.684</b>
<b>Cash and cash equivalents at end of year</b>		<b>342.951</b>	<b>512.130</b>

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 1. ORGANISATION AND NATURE OF ACTIVITIES

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

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

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

#### Nature of Activities of the Group

The Group is organized into three product divisions given below;

##### A. Television production:

###### Vestel Elektronik Sanayi ve Ticaret A.Ş.

The Company is mainly engaged in the production of colour televisions. The Company's production facilities are located in Manisa industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for colour televisions was 14.000.000 (2007: 19.000.000) units per year respectively.

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

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

Vestel White started working actively in 1999 and has been engaged in the production of refrigerators, room air conditioning units, washing machines and cookers. Vestel White's production facilities are located in Manisa industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for refrigerators, room air conditioning units, washing machines, cooker and dishwasher unit was 3.700.000, 600.000, 2.700.000, 1.250.000 and 500.000 (2007: 3.000.000, 700.000, 2.000.000, 1.500.000 and 500.000) units per year respectively.

###### Vestel CIS

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

##### C. Digital Devices

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

Vestel Kom is engaged in the production of electronic devices. Vestel Kom's production facilities are primarily located in İzmir Aegean free zone industrial site.

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

Vestel Dijital is engaged in the production of electronic devices. Vestel Dijital's production facilities are located in Manisa industrial site. As of the balance sheet date, production capacity for digital devices, computer and panel was 11.260.000 (2007: 5.260.140) units per year.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Vestel Elektronik has always exercised effective control over the management of each of the companies included in the group consolidation.

Consolidated company	Location	2008		2007	
		Ownership interest	Economic interest	Ownership interest	Economic interest
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	72,6	72,6	72,6	72,6
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	Turkey	99,4	99,3	99,4	99,3
Vestel Dış Ticaret A.Ş.	Turkey	99,7	99,7	99,7	99,7
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	100,0	100,0	100,0	100,0
Vestel CIS Ltd.	Russia	100,0	100,0	100,0	100,0
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	99,9	99,9	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	30,0	29,9	30,0	29,9
Aydın Yazılım Elektronik ve Sanayi A.Ş.	Turkey	60,0	18,0	60,0	18,0
Vestel Iberia SL	Spain	100,0	99,7	100,0	99,7
Vestel France SA	France	99,9	99,5	99,9	99,5
Vestel Italy SRL	Italy	100,0	99,7	51,0	50,8
Vestel Holland BV	Holland	100,0	99,7	100,0	99,7
Veseg Video Handelsgesellschaft GmbH	Germany	100,0	99,7	100,0	99,7
Cabot Communications Ltd.	UK	90,8	90,9	90,8	90,9
Vestel Benelux BV	Holland	51,0	50,8	51,0	50,8
Vestel UK Ltd.	UK	100,0	99,7	100,0	99,7
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	58,0	52,7	58,0	52,7
Vestel Dijital Üretim Sanayi A.Ş.	Turkey	99,8	99,3	99,8	99,3
Electronics Outlet SRL	Italy	100,0	99,7	100,0	50,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	94,0	94,0	94,0	94,0
Vestel Trade Ltd.	Russia	100,0	100,0	100,0	100,0
Birim Bilgi Teknolojileri Ticaret A.Ş.	Turkey	45,0	45,0	45,0	45,0
OY Vestel Scandinavia AB	Finland	100,0	99,7	100,0	99,7
Deksarnet Telekomünikasyon A.Ş.	Turkey	99,9	99,9	99,9	99,9
Intertechnika LLC	Russia	99,9	99,9	99,9	99,9

Vestel Savunma Sanayi A.Ş., Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. and Birim Bilgi İşlem ve Müşavirlik Ticaret A.Ş. with group shares of respectively 29,9%, 18% and 45% are consolidated because they are under the effective control and management of the Group.

The consolidated financial statements for the year ended 31 December 2008 (including comparatives) were approved by the board of directors on 10.04.2009.

#### 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 at 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 Turkish Lira (TL) by closing rate method. The consolidated financial statements have been prepared from statutory financial statements of the Company and its subsidiaries and presented in Turkish Lira (TL)

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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, receivables, interest expense accruals on bank loans.

#### 2.1 Measurement currency and reporting currency

The financial statements have been prepared under the historical cost convention, other than financial assets which are stated at fair value.

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

As from 1 January 2006 it has been decided to discontinue the adjustment of financial statements for inflation after taking into account that hyperinflation period has come to an end as indicated by existing objective criteria and that other signs indicating the continuance of hyperinflation have largely disappeared.

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

The financial statements as of 31 December 2006, 2007 and 2008 have not been subjected to any inflation adjustment whereas the financial statements for previous periods have been adjusted for inflation on basis of the measuring unit current at the preceding balance sheet date namely 31 December 2005.

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

According to the law numbered 5083 related to the currency of Republic of Turkey and the decision of the Council of Ministers dated 04.04.2007 numbered 2007/11963 the expression of "new" has been cancelled on New Turkish Lira and New Kurush effective from 01.01.2009. After this conversion 1 New Turkish Lira is held equal to 1 Turkish Lira and 1 New Kurush is held equal to 1 Kurush. All laws, legislations, administrative and legal transactions, court decisions, commercial papers and all kind of documents referencing New Turkish Lira will be considered in Turkish Lira with the conversion rate mentioned above. Beginning from 01.01.2009, in the presentation of financial statements New Turkish Lira has been replaced by Turkish Lira. In the attached financial statements, this conversion has been made retrospectively for convenience purposes.

#### 2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Interpretations effective in January 2008 but not relevant:

- IFRIC 11, "IFRS 2 – Group and treasury share transactions"
- IFRIC 12, "Service concession arrangements"
- IFRIC 13, "Customer loyalty programmes"
- IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

(a) Standards, amendments and interpretations effective in January 2009 but not early adopted by the Company:

- IFRIC 15, "Agreements for construction of real estates"
- IFRIC 16, "Hedges of a net investment in a foreign operation"
- IAS 1 (Revised), "Presentation of financial statements"
- IAS 23 (Amendment), "Borrowing costs", Capitalisation of Borrowing Costs
- IAS 32 (Amendment), "Financial instruments: Presentation", and IAS 1 (Amendment), "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation"
- IAS 39 (Amendment), "Financial instruments: Recognition and measurement"
- IFRS 1 (Amendment), "First time adoption of IFRS"
- IFRS 2 (Amendment), "Share-based payment"
- IFRS 8 "Operating segments"

(b) Standards, amendments and interpretations effective in July 2009 but not early adopted by the Company:

- IAS 27 (Revised), "Consolidated and separate financial statements"
- IAS 28 (Amendment), "Investments in associates"
- IAS 31 (Amendment), "Interests in joint ventures"
- IFRS 3 (Revised), "Business combinations"
- IFRS 5 (Amendment), "Non-current assets held-for-sale and discontinued operations"

Management of the Company anticipates that all of the pronouncements detailed in (a) and (b) above will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Management of the Company has decided that these new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

#### 2.3 Comparable financial information and reclassification of prior period financial statements

The balance sheets with the accompanying notes as of 31.12.2008 and 31.12.2007 and statement of income, cash flow and changes in equity with the accompanying notes for the year ended 31.12.2008 and 31.12.2007 are presented as comparatively.

For the compatibility of the current financial statements these financial statements are reclassified if necessary.

#### 2.4 Critical accounting estimates, assumptions and judgments

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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date and the significant judgments with the most significant effect on amounts recognized in the financial statements are set out below:

- Allowance for doubtful debts reflect the amount set aside for the losses in the future related to receivables which exist the balance sheet date but which, in the opinion of the management carry the risk of collection due to current economic conditions. When evaluating whether receivables has suffered a loss in value the past performance of the debtors, their credibility in the market and their performance between the balance sheet date and report date together with changed circumstances are taken in the considerations. In addition the collaterals existing as balance sheet date together with new collaterals obtained between the balance date and report date are also taken into consideration. The allowance for doubtful receivables as of the balance sheet dates are explained under note 7.
- When setting aside the provision for legal claims the probability of loosing the related case and the results to expect to be suffered in the event that the legal counsel of the Group and management of the Group make their best estimates to calculate the provision required under note 21.
- As for the diminution in value of stocks, all stocks are subjected to review and their usage possibility ascertained on basis of the opinion of the technical personnel; provisions are set aside for items expected not to have usage possibility. Calculation of net realizable values of stocks is based on selling prices as disclosed by selling price lists after deduction for average discounts given during the year and selling expenses to be incurred for the realization of stocks. If the net realizable value of any stock falls under its cost price appropriate provisions are therefore set aside.
- In accordance with the accounting policy outlined under note 3 goodwill is reviewed every year for impairment; if circumstances call for it this review for impairment is made at more frequent intervals. The recoverable value of cash generating units is ascertained on basis of their value in use. Calculations have been made in this respect and these revealed an impairment in value of TL 3.470 (2007 – nil).
- Property, plant and equipment and intangible assets held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group estimates that the useful lives of tangible and intangible assets. Depreciation is charged using the straight line basis over the useful lives which depend on the best estimation of the management. Useful lives of property, plant and equipment and intangible assets are reviewed at each balance sheet dates and make changes if necessary.
- Deferred tax assets are accounted for only where it is likely that related temporary differences and accumulated losses will be recovered through expected future profits. When accounting for deferred tax losses it is necessary to make important estimations and evaluations with regard to taxable profits in the future periods. As mentioned under note 17 the related companies of the Group included in the consolidated statements have taxable losses of TL 139.720 (2007 – 36.155) carried forward to future periods and deferred tax assets have been calculated on basis of the expectation that taxable profits will be created in future periods.

#### 2.5 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.

### 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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

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

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

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

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

#### Foreign currency translations

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

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

	2008	2007
US Dollar	1,5123	1,1647
EURO	2,1408	1,7102

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

#### Property, plant and equipment

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

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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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

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

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

#### Leases

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

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

#### Intangible assets

**Goodwill** – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Vestel Dayanımlı Tüketim Malları ve Pazarlama A.Ş., Vestel Dış Ticaret A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş. and Vestel Beyaz Eşya 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.

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 3 - 5 years which is the estimated period over which technology is expected to lead the market and have commercial value. The carrying values of capitalized research and development expenditure are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### Financial assets

Financial assets other than hedging instruments are divided into the following categories:

- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. The Group's available-for-sale financial assets include unconsolidated investments and a listed security.

The fair value of listed security, Zorlu Enerji Elektrik Üretim A.Ş., is based on current bid prices at the balance sheet date. Unconsolidated investments which are not quoted at any stock exchange are reported at cost less any impairment charges, as its fair value can currently not be reliably estimated.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired. In the case of impairment, any loss previously recognised in equity is transferred to the income statement. Losses recognised in the income statement on equity instruments are not reversed through the income statement but charged to equity. Losses recognised in prior period consolidated income statements resulting from the impairment of debt securities are reversed through the income statement, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity. The Group currently holds time deposits that fall into this category.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

#### Inventories

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

#### Trade receivables

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

#### Trade payables

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### Related parties

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 transaction with related parties on commercial terms (see note 26).

#### Bank borrowings

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

#### Recognition and derecognition of financial instruments

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

#### Commitments and contingencies

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

#### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group manufactures and sells a range of television sets and monitors, electronic devices and white goods in the wholesale market. Sales of goods are recognized when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provision have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

Rental income – on an accrual basis.

Interest income – on an effective yield basis.

#### Income taxes

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

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

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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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.

#### Employee termination benefits

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

#### Provisions

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

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

#### Earnings per share

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

#### Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand; deposits with banks and other financial institutions with the original maturity of three months or less.

#### 4. EARNINGS PER SHARE

	2008	2007
Net profit attributable to shareholders	(402.712)	30.866
Weighted average number of ordinary shares in issue('000)	17.545.628	17.545.628
<b>Basic and diluted earnings per share - TL</b>	<b>(0,02)</b>	<b>0,00</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 5. 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).

**Electronic devices:** Produced by Vestel Komünikasyon Sanayi ve Ticaret A.Ş. (Izmir/Turkey).

**Produced by Vestel Dijital Üretim Sanayi A.Ş. (Manisa/Turkey).**

**White Goods:** Produced by Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.(Manisa/Turkey).

**Produced by Vestel CIS (Vladimir Region/Russia)**

The segment results for the year ended 31.12.2008 are as follows:

	Television and electronic devices	White goods	Other	Total
Revenue	3.022.033	1.555.423	116.485	4.693.941
Cost of sales	(2.442.747)	(1.239.501)	(113.032)	(3.795.280)
<b>Gross profit</b>	<b>579.286</b>	<b>315.922</b>	<b>3.453</b>	<b>898.661</b>

Other segment items included in the income statement:

Depreciation	92.184	54.808	11.035	158.027
Amortisation	16.241	6.792	7.011	30.044
Impairment of inventory	14.912	2.838	890	18.640
	<b>123.337</b>	<b>64.438</b>	<b>18.936</b>	<b>206.711</b>

The segment results for the year ended 31.12.2007 are as follows:

Revenue	2.971.923	1.373.990	281.098	4.627.011
Cost of sales	(2.711.757)	(1.139.736)	(250.206)	(4.101.699)
<b>Gross profit</b>	<b>260.166</b>	<b>234.254</b>	<b>30.892</b>	<b>525.312</b>

Other segment items included in the income statement:

Depreciation	94.853	43.457	9.006	147.316
Amortisation	5.192	1.204	8.712	15.108
Impairment of inventory	10.177	1.708	(146)	11.739
	<b>110.222</b>	<b>46.369</b>	<b>17.572</b>	<b>174.163</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

The segment assets and liabilities as of the balance sheet dates and capital expenditure for the year then ended are as follows:

	Television and electronic devices	White goods	Other	Total
<b>2008</b>				
Trade receivables	910.342	203.857	35.216	1.149.415
Inventories	435.464	345.881	5.168	786.513
Property, plant and equipment	495.053	512.189	9.755	1.016.997
Intangible assets	153.499	179.823	16.550	349.872
Unallocated assets				628.956
<b>Total assets</b>				<b>3.931.753</b>
Trade payables	1.498.926	363.554	134.058	1.996.538
Unallocated liabilities				1.015.732
<b>Total liabilities</b>				<b>3.012.270</b>
<b>Capital expenditure</b>	<b>104.861</b>	<b>55.622</b>	<b>40.724</b>	<b>201.207</b>
<b>2007</b>				
Trade receivables	898.000	217.678	25.760	1.141.438
Inventories	802.124	283.125	6.130	1.091.379
Property, plant and equipment	532.778	484.850	5.651	1.023.279
Intangible assets	153.270	146.326	2.248	301.844
Unallocated assets				779.024
<b>Total assets</b>				<b>4.336.964</b>
Trade payables	1.734.861	291.455	36.519	2.062.835
Unallocated liabilities				929.775
<b>Total liabilities</b>				<b>2.992.610</b>
<b>Capital expenditure</b>	<b>108.277</b>	<b>80.622</b>	<b>24.500</b>	<b>213.399</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Cash and cash equivalents	343.148	--	512.130	--
Deferred tax	65.818	62.409	42.304	56.841
Other assets	219.196	--	222.877	--
Financial assets available-for-sale	794	--	1.713	--
Current tax	--	587	--	11.642
Current borrowings	--	306.894	--	236.948
Non-current borrowings	--	406.900	--	425.417
Employee termination benefits	--	17.883	--	19.208
Provisions	--	112.370	--	70.174
Other liabilities	--	108.689	--	109.545
	<b>628.956</b>	<b>1.015.732</b>	<b>779.024</b>	<b>929.775</b>

#### Geographical segments:

Segment assets	2008	2007
Turkey	2.601.381	2.897.173
Europe	981.371	1.176.231
Russia	349.001	263.560
	<b>3.931.753</b>	<b>4.336.964</b>

#### Revenue

Turkey	1.154.485	1.213.326
Europe	3.153.745	3.172.222
Rest of the world	385.711	241.463
	<b>4.693.941</b>	<b>4.627.011</b>

#### Capital expenditure on property plant and equipment

Turkey	110.267	132.212
Europe	692	841
Asia	9.345	29.071
	<b>120.304</b>	<b>162.124</b>

#### Capital expenditure on intangible assets

Turkey	79.138	48.149
Europe	1.765	2.310
Asia	--	816
	<b>80.903</b>	<b>51.275</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

	2008	2007
<b>Depreciation expenses of property plant and equipment</b>		
Turkey	147.634	143.053
Europe	902	901
Asia	9.491	3.362
	<b>158.027</b>	<b>147.316</b>
<b>Depreciation expenses of intangible assets</b>		
Turkey	28.618	14.465
Europe	1.426	643
Asia	--	--
	<b>30.044</b>	<b>15.108</b>

#### 6. CASH AND CASH EQUIVALENTS

	2008	2007
Cash at bank and in hand	158.403	175.972
Time deposits	181.843	320.385
Other	2.902	15.773
Cash and cash equivalents	343.148	512.130
Bank overdrafts (-)	(197)	--
<b>Cash and cash equivalents presented in cash flow statement</b>	<b>342.951</b>	<b>512.130</b>

Time deposit accounts mature in January 2009 (2007: January 2008).

#### 7. TRADE RECEIVABLES

	2008	2007
<b>Current</b>		
Current accounts		
- Third parties	849.838	858.055
- Related parties, note 26	13.931	15.799
Notes receivable		
- Third parties	333.937	296.505
Others	274	4.364
	<b>1.197.980</b>	<b>1.174.723</b>
Unearned interest on receivables (-)	(20.738)	(19.058)
Allowance for doubtful receivables (-)	(29.176)	(20.668)
	<b>1.148.066</b>	<b>1.134.997</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Movement of doubtful receivables is given below:

	2008	2007
<b>Beginning balance</b>	<b>20.668</b>	<b>13.739</b>
Charge for the period	9.653	8.251
Amounts utilized during the year	(1.548)	(1.322)
Translation differences	403	--
<b>Ending balance</b>	<b>29.176</b>	<b>20.668</b>

#### 8. INVENTORIES

	2008	2007
Raw materials	391.062	585.278
Work in process	35.363	45.793
Finished goods and merchandise	385.758	468.968
Other	13.264	11.634
	<b>825.447</b>	<b>1.111.673</b>
<b>Provision for diminution in value (-)</b>		
Raw materials	(18.007)	(10.439)
Finished goods and merchandise	(20.927)	(9.855)
	<b>786.513</b>	<b>1.091.379</b>

Movement of allowance for diminution in value of inventories is as follows:

	2008	2007
<b>Beginning balance</b>	<b>20.294</b>	<b>8.555</b>
Charge for the period	19.220	13.201
Disposal of impaired stocks during the period	(919)	(1.462)
Translation differences	339	--
<b>Ending balance</b>	<b>38.934</b>	<b>20.294</b>

The cost of inventories recognized as expense and included in cost of sales during the year amounted to TL 2.897.741 (2007: TL 3.333.667).

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 9. OTHER ASSETS

	2008	2007
Current		
Prepaid expenses	16.965	23.518
VAT receivable	80.949	115.289
Work advances	1.156	2.636
Due from related parties, note 26	3.058	2.079
Project expenses	48.133	44.554
Receivables from insurance company (*)	--	2.912
Fair value of forward contracts	9.965	--
Prepaid taxes	8.177	2.444
Other	27.003	9.999
	<b>195.406</b>	<b>203.431</b>

(\*) The property, plant and equipment related to TV division and a part of white good production division, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), a 100% subsidiary of the Company were destroyed as a result of fire on 14 November 2005. As of 31 December 2007 the remaining balance receivable from the insurance claims by Vestel CIS amounted TL 2.912 which was duly collected during January-April 2008.

#### 10. FINANCIAL ASSETS

	2008	2007
<b>Financial assets available-for-sale</b>		
Unconsolidated investments	35	35
Other investments	759	1.678
	<b>794</b>	<b>1.713</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Entity	Country	Share %		Amount	
		2008	2007	2008	2007
<b>Unconsolidated investments</b>					
Vestpro Electronics SA	Romania	52%	52%	301	301
Vestel USA Inc.	USA	100%	100%	233	233
Vestel Elektronika S.R.L	Romania	100%	100%	19	19
Vestel India	India	100%	100%	10	10
Uts-United Technical Services, S.R.O	Romania	60%	60%	6	6
				<b>569</b>	<b>569</b>
<b>Allowance for diminution in value (-)</b>					
Vestpro Electronics SA				(301)	(301)
Vestel USA Inc.				(233)	(233)
				<b>35</b>	<b>35</b>
<b>Other investments</b>					
Zorlu Enerji Elektrik Üretim A.Ş.	Turkey	Less than 1%	Less than 1%	684	1.603
Tursoft A.Ş.	Turkey	7%	7%	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	50	50
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	12	12
				<b>759</b>	<b>1.678</b>

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

- Vestpro Electronics SA and Vestel USA Inc. have been inactive since 2002.

- Vestel Electronica SRL, Vestel India and Uts-United Technical Services, S.R.O are newly established companies. As of balance sheet dates, the above noted companies in which the Company has a controlling interest or significant influence are not consolidated as they are immaterial individually and in aggregate to the results and financial position of the Group.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
<b>Balance at 01.01.2007</b>	<b>256.390</b>	<b>1.344.013</b>	<b>5.722</b>	<b>114.903</b>	<b>54.341</b>	<b>1.775.369</b>
Additions	5.698	44.998	1.037	27.179	83.212	162.124
Disposals	--	(6.479)	(478)	(3.762)	--	(10.719)
Acquisition of subsidiary	1.652	48	--	12	--	1.712
Translation differences	(6.015)	(3.679)	(194)	(387)	(2.386)	(12.661)
Transfers	28.213	72.150	36	1.418	(102.523)	(706)
<b>Balance at 31.12.2007</b>	<b>285.938</b>	<b>1.451.051</b>	<b>6.123</b>	<b>139.363</b>	<b>32.644</b>	<b>1.915.119</b>
Additions	7.345	51.921	1.250	24.105	35.683	120.304
Disposals	(1.252)	(17.459)	(2.759)	(3.881)	--	(25.351)
Translation differences	17.333	17.298	671	2.399	5.253	42.954
Transfers	13.896	29.561	1.290	1.979	(47.330)	(604)
<b>Balance at 31.12.2008</b>	<b>323.260</b>	<b>1.532.372</b>	<b>6.575</b>	<b>163.965</b>	<b>26.250</b>	<b>2.052.422</b>
<b>Accumulated depreciation</b>						
<b>Balance at 01.01.2007</b>	<b>32.965</b>	<b>650.476</b>	<b>2.309</b>	<b>68.018</b>	<b>--</b>	<b>753.768</b>
Additions	6.877	122.712	1.105	16.622	--	147.316
Disposals	(29)	(4.308)	(227)	(2.919)	--	(7.483)
Acquisition of subsidiary	--	293	--	--	--	293
Translation differences	(93)	(1.752)	(56)	(153)	--	(2.054)
<b>Balance at 31.12.2007</b>	<b>39.720</b>	<b>767.421</b>	<b>3.131</b>	<b>81.568</b>	<b>--</b>	<b>891.840</b>
Additions	9.106	130.824	1.132	16.965	--	158.027
Disposals	(50)	(15.061)	(805)	(1.915)	--	(17.831)
Translation differences	582	1.987	249	571	--	3.389
<b>Balance at 31.12.2008</b>	<b>49.358</b>	<b>885.171</b>	<b>3.707</b>	<b>97.189</b>	<b>--</b>	<b>1.035.425</b>
<b>Net book value as of 31.12.2007</b>	<b>246.218</b>	<b>683.630</b>	<b>2.992</b>	<b>57.795</b>	<b>32.644</b>	<b>1.023.279</b>
<b>31.12.2008</b>	<b>273.902</b>	<b>647.201</b>	<b>2.868</b>	<b>66.776</b>	<b>26.250</b>	<b>1.016.997</b>

Leased assets included in the table above comprise plant and machinery amounting to TL 21.394 (31.12.2007: TL 24.986) 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 White to increase its refrigerator and washing machine production capacity and new investment made in cooker and dishwasher segment.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 12. INTANGIBLE ASSETS

	Goodwill	Development cost	Other intangible assets	Total
<b>Cost</b>				
<b>Balance at 01.01.2007</b>	<b>202.896</b>	<b>32.001</b>	<b>174.538</b>	<b>409.435</b>
Additions	816	44.075	6.384	51.275
Disposals	--	(1.175)	(13)	(1.188)
Translation differences	(846)	--	(659)	(1.505)
Transfers	--	645	61	706
<b>Balance at 31.12.2007</b>	<b>202.866</b>	<b>75.546</b>	<b>180.311</b>	<b>458.723</b>
Additions	--	58.566	22.337	80.903
Disposals	(3.470)	--	(1.670)	(5.140)
Translation difference	292	365	839	1.496
Transfers	--	--	604	604
<b>Balance at 31.12.2008</b>	<b>199.688</b>	<b>134.477</b>	<b>202.421</b>	<b>536.586</b>
<b>Accumulated amortisation</b>				
<b>Balance at 01.01.2007</b>	<b>14.095</b>	<b>13.355</b>	<b>114.472</b>	<b>141.922</b>
Additions	--	2.033	13.075	15.108
Disposals	--	--	(2)	(2)
Translation differences	(103)	--	(46)	(149)
<b>Balance at 31.12.2007</b>	<b>13.992</b>	<b>15.388</b>	<b>127.499</b>	<b>156.879</b>
Additions	--	16.900	13.144	30.044
Disposals	--	--	(519)	(519)
Translation difference	--	--	310	310
<b>Balance at 31.12.2008</b>	<b>13.992</b>	<b>32.288</b>	<b>140.434</b>	<b>186.714</b>
<b>Net book value as of</b>				
<b>31.12.2007</b>	<b>188.874</b>	<b>60.158</b>	<b>52.812</b>	<b>301.844</b>
<b>31.12.2008</b>	<b>185.696</b>	<b>102.189</b>	<b>61.987</b>	<b>349.872</b>

In mid 2001, the Group 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. Research and Development Department in Manisa continues development of Integrated Digital TV (DTV), Hybrid TV, Digital TV, TV-DVD, Large Digital TV and Large Flat Screen TV. Development costs principally comprise internally generated expenditure on development costs on the above projects where it is reasonably anticipated that costs will be recovered through future commercial activity.

Other intangible assets include mainly expenditure on computer software, rights and trade marks.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 13. BORROWINGS

	Current		Non-current	
	Foreign Currency	TL equivalent	Foreign Currency	TL equivalent
<b>2008</b>				
New Turkish Lira bank loans		1.967		--
Foreign currency bank loans				
-USD ('000)	106.834	161.565	220.467	333.413
-EUR ('000)	66.535	142.439	33.608	71.949
Finance lease liabilities, net				
-USD ('000)	396	599	777	1.175
-EUR ('000)	43	93	--	--
-TL ('000)		231	--	363
		<b>306.894</b>		<b>406.900</b>
<b>2007</b>				
New Turkish Lira bank loans	--	3.439	--	--
Foreign currency bank loans				
-USD ('000)	112.889	131.482	287.707	335.093
-EUR ('000)	59.078	101.035	52.755	90.223
Finance lease liabilities, net				
-USD ('000)	610	710	--	--
-EUR ('000)	165	282	59	101
		<b>236.948</b>		<b>425.417</b>

Summary maturity schedule of total borrowings is given below:

	2008	2007
Due in one year	306.894	236.948
One to two years	62.657	80.148
Two to three years	322.123	16.135
Three to four years	8.422	37.333
Four to five years	5.111	282.113
Over five years	8.587	9.688
	<b>713.794</b>	<b>662.365</b>

Letters of guarantee and notes amounting to TL 32.893 (EUR 15.365 thousand) have been given as collateral for Turkish Eximbank and other credits (31.12.2007: TL 27.569 (EUR 16.120 thousand)).

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Payment schedule of finance lease liabilities is given below:

	2008	2007
Finance lease liabilities - minimum lease payments:		
Payable with in one year	937	1.021
Payable later then one year and not later than four years	1.969	110
	2.906	1.131
Future finance charges on finance leases	(445)	(38)
<b>Present value of finance lease liabilities</b>	<b>2.461</b>	<b>1.093</b>

The present value of finance lease liabilities is as follows:

Payable with in one year	923	992
Payable later then one year and not later than four years	1.538	101
	<b>2.461</b>	<b>1.093</b>

#### 14. TRADE PAYABLES

	2008	2007
<b>Current</b>		
Current accounts		
- Third parties	1.391.508	1.473.400
- Related parties, note 26	5.120	3.671
- Letters of credit	284.924	266.498
- Letters of credit discounted	311.651	248.374
Notes payable		
- Third parties	5.639	73.627
Other	116	1.024
	1.998.958	2.066.594
Unearned interest on payables (-)	(3.771)	(3.759)
	<b>1.995.187</b>	<b>2.062.835</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 15. PROVISION FOR EXPENSES

	2008	2007
<b>Current</b>		
Warranty provision	56.018	38.397
Expense accruals	43.735	20.077
	<b>99.753</b>	<b>58.474</b>
<b>Non-current</b>		
Warranty provision	12.617	11.700

Movement of provisions is as follows:

	Warranty expense	Expense accruals
<b>Balance at, 01 January</b>	<b>50.097</b>	<b>20.077</b>
Additions	67.178	43.735
Disposals	(48.640)	(20.077)
<b>Balance at, 31 December</b>	<b>68.635</b>	<b>43.735</b>

#### 16. OTHER LIABILITIES

	2008	2007
Income tax and social security payables	23.867	23.468
Advances received	21.065	27.724
Deferred project income	47.400	45.654
Due to personnel	7.835	8.576
Other	8.459	4.011
	<b>108.626</b>	<b>109.433</b>

#### 17. TAXATION ON INCOME

	2008	2007
Current	(10.082)	(39.008)
Deferred	14.581	8.079
<b>Taxation on income</b>	<b>4.499</b>	<b>(30.929)</b>

In Turkey, the corporation tax rate on the profits for the calendar year 2008 is 20% (2007: 20%). Taxable profits are calculated by modifying accounting income for certain exclusions and allowances for tax purposes from the profit disclosed in the statutory income. No other taxes are paid unless profits are distributed.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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

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

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

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

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

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

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

<b>Country</b>	<b>% of taxable profit</b>
Germany	31,5
France	33,3
The Netherlands	25,5
UK	28,0
Spain	30,0
Italy	37,3
Russia	20,0

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

As the balance sheet date, taxation on income for the year is reconciled to the profit per income statements as follows:

	2008	2007
Profit (loss) before tax	(407.211)	61.795
Corporation tax using applicable tax rates	10.082	39.008
Disallowable expenses	15.547	37.963
Income not subject to tax	(29.276)	(45.303)
Research and development allowances	(852)	(739)
<b>Taxation on income</b>	<b>(4.499)</b>	<b>30.929</b>

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

Corporation and income taxes	10.082	39.008
Prepaid taxes (-)	(9.495)	(27.366)
	<b>587</b>	<b>11.642</b>
Deferred tax asset	(65.818)	(42.304)
Deferred tax liability	62.409	56.841
	<b>(2.822)</b>	<b>26.179</b>

#### Deferred taxation

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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

	Cumulative temporary difference		Deferred tax	
	2008	2007	2008	2007
<b>Deferred tax asset</b>				
Warranty expense provision	42.141	43.953	8.428	8.791
Employee termination benefits	17.426	18.854	3.501	3.780
Unearned interest on receivables	20.169	19.237	4.034	3.847
Capitalized financing expenses written off	45.273	21.748	9.056	4.378
Provision for doubtful receivables	23.576	17.382	4.715	3.476
Accrued expenses	2.114	9.068	423	1.813
Taxable loss carried forward	139.720	36.155	28.956	7.760
Prepaid expenses	16.178	12.377	3.236	2.475
Other	15.187	26.354	3.469	5.984
			<b>65.818</b>	<b>42.304</b>
<b>Deferred tax liability</b>				
Temporary differences arising from restating non-monetary assets	291.599	269.219	57.585	53.931
Unearned interest on payables	7.447	8.584	1.489	1.717
Other	11.683	9.568	3.335	1.193
			<b>62.409</b>	<b>56.841</b>
			<b>3.409</b>	<b>(14.537)</b>

The movement of deferred tax liability is given below:

Opening balance	(14.537)	(21.500)
Deferred tax income	14.581	8.079
Translation difference	3.365	(1.116)
<b>Closing balance</b>	<b>3.409</b>	<b>(14.537)</b>

#### 18. EMPLOYEE TERMINATION BENEFITS

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

The amount of indemnity is the equivalent of one month's salary for each year of service subject to a ceiling which is TL 2.173,19 as of 2008 (31.12.2007: TL 2.030,19) on historical cost basis).

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

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

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

	2008	2007
Opening balance	19.208	21.447
Charge for the year	13.045	6.322
Disposals	(14.370)	(8.561)
<b>Closing balance</b>	<b>17.883</b>	<b>19.208</b>

Number of personnel at the year end:

Personnel	9.435	9.945
Sub-contracted personnel	6.065	5.640
	<b>15.500</b>	<b>15.585</b>

#### Personnel cost:

Personnel cost	275.425	251.688
Sub-contracted personnel cost	58.774	73.300
	<b>334.199</b>	<b>324.988</b>

<b>Key personnel salaries and other short term benefits</b>	<b>12.623</b>	<b>12.160</b>
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#### 19. SHARE CAPITAL

The authorized share capital of the Company comprised 44.000.000.000 shares of par value Kr 1 each at 31.12.2008 and 2007.

As of 31.12.2008 the issued and paid up share capital of the Company comprised 17.545.627.500 shares (2007: 15.909.988.696) of par value Kr 1 each.

As of the balance sheet dates the shareholders of the Company and their percentage shareholdings is given below:

	Shareholding %		Shareholding amount	
	2008	2007	2008	2007
Collar Holding BV	52%	52%	90.520	82.082
Other shareholders	48%	48%	84.936	77.018
Share capital	100%	100%	175.456	159.100
Inflation adjustment of share capital			417.762	417.762
<b>Restated share capital</b>			<b>593.218</b>	<b>576.862</b>

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

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 20. 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.

#### 21. COMMITMENTS AND CONTINGENCIES

a) At 31.12.2008 the Group had contingent liabilities of TL 226.331 (31.12.2007: TL 189.439) in respect of letters of guarantee obtained from local banks and submitted to various customs and state authorities for import and Turkish Eximbank credits.

b) Due to the export and investment incentive certificates obtained, the Group has committed to realize exports amounting to USD 472.126.000 (31.12.2007: USD 233.025.000) as of the balance sheet date.

c) The payment of VAT on certain export sales may be postponed and later cancelled by the tax office subject to clearance of certain routine formalities in due course. Responsibility of the Group continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future. The amount of postponed VAT at 31.12.2008 was TL 77.465 (31.12.2007: TL 214.034).

d) The Group signed a loan agreement with Vakıflar Bankası for USD 100 million as a facility for letters of credit which has not been utilized as no need has arisen in this respect. Group companies are guarantors to the agreement.

e) Included among the court cases started by the group are receivables totalling TL 29.176 and tax claim of TL 958 which have been provided for in full. In addition a provision of TL 2.044 has been set aside in respect of court cases opened against the group.

f) A lawsuit has been initiated against the Group by a company engaged in the production of household appliances in respect of a patent certificate for a minor component used in refrigerators. The Group has initiated a counter lawsuit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The lawsuit is still pending and at the stage of expert evaluation. No amount has been provided in respect of this lawsuit.

h) Total obligation of the Group related to operational lease agreements amounted to TL 2.351 (31.12.2007: TL 2.668) per year.

i) Vestel White, is the guarantor in favour of Vestel Elektronik Sanayi ve Ticaret A.Ş. for bank borrowings amounting to TL 30.000, USD 100.000.000, EUR 50.000.000 and JPY 473.000.000.

j) Vestel White has given payment guarantee to various suppliers in favour of Vestel Holland B.V.

k) Group is the guarantor for a murabaha loan agreement obtained from HSBC Bank Plc centred in London (including HSBC Amanah Finance located in Dubai and HSBC Bank A.Ş. located in Istanbul) in favour of Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. ("Vestel Pazarlama") amounting to USD 80.000.000. As of 30.06.2008 Vestel Pazarlama used USD 60.000.000 in relation to this agreement.

l) Vestel White is the guarantor in favour of Vestel Dış Ticaret A.Ş. for bank borrowings obtained from Finansbank A.Ş. amounting to EUR 4.700.000.

m) Vestel White is the guarantor for the bank loans which have been borrowed by Vestel Elektronik Sanayi ve Ticaret A.Ş. from Türkiye Garanti Bankası A.Ş. amounting to TL 13.000 and USD 60.000.000.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

n) Vestel White is the guarantor for bank borrowings obtained from Finansbank A.Ş. amounting to USD 83.000.000.

o) Vestel White is the guarantor in favour of Vestel Pazarlama and Vestel Elektronik Sanayi ve Ticaret A.Ş. for bank borrowings obtained from ABN AMRO Bank.

p) Vestel White is the guarantor in favour of Vestel and Vestel Trade Ltd. for bank borrowings obtained from Citibank A.Ş..

r) As of 31.12.2008, the Group has entered in a forward exchange contracts amounting to EUR 6.400.000 and USD 236.726.008 on a fixed amount GBP 12.671.141 and EUR 156.580.059.

#### 22. NATURE OF EXPENSES

Nature of expenses consists of cost of sales, selling, general and administrative expenses.

	2008	2007
Direct materials and merchandise expenses	3.242.667	3.597.869
Changes in semi-finished goods and finished goods	93.640	41.910
Employee and sub-contracted personnel cost	334.199	324.988
Depreciation and amortization	185.826	162.424
Freight and freight insurance	99.335	101.368
Warranty, installation and service cost	94.234	72.477
Advertising expenses	56.738	54.568
Sales commission expenses	68.379	55.342
Office expenses	31.083	35.811
Outsourcing expenses	38.086	50.741
Energy expenses	20.800	20.256
Rent expenses	15.022	16.478
Consulting expenses	17.280	14.298
Insurance expenses	9.789	11.126
Doubtful debts provision expense	9.653	8.251
Repair and maintenance expenses	8.338	8.105
Other expenses	166.041	147.696
	<b>4.491.110</b>	<b>4.723.708</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 23. OTHER INCOME AND OTHER EXPENSE

	2008	2007
Scrap sales	1.806	1.749
Export commission and freight related income	33.506	20.818
Profit on sale of property, plant and equipment and intangible assets	1.116	1.515
Provisions released	6.690	--
Grant income	4.905	5.957
Other	17.873	19.818
<b>Other income</b>	<b>65.896</b>	<b>49.857</b>
Idle capacity expenses	3.433	5.769
Loss on sale of property, plant and equipment and intangible assets	1.119	3.440
Insurance expense (*)	--	6.303
Other	24.214	32.608
<b>Other expense</b>	<b>28.766</b>	<b>48.120</b>

(\*) The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), a 100% subsidiary, were destroyed as a result of fire on 14 November 2005. The outcome of negotiations between Vestel CIS Ltd and the insurance company is finalized for the TV factory and as a result a loss of TL 6.303 is recorded under other expense.

#### 24. FINANCING INCOME AND FINANCING EXPENSE

Foreign exchange gain	938.246	784.662
Interest income from bank deposits	37.799	37.284
Unearned interest on payables	28.083	27.045
Other	6	236
<b>Financing income</b>	<b>1.004.134</b>	<b>849.227</b>
Foreign exchange loss	1.463.838	504.931
Bank loans interest expense	76.313	89.928
Letters of credit expenses	49.117	40.920
Finance lease interest expense	386	420
Factoring expenses	9.686	7.865
Bank commission expenses	11.310	11.134
Unearned interest on receivables	32.262	23.052
Other	8.394	14.222
<b>Financing expense</b>	<b>1.651.306</b>	<b>692.472</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 25. SUPPLEMENTARY CASH FLOW INFORMATION

	2008	2007
<b>Adjustment to reconcile profit before taxation to net cash provided from operating activities:</b>		
Depreciation of property, plant and equipment	158.027	147.316
Amortisation of intangible assets	30.044	15.108
Profit on sale of property, plant and equipment and intangible assets	(1.116)	(1.515)
Loss on sale of property, plant and equipment and intangible assets	1.119	3.440
Provision for retirement pay	13.045	6.322
Provision for doubtful receivables	9.653	8.251
Interest expense	76.699	90.348
Interest income	(37.799)	(37.284)
Warranty provision	18.538	5.741
Unearned interest on receivables	1.680	(1.253)
Unearned interest on payables	(12)	989
Provision for diminution in value of inventories	19.220	13.201
Provision for expense accruals	23.658	20.077
	<b>312.756</b>	<b>270.741</b>
<b>Depreciation expense and amortization charge:</b>		
Cost of sales	136.521	124.168
Selling, general and administrative expenses	49.305	38.256
Other expense – Idle capacity	2.245	--
	<b>188.071</b>	<b>162.424</b>
<b>Changes in operating assets and liabilities:</b>		
Trade receivables	(19.310)	217.715
Inventories	285.646	137.186
Other assets	3.681	37.716
Trade payables	(66.285)	(244.495)
Other liabilities	(15.703)	5.847
	<b>188.029</b>	<b>153.969</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 26. RELATED PARTY DISCLOSURE

These comprised the following:

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

Related party	Trade receivables	Other assets	Trade payables
<b>31.12.2008</b>			
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	--	--	366
Teds International	--	327	--
L-3 Communications Investments	666	--	1.628
Vestel Elektronica S.R.L.	4.800	--	--
UTS-United Technical Services, Spol. S.R.O	4.068	--	--
Vkom-Birim-Dataset Joint Venture	1.314	1.926	--
Other related parties	3.083	805	3.126
	<b>13.931</b>	<b>3.058</b>	<b>5.120</b>

<b>31.12.2007</b>			
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	5	--	343
Vestel USA Inc.	--	13	--
Teds International	--	375	--
L-3 Communications Investments	--	--	1.116
Due to shareholders	--	255	--
Vestel Elektronica S.R.L.	13.951	516	--
UTS-United Technical Services, Spol. S.R.O	215	141	--
Other related parties	1.628	779	2.212
	<b>15.799</b>	<b>2.079</b>	<b>3.671</b>

\* Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş. and "other related parties" are companies controlled by the majority shareholder of Vestel Elektronik.

\*\* Teds International and L-3 Communications Investments are third party minority shareholders in subsidiary companies of the Group.

b) Sales to and operating expenses from related parties are summarized below:

	2008	2007
<b>Sales</b>		
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	231	59
Vestel Elektronica S.R.L.	10.065	--
UTS- United Technical Services, Spol S.R.O.	5.380	--
L-3 Communications Investments	5.328	--
Other	703	1.180
	<b>21.707</b>	<b>1.239</b>
<b>Operating expense</b>		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	93	1.540
Other	946	1.576
	<b>1.039</b>	<b>3.116</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş. is a company controlled by the majority shareholder of Vestel Elektronik.

#### 27. FINANCIAL INSTRUMENTS

##### Risk management objectives and policies

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result both from its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

##### Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized at the balance sheet date.

Credit risk concerns the risk that a loss will be suffered by a party due to the reason that the other party to the transaction is unable to meet its obligations.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180 day and a 360 day lookout period are identified monthly.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group management considers that all the financial assets shown above under paragraph liquidity risk that are not impaired for each of the reporting dates under review are of good credit quality.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

As of balance sheet dates, the Group's exposure to credit risk is as summarised below:

	Receivables					
	Trade receivables		Other receivables		Bank	Other
2008	Related parties	Other parties	Related parties	Other parties	amounts	
<b>Maximum exposure to credit risk as of 31.12.2008 (A+B+C+D)</b>	<b>13.825</b>	<b>1.134.241</b>	<b>3.058</b>	<b>192.348</b>	<b>339.872</b>	<b>3.276</b>
- Secured portion of maximum credit risk with collateral *	--	565.966	--	--	--	--
A. Carrying amount of financial assets that are not overdue and not impaired	11.722	1.097.390	3.058	192.348	339.872	1.259
B. Carrying amount of financial assets whose terms were renegotiated, otherwise are overdue and impaired	--	20.331	--	--	--	2.017
C. Carrying amount of assets that are overdue but not impaired	2.103	16.520	--	--	--	--
- Carrying amount secured with collateral *	--	(2.250)	--	--	--	--
D. Carrying amount of assets that are impaired	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	29.176	--	--	--	--
- Impairment	--	(29.176)	--	--	--	--
- Carrying amount secured with collateral*	--	--	--	--	--	--
- Not overdue (gross carrying amount)	--	--	--	--	--	--
- Impairment	--	--	--	--	--	--
- Carrying amount secured with collateral *	--	--	--	--	--	--
<b>Maximum exposure to credit risk as of 31.12.2007 (A+B+C+D)</b>	<b>15.799</b>	<b>1.103.302</b>	<b>2.079</b>	<b>201.352</b>	<b>483.395</b>	<b>28.735</b>
- Secured portion of maximum credit risk with collateral *	--	509.928	--	--	--	--
A. Carrying amount of financial assets that are not overdue and not impaired	15.799	1.075.458	2.079	201.352	483.395	16.061
B. Carrying amount of financial assets whose terms were renegotiated, otherwise are overdue and impaired	--	8.841	--	--	--	12.674
C. Carrying amount of assets that are overdue but not impaired	--	19.003	--	--	--	--
- Carrying amount secured with collateral *	--	--	--	--	--	--
D. Carrying amount of assets that are impaired	--	--	--	--	--	--
- Overdue (gross carrying amount)	--	20.668	--	--	--	--
- Impairment	--	(20.668)	--	--	--	--
- Carrying amount secured with collateral*	--	--	--	--	--	--
- Not overdue (gross carrying amount)	--	--	--	--	--	--
- Impairment	--	--	--	--	--	--
- Carrying amount secured with collateral *	--	--	--	--	--	--

(\*) Local sales are realized through the marketing company named Vestel Dayanıklı Tüketim Pazarlama A.Ş. and the receivables of this company is secured to the extent of 90% as a result of the security obtained from dealers together with the direct collection system organised through Garanti Bankası A.Ş. Export sales are realized through the foreign marketing company Vestel Dış Ticaret A.Ş. and receivables of this company have been secured by Turkish Eximbank and other international insurance institutions.

As of the balance sheet dates, aging of overdue trade receivables is given below:

	2008	2007
Not more than 30 days	9.930	3.457
Within 1 month to 3 months	8.407	14.869
Within 3 months to 12 months	6.939	17.689
Within 1 year to 5 years	42.854	12.497
	<b>68.130</b>	<b>48.512</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### Interest rate risk

Interest rate risk arises because changes in interest rates may affect profitability as disclosed in financial statements.

The Group is subject to interest rate risk as a result of differences in balancing off the dates or timing differences related to assets and liabilities maturing or to be subjected to price revision. The Group manages its interest rate risk by applying risk management strategies whereby its strives to balance off the dates of changes in interest rates related to assets and liabilities.

#### Fixed interest rate financial instruments

Financial assets-time deposits

- Time deposits	181.843	320.385
Financial liabilities	346.870	266.590

#### Variable interest rate financial instruments

Financial liabilities	366.924	395.775
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As of balance sheet dates, the Group's annual effective interest rates are as follows:

2008 (%)	USD	EUR	TL
<b>Assets</b>			
Cash and cash equivalents	2,8	3,5	15,0
Trade receivables	1,2	2,8	16,6
<b>Liabilities</b>			
Borrowings	4,6	5,6	26,0
Trade payables	1,2	2,8	16,4
<b>2007 (%)</b>			
<b>Assets</b>			
Cash and cash equivalents	4,8	4,4	17,7
Trade receivables	4,7	3,9	14,7
<b>Liabilities</b>			
Borrowings	4,9	6,0	0,0
Trade payables	4,7	4,0	14,6

#### Foreign currency risk

The majority of the Group's transactions are carried out in Euros and US Dollars. Exposure to currency exchange rates arise from the Group's overseas sales and purchases, trade receivables, bank loans and trade payables which are primarily denominated in US Dollars and Euros.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group manages its currency exposure risk by organizing a balanced distribution between its foreign currency assets and commitments and by matching off the liabilities and receivables and its net currency position.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

The net currency position of the Group as of the balance sheet dates are shown below:

	USD	EUR	Other currencies TL equivalent	TL equivalent
<b>31.12.2008</b>				
Cash and cash equivalents	136.867	50.195	8.585	323.026
Trade receivables	185.725	183.230	18.790	691.921
Inventories	32.137	16.180	381	83.620
Other receivables	3.423	10.442	256	27.787
<b>Total foreign currency assets</b>	<b>358.152</b>	<b>260.047</b>	<b>28.012</b>	<b>1.126.354</b>
Current borrowings	107.230	66.578	--	304.696
Non-current borrowings	221.244	33.608	--	406.537
Trade payables	1.074.708	106.419	11.926	1.865.029
Advance received	4.123	2.644		11.895
Other liabilities	22.210	7.686	78	50.120
<b>Total foreign currency liabilities</b>	<b>1.429.515</b>	<b>216.935</b>	<b>12.004</b>	<b>2.638.277</b>
<b>Net foreign currency position</b>	<b>(1.071.363)</b>	<b>43.112</b>	<b>16.008</b>	<b>(1.511.923)</b>
Derivatives				
Assets	236.726	6.400	--	371.702
Liabilities	--	(156.580)	(12.671)	(347.877)
	<b>236.726</b>	<b>(150.180)</b>	<b>(12.671)</b>	<b>23.825</b>
	USD	EUR	Other currencies TL equivalent	TL equivalent
<b>31.12.2007</b>				
Cash and cash equivalents	184.430	139.343	8.025	461.135
Trade receivables	87.588	322.174	35.031	688.027
Inventories	117.695	106.475	44.408	363.581
Other receivables	4.106	8.565	11.054	30.484
<b>Total foreign currency assets</b>	<b>393.819</b>	<b>576.557</b>	<b>98.518</b>	<b>1.543.227</b>
Current borrowings	112.890	59.078	--	232.517
Non-current borrowings	287.708	52.756	--	425.316
Current lease payables	610	165	--	992
Non-current lease payables	--	59	--	101
Trade payables	1.167.375	342.765	22.314	1.968.152
Advance received	7.799	4.254	3.587	19.946
Other liabilities	31.755	5.069	--	45.654
<b>Total foreign currency liabilities</b>	<b>1.608.137</b>	<b>464.146</b>	<b>25.901</b>	<b>2.692.678</b>
<b>Net foreign currency position</b>	<b>(1.214.318)</b>	<b>112.411</b>	<b>72.617</b>	<b>(1.149.451)</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

On basis of the above an increase of 1% in the foreign exchange rates against the Turkish Lira as of 31 December 2008 will amount to a loss of TL 15.119 (2007: TL 11.494) and a decrease will amount to profit of the same amount.

#### Liquidity risk

Liquidity risk comprises the risk that the Group becomes unable to find its payment requirements.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day projection.

The breakdown of liabilities according to their contractual maturity is based on the maturity dates from the date of the balance sheet is given below:

	Book value	Total cash out flow	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years
<b>2008</b>						
<b>Contractual maturities</b>						
Borrowings	713.794	816.095	66.828	242.254	498.426	8.587
Trade payables	1.260.946	1.263.366	241.729	1.021.637	--	--
	<b>1.974.740</b>	<b>2.079.461</b>	<b>308.557</b>	<b>1.263.891</b>	<b>498.426</b>	<b>8.587</b>
Derivative cash inflow	371.702	371.702	205.698	166.004	--	--
Derivative cash outflow	(371.702)	(362.987)	(200.263)	(162.724)	--	--
	--	<b>8.715</b>	<b>5.435</b>	<b>3.280</b>	--	--
<b>Expected maturities</b>						
Trade payables	735.592	735.592	707.131	27.069	1.392	--
Other liabilities	108.689	108.689	51.789	56.837	63	--
	<b>844.281</b>	<b>844.281</b>	<b>758.920</b>	<b>83.906</b>	<b>1.455</b>	--
<b>2007</b>						
<b>Contractual maturities</b>						
Borrowings	662.365	662.364	22.961	213.986	415.730	9.687
Trade payables	1.106.520	1.110.279	132.048	978.231	--	--
	<b>1.768.885</b>	<b>1.772.643</b>	<b>155.009</b>	<b>1.192.217</b>	<b>415.730</b>	<b>9.687</b>
<b>Expected maturities</b>						
Trade payables	956.315	956.315	921.469	34.846	--	--
Other liabilities	109.545	109.545	63.782	45.651	112	--
	<b>1.065.860</b>	<b>1.065.860</b>	<b>985.251</b>	<b>80.497</b>	<b>112</b>	--

However expected maturities may differ from contractual liabilities in response to changes in term that may occur in the ordinary course of business.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### Capital risk management

The Group's capital management objectives are:

- ensure the Group's ability to continue as a going concern; and
- to provide an adequate return to shareholders,

by pricing products and services commensurately with the level of risk

The Group monitors capital on the basis of the carrying amount of equity plus its total of current and non current borrowings (net debt) less cash and cash equivalents as presented on the face of the consolidated balance sheet.

The Group sets the amounts of capital in proportion to its overall financing structure i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital to overall or financing ratio developed as follows:

	2008	2007
Total borrowings (note 13)	713.794	662.365
Less: Cash and cash equivalents	(343.148)	(512.130)
<b>Net debt</b>	<b>370.646</b>	<b>150.235</b>
Total equity	919.483	1.344.354
<b>Overall financing</b>	<b>1.290.129</b>	<b>1.494.589</b>
<b>Capital to overall financing ratio</b>	<b>29%</b>	<b>10%</b>

#### 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.

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Notes to Consolidated Financial Statements for Year Ended 31 December 2008

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

#### 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.

#### 28. POST BALANCE SHEET EVENTS

According to the decision of the Board of Vestel Elektronik dated 04.02.2009 its share capital will be increased from TL 175,456 to TL 335,456; the increase will be met in cash and it has been decided that all of the new shares to be issued will be allocated to Collar Holding B.V. It has furthermore been decided that the shares currently held by Collar Holding B.V. will not be sold at the Istanbul Stock exchange for a period of six months following date on which the newly issued shares are quoted at the İstanbul Stock Exchange ("ISE").

The Group's new capital structure is as follows:

	Before share capital increase		Cash increase	After share capital increase	
	Shareholding %	Shareholding amount		Shareholding %	Shareholding amount
Collar Holding B.V.	51,59%	90.520	160.000	74,68%	250.520
Other shareholders	48,41%	84.936	--	25,32%	84.936
	<b>100,00%</b>	<b>175.456</b>	<b>160.000</b>	<b>100,00%</b>	<b>335.456</b>

## Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi

### Investor Information

#### Ordinary General Meeting

In line with a resolution passed at a meeting of the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş., the Company's ordinary general meeting for 2008 will be held on 27 May 2009 at 09:30 am at the address of Zorlu Plaza, Avcılar-İstanbul.

#### Independent Auditor

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

#### Financial Information and Company News

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

#### Investor Relations

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#### Share Information

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

As of 31 December 2008, Vestel Electronics' market value was on the order of USD 97.5 million. The average trading volume of the Company's shares on ISE was worth about USD 3.1 million in 2008.

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### Dexar Multimedia and Telecommunications

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