**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT 1 JANUARY – 31 DECEMBER 2013 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**(ORIGINALLY ISSUED IN TURKISH)**

**CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH**

**INDEPENDENT AUDITOR'S REPORT**

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

*Introduction*

1. We have audited the accompanying consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi ("the Company") and its Subsidiaries (collectively referred to as the "Group") as at 31 December 2013 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

*Management's responsibility for the financial statements*

2. The Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to error and/or fraud.

*Independent auditor's responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

*Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers*
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An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error and/ or fraud. In making those risk assessments, the Group's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design procedures that are appropriate for the circumstances in order to identify the relation between the consolidated financial statements prepared by the Group and its internal control system. An audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group's management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards (Note 2).

*Other matter*

5. The consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi as at and for the year ended 31 December 2012 were audited by other auditors whose report, dated 12 April 2013, expressed an unqualified opinion on those statements.

*Reports on independent auditor's responsibilities arising from other regulatory requirements*

6. In accordance with Article 402 of the Turkish Commercial Code ("TCC"); the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit, additionally, no significant matter has come to our attention that causes us to believe that the Group's bookkeeping activities for the period 1 January - 31 December 2013 are not in compliance with the code and provisions of the Group's articles of association in relation to financial reporting.

7. Pursuant to Article 378 of Turkish Commercial Code no. 6102, Board of Directors of publicly traded companies are required to form an expert committee, and to run and to develop the necessary system for the purposes of: early identification of causes that jeopardize the existence, development and continuity of the company; applying the necessary measures and remedies in this regard; and, managing the related risks. According to subparagraph 4, Article 398 of the code, the auditor is required to prepare a separate report explaining whether the Board of Directors has established the system and authorized committee stipulated under Article 378 to identify risks that threaten or may threaten the company and to provide risk management, and, if such a system exists, the report, the principles of which shall be announced by the POA, shall describe the structure of the system and the practices of the committee. This report shall be submitted to the Board of Directors along with the auditor's report. Our audit does not include evaluating the operational efficiency and adequacy of the operations carried out by the management of the Group in order to manage these risks. As of the balance sheet date, POA has not announced the principles of this report yet so no separate report has been drawn up relating to it. On the other hand, the Group formed the mentioned committee on 15 March 2013 and it is comprised of two members. The committee has met three times since its formation to the reporting date for the purposes of early identification of risks that jeopardize the existence of the Group and its development, applying the necessary measures and remedies in this regard, and managing the risks, and has submitted the relevant reports to the Board of Directors.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Talar Gül
Partner

Istanbul, 11 March 2014

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD**
**1 JANUARY – 31DECEMBER 2013**

**CONTENTS** **PAGE**

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED BALANCE SHEETS AS OF 31DECEMBER 2013 AND 2012**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Notes | Audited 31 December 2013 | Audited 31 December 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 350.978 | 333.008 |
| Derivative financial instruments | 30 | 491 | 681 |
| Trade receivables | | 1.627.968 | 1.468.792 |
| Related parties | 8 | 48.440 | 60.313 |
| Other parties | 9 | 1.579.528 | 1.408.479 |
| Other receivables | | 156.669 | 133.166 |
| Related parties | 8 | 4.269 | - |
| Other parties | 10 | 152.400 | 133.166 |
| Inventories | 11 | 1.268.452 | 1.007.022 |
| Prepaid expenses | 12 | 61.277 | 47.141 |
| Current income tax assets | | 7.636 | 29.702 |
| Receivables from ongoing projects | | - | 12.024 |
| Other current assets | 21 | 36.512 | 37.940 |
| **Total current assets** | | **3.509.983** | **3.069.476** |
| **Non-current assets** | | | |
| Financial investments | 6 | 2.452 | 13.464 |
| Trade receivables | | 99.382 | 2.201 |
| Other parties | 9 | 99.382 | 2.201 |
| Other receivables | | 159.382 | 73.780 |
| Related parties | 8 | 143.417 | 59.848 |
| Other parties | 10 | 15.965 | 13.932 |
| Prepaid expenses | 12 | 4.541 | 6.352 |
| Property, plant and equipment | 13 | 1.376.499 | 1.266.859 |
| Intangible assets | | 433.299 | 403.688 |
| Goodwill | 15 | 202.433 | 202.433 |
| Other intagible assets | 14 | 230.866 | 201.255 |
| Other non-current assets | 21 | 9.991 | 10.596 |
| Deferred tax asset | 28 | 41.279 | 69.559 |
| **Total non-current assets** | | **2.126.825** | **1.846.499** |
| **TOTAL ASSETS** | | **5.636.808** | **4.915.975** |

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED BALANCE SHEETS AS OF 31DECEMBER 2013 AND 2012**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Notes | Audited 31 December 2013 | Audited 31 December 2012 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Short term financial liabilities | 7 | 265.296 | 513.222 |
| Short term portion of long term financial liabilities | 7 | 296.172 | 96.308 |
| Trade payables | | 2.815.631 | 2.139.683 |
| Related parties | 8 | 3.017 | 1.342 |
| Other parties | 9 | 2.812.614 | 2.138.341 |
| Liabilities for employee benefits | 19 | 41.919 | 17.345 |
| Other payables | | 4.455 | 5.756 |
| Related parties | 8 | - | 2.665 |
| Other parties | | 4.455 | 3.091 |
| Derivative financial instruments | 30 | 16.562 | 31.636 |
| Current income tax liabilities | 28 | 970 | 361 |
| Short term provisions | | 128.043 | 109.520 |
| Other short term provisions | 17 | 128.043 | 109.520 |
| Liabilities of ongoing projects | | - | 882 |
| Other current liabilities | 21 | 105.266 | 102.718 |
| **Total current liabilities** | | **3.674.314** | **3.017.431** |
| **Non-current liabilities** | | | |
| Long term financial liabilities | 7 | 438.549 | 387.269 |
| Trade payables | | 20.381 | - |
| Other parties | | 20.381 | - |
| Other payables | | - | 20.246 |
| Other parties | | - | 20.246 |
| Long term provisions | | 61.408 | 63.264 |
| Provision for employee benefits | 19 | 40.262 | 41.529 |
| Other long term provisions | 17 | 21.146 | 21.735 |
| Derivative financial instruments | 30 | 36.075 | - |
| Other non-current liabilities | | 750 | 11.810 |
| Deferred tax liability | 28 | 60.141 | 74.273 |
| **Total non-current liabilities** | | **617.304** | **556.862** |
| **TOTAL LIABILITIES** | | **4.291.618** | **3.574.293** |

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

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED BALANCE SHEETS AS OF 31DECEMBER 2013 AND 2012**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Notes | Audited 31 December 2013 | Audited 31 December 2012 |
|---|---|---|---|
| **EQUITY** | | | |
| Paid in capital | 22 | 335.456 | 335.456 |
| Adjustments to share capital | 22 | 688.315 | 688.315 |
| Share premium | 22 | 95.566 | 79.191 |
| Other comprehensive income/expense not to be reclassified to profit or loss | | 442.413 | 359.694 |
| Revaluation gain/loss | | 442.413 | 359.694 |
| - Revaluation of tangible fixed assets | 22 | 443.773 | 361.794 |
| - Actuarial gain/loss arising from defined benefit plans | | (1.360) | (2.100) |
| Other comprehensive income/expense to be reclassified to profit or loss | | 11.641 | 27.684 |
| Foreign currency translation differences | | 24.237 | 27.132 |
| Cash flow hedges | | (12.960) | - |
| Financial assets revaluation fund | 22 | 364 | 552 |
| Restricted reserves | 22 | 28.314 | 22.348 |
| Accumulated deficit | 22 | (239.297) | (136.346) |
| Net loss for the period | | (99.721) | (110.725) |
| **Non-controlling interest** | | **82.503** | **76.065** |
| **Total equity** | | **1.345.190** | **1.341.682** |
| **TOTAL LIABILITIES AND EQUITY** | | **5.636.808** | **4.915.975** |

Consolidated financial statements for the period 1 January - 31 December 2013, were approved by the Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.Ş. on 11 March 2014.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIODS**
**1 JANUARY - 31 DECEMBER 2013 AND 2012**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Notes | Audited 1 January - 31 December 2013 | Audited 1 January - 31 December 2012 |
|---|---|---|---|
| Revenue | 23 | 6.217.957 | 7.028.972 |
| Cost of sales | | (5.133.478) | (6.190.414) |
| **Gross profit** | | **1.084.479** | **838.558** |
| Marketing, selling and distribution expenses | 24 | (671.219) | (672.137) |
| General administrative expenses | 24 | (161.283) | (169.686) |
| Research and development expenses | 24 | (96.220) | (69.737) |
| Other income from operating activities | 25 | 429.675 | 494.781 |
| Other expenses from operating activities | 25 | (414.700) | (521.527) |
| **Operating profit / (loss)** | | **170.732** | **(99.748)** |
| Financial income | 26 | 188.556 | 311.506 |
| Financial expenses | 26 | (462.128) | (363.563) |
| **(Loss) / profit before tax** | | **(102.840)** | **(151.805)** |
| **Tax (expense) / benefit** | | | |
| Current tax expense | 28 | (2.379) | (7.428) |
| Deferred tax benefit | 28 | 11.734 | 35.240 |
| **Net (loss) / income for the period** | | **(93.485)** | **(123.993)** |
| **Attributable to:** | | | |
| Non-controlling interests | | 6.236 | (13.268) |
| Equity holders of the parent | | (99.721) | (110.725) |
| **Net (loss) / income for the period** | | **(93.485)** | **(123.993)** |
| **(Loss) / earnings per 100 shares with a Kr 1 of face value (TL)** | 29 | **(0,30)** | **(0,33)** |

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

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIODS**
**1 JANUARY - 31 DECEMBER 2013 AND 2012**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Audited 1 January - 31 December 2013 | Audited 1 January - 31 December 2012 |
|---|---|---|
| **Other comprehensive income / (loss)** | | |
| **Items not to be reclassified to profit or loss** | **108.143** | **359.694** |
| Revaluation of tangible fixed assets | 130.635 | 431.140 |
| Actuarial gain /(loss) arising from defined benefit plans | 1.187 | (2.625) |
| Tax effect of other comprehensive income not to be reclassified to profit or loss | (23.679) | (68.821) |
| Deferred tax income / loss | (23.679) | (68.821) |
| **Items to be reclassified to profit or loss** | **15.042** | **(11.608)** |
| Currency translation differences | 28.672 | (11.414) |
| Fair value increase / decrease on available for sale financial assets | (235) | (243) |
| Cash flow hedges | (16.802) | - |
| Tax effect of other comprehensive income/ expense to be reclassified to profit or loss | 3.407 | 49 |
| Deferred tax income / loss | 3.407 | 49 |
| **Other comprehensive income** | **123.185** | **348.086** |
| **Total comprehensive income** | **29.700** | **224.093** |
| **Attributable to:** | | |
| Non-controlling interests | 8.965 | 10.027 |
| Equity holders of the parent | 20.735 | 214.066 |

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

## VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2013 AND 2012

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | | | | Other comprehensive loss not to be reclassified to profit or loss | | Other comprehensive loss to be reclassified to profit or loss | | | | Accumulated deficit / Retained Earnings | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Paid in capital | Adjustments to share capital | Share premium | Fixed assets revaluation fund | Actuarial loss on employee benefits | Currency translation differences | Financial assets revaluation fund | Cash flow hedge fund | Restricted reserves | Accumulated deficit | Net loss for the period | Equity holders of the parent | Non-controlling interests | Total equity |
| **Balances at 1 January 2012** | 335.456 | 688.315 | 79.191 | - | - | 38.508 | 746 | - | 17.511 | (134.200) | (35.439) | 990.088 | 141.850 | 1.131.938 |
| Transfer to accumulated deficit | - | - | - | - | - | - | - | - | - | (35.439) | 35.439 | - | - | - |
| Transfer to restricted reserves | - | - | - | - | - | - | - | - | 4.837 | (4.837) | - | - | - | - |
| Total comprehensive income | - | - | - | 361.794 | - | (11.376) | (194) | - | - | - | (112.825) | 237.399 | (13.306) | 224.093 |
| Dividends | - | - | - | - | - | - | - | - | - | - | - | - | (2.066) | (2.066) |
| Transactions with non-controlling interests | - | - | - | - | - | - | - | - | - | 38.130 | - | 38.130 | (50.413) | (12.283) |
| **Balances at 31 December 2012** | 335.456 | 688.315 | 79.191 | 361.794 | - | 27.132 | 552 | - | 22.348 | (136.346) | (112.825) | 1.265.617 | 76.065 | 1.341.682 |
| Impact of amendment in TAS 19 (note 2.4) | - | - | - | - | (2.100) | - | - | - | - | - | 2.100 | - | - | - |
| | 335.456 | 688.315 | 79.191 | 361.794 | (2.100) | 27.132 | 552 | - | 22.348 | (136.346) | (110.725) | 1.265.617 | 76.065 | 1.341.682 |
| Correction (note 2.3) | - | - | 2.887 | (23.529) | - | (31.567) | - | - | - | 22.015 | - | (30.194) | 69.974 | 39.780 |
| Transfer to accumulated deficit | - | - | - | - | - | - | - | - | - | (110.725) | 110.725 | - | - | - |
| Transfer to restricted reserves | - | - | - | - | - | - | - | - | 5.966 | (5.966) | - | - | - | - |
| Depreciation transfer - net (note 27) | - | - | - | (10.341) | - | - | - | - | - | 10.341 | - | - | - | - |
| Total comprehensive (loss) / income | - | - | - | 104.075 | 857 | 28.672 | (188) | (12.960) | - | - | (99.721) | 20.735 | 8.965 | 29.700 |
| Dividends | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transactions with non-controlling interests | - | - | 13.488 | 11.774 | (117) | - | - | - | - | (18.616) | - | 6.529 | (72.501) | (65.972) |
| **Balances at 31 December 2013** | 335.456 | 688.315 | 95.566 | 443.773 | (1.360) | 24.237 | 364 | (12.960) | 28.314 | (239.297) | (99.721) | 1.262.687 | 82.503 | 1.345.190 |

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

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS**
**1 JANUARY - 31 DECEMBER 2013 AND 2012**
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| | Notes | Audited 1 January - 31 December 2013 | Audited 1 January - 31 December 2012 |
|---|---|---|---|
| **Operating activities:** | | | |
| **Loss before tax** | | **(102.840)** | **(151.805)** |
| **Adjustments to reconcile net cash provided from operating activities to loss before taxes:** | | | |
| - Depreciation and amortization | 13 | 237.827 | 187.804 |
| - Goodwill impairment | | - | 5.129 |
| - Impairment of subsidiaries | 6 | 10.767 | - |
| - Changes in other provisions | | 22.036 | 31.398 |
| - Provision for employment termination benefits | 19 | 14.972 | 13.124 |
| - Provision for impairment on inventories | 11 | (8.331) | (2.632) |
| - Provision for doubtful receivables | 9 | (42.083) | 41.362 |
| - Interest expense | 26 | 116.456 | 108.658 |
| - Interest income | 26 | (12.591) | (39.523) |
| - (Gain) / loss from sales of tangible and intangible assets | | (4.080) | (384) |
| - Derivative financial instruments (income) / expense accrual | | 4.389 | 93.413 |
| - Unrealized foreign exchage differences | | 46.887 | (3.240) |
| Change in blocked cash and cash equivalents | 5 | (41.957) | (1.145) |
| **Changes in working capital:** | | | |
| (Increase) / decrease in trade receivables | | (222.384) | 437.583 |
| (Increase) / decrease in inventories | | (269.007) | 194.046 |
| (Increase) / decerase in other receivables and other current assets | | 64.303 | (44.909) |
| (Increase) / decrease in other non-current assets | | (85.172) | 2.559 |
| Increase / (decrease) in trade payables | | 703.672 | (769.967) |
| Increase / (decrease) in other payables and other liabilities | | 29.211 | 15.438 |
| **Cash flows from operating activities** | | | |
| Employment termination benefits paid | 19 | (11.835) | (7.266) |
| Current income tax paid | 28 | (3.098) | (10.767) |
| **Net cash provided by operating activities** | | **447.142** | **98.876** |

**VESTEL ELEKTRONİK SANAYİ VE TİCARET ANONİM ŞİRKETİ**
**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS**
**1 JANUARY - 31 DECEMBER 2013 AND 2012**
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

| **Investing activities:** | **Notes** | **1 January - 31 December 2013** | **1 January - 31 December 2012** |
|---|---|---|---|
| Changes in financial assets | | 245 | (6.688) |
| Acquisition of tangible assets | 13 | (204.978) | (228.735) |
| Cash provided from sales of tangible and intangible assets | | 12.007 | 7.996 |
| Acquisition of intangible assets | 14 | (73.105) | (80.544) |
| Increase in other receivables from related parties | | (87.838) | (59.848) |
| Transactions with non-controlling interests | | (65.972) | (12.283) |
| Correction (note 2.3) | | (10.927) | - |
| **Net cash used in investing activities** | | **(430.568)** | **(380.102)** |
| **Financing activities:** | | | |
| Proceeds from bank borrowings | | 1.067.934 | 1.882.629 |
| Repayment of bank borrowings | | (1.036.658) | (1.688.611) |
| Dividends paid | | - | (2.066) |
| Interest paid | | (92.330) | (98.073) |
| Interest received | | 12.591 | 39.523 |
| **Net cash provided by financing activities** | | **(48.463)** | **133.402** |
| **Net (decrease) / increase in cash and cash equivalents before foreign currency translation differences** | | **(31.889)** | **(147.824)** |
| Effect of currency translation differences on cash and cash equivalents | | 7.902 | (8.415) |
| **Net (decrease) / increase in cash and cash equivalents** | | **(23.987)** | **(156.239)** |
| **Cash and cash equivalents at the beginning of the period** | 5 | **331.677** | **487.916** |
| **Cash and cash equivalents at the end of the period** | 5 | **307.690** | **331.677** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 1 – GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi ("Vestel Elektronik" or "the Company") and its subsidiaries (together "the Group"), mainly produce and sell a range of brown goods and white goods. The Company's head office is located at Ambarlı Yolu, Zorlu Plaza, Avcılar / Istanbul- Turkey. The Group's production facilities are located in Manisa Organized Industrial Zone, İzmir Aegean Free Zone and Russia.

The ultimate controller of the Company is Zorlu Family.

Vestel Elektronik, is registered to Capital Market Board ("CMB") and its shares have been quoted to Borsa Istanbul ("BİST") since 1990 (note 22). As of 31 December 2013, 35,59 % of the Company's shares are publicly traded.

As of 31 December 2013 the number of personnel employed at Group is 13.673 (31 December 2012: 13.693).

The Company's subsidiaries and associates are as follows:

| Subsidiaries | Country | Nature of operations |
|---|---|---|
| Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. | Turkey | Production |
| Vestel Komünikasyon Sanayi ve Ticaret A.Ş. | Turkey | Sales |
| Vestel Ticaret A.Ş. | Turkey | Sales |
| Vestel CIS Ltd. | Russia | Production/ Sales |
| Deksar Multimedya ve Telekomünikasyon A.Ş. | Turkey | Communication |
| Vestel Iberia SL | Spain | Sales |
| Vestel France SA | France | Sales |
| Vestel Holland BV | Holland | Sales |
| Vestel Germany GmbH | Germany | Sales |
| Cabot Communications Ltd. | UK | Software |
| Vestel Benelux BV | Holland | Sales |
| Vestel UK Ltd. | UK | Sales |
| Vestek Elektronik Araştırma Geliştirme A.Ş. | Turkey | Consultancy |
| Vestel Trade Ltd. | Russia | Sales |
| OY Vestel Scandinavia AB | Finland | Sales |
| Intertechnika LLC | Russia | Service |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

| Investements accounted for using equity method | Country | Nature of operations |
|---|---|---|
| Vestel Savunma Sanayi A.Ş. | Turkey | Production/ Sales |
| Aydın Yazılım Elektronik ve Sanayi A.Ş. | Turkey | Software |

(*) Refer to: note 2.1.3

### 2.1 Basis of presentation

### 2.1.1 Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, "Principals of Financial Reporting in Capital Markets" published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, consolidated financial statements are prepared in accordance with Turkish Accounting Standards / Turkish Financial Reporting Standards ("TAS" / "TFRS") and its addendum and interpretations ("IFRIC") issued by the Public Oversight Accounting and Auditing Standards Authority ("POAASA") Turkish Accounting Standards Board.

The Company and its subsidiaries operating in Turkey maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. The consolidated financial statements, except for land, buildings and land improvements and the financial assets and liabilities presented with their fair values, are maintained under historical cost conversion in TL. Consolidated subsidiaries operating in foreign countries have prepared their financial statements in accordance with the laws and regulations of the countries in which they operate with the required adjustments and reclassifications reflected in accordance with CMB Financial Reporting Standards. These financial statements are based on the statutory records which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/TFRS.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, TAS 29, "Financial Reporting in Hyperinflationary Economies" issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.1.2 Currency used

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are prepared and presented in Turkish Lira ("TL"), which is the functional currency of the parent company.

ii) Transactions and balances

Transactions in foreign currencies have been translated into functional currency at the exchange rates prevailing at the date of the transaction. Exchange gains or losses arising from the settlement and translation of monetary assets and liabilities denominated in foreign currency at the exchange rates prevailing at the balance sheet dates are included in consolidated comprehensive income, except for the effective portion of foreign currency hedge of cash flow and net investment which are included under shareholders equity.

iii) Translation of financial statements of subsidiaries operating in foreign countries

Assets and liabilities of subsidiaries operating in foreign countries are translated into TL at the exchange rates prevailing at the balance sheet dates. Comprehensive income items of those subsidiaries are translated into TL using average exchange rates for the period (if the average exchange rates for the period do not reasonably reflect the exchange rate fluctuations, transactions are translated using the exchange rates prevailing at the date of the transaction). Exchange differences arising from using average and balance sheet date rates are included in "currency translation differences" under the shareholders' equity.

The balance sheet date rates and average rates used for translation of income statement items for the related periods are as follows:

| Period end: | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Turkish Lira / EUR | 0,3405 | 0,4252 |
| Turkish Lira / GBP | 0,2848 | 0,3483 |
| Turkish Lira / RUB | 15,437 | 17,2176 |

| Average: | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Turkish Lira / EUR | 0,3960 | 0,4339 |
| Turkish Lira / GBP | 0,3366 | 0,3524 |
| Turkish Lira / RUB | 16,8634 | 17,4668 |

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.1.3 Basis of consolidation

The consolidated financial statements include the accounts of the parent, Company, and its subsidiaries from the date on which the control is transferred to the Group until the date that the control ceases. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with CMB Financial Reporting Standards by applying uniform accounting policies and presentation.

**a) Subsidiaries**

The Group has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the entity's returns. On the other hand, the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In order to be consistent with accounting policies accepted by the Group, accounting policies of the subsidiaries are modified where necessary.

The balance sheet and statement of income of the subsidiaries are consolidated on a line-by-line basis and all material intercompany payable /receivable balances and sales / purchase transactions are eliminated. The carrying value of the investment held by Vestel Elektronik and its subsidiaries is eliminated against the related shareholders' equity.

The non-controlling share in the net assets and results of subsidiaries for the period are separately classified as "non-controlling interest" in the consolidated statements of comprehensive income and the consolidated statements of changes in shareholders' equity.

As of the balance sheet date, consolidated companies and the proportion of ownership interest of Vestel Elektronik in these subsidiaries are disclosed in note 3.

Financial assets in which the Group has direct or indirect voting rights equal to or above 50% which are immaterial to the Group financial results or over which a significant influence is not exercised by the Group are carried at cost less any provisions for impairment.

Vestel Elektronik has 99.9% control over Deksarnet. In order to sell Deksarnet shares, "Share Transfer Service Agreement" is signed on 7 March 2013. Transfer of shares hold on 1 July 2013 after the permissions by the Competition Board and other relevant authorities. According to "Share Transfer Agreement", the purchase price is determined as USD 1.750.000. As of 30 June 2013 Deksarnet has net assets of 2.872 thousand TL and net income of 114 thousand TL.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### b) Investments in associates

Investments in associates are accounted for by the equity method and are initially recognized at cost. These are entities in which the Group has an interest which is more than 20% and less than 50% of the voting rights or over which a significant influence is exercised. Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates, whereas unrealized losses are eliminated unless they do not address any impairment of the asset transferred. Net increase or decrease in the net asset of associates are included in the consolidated statements of comprehensive income in regards with the Group's share.

The Group ceases to account the associate using the equity method if it loses the significant influence or the net investment in the associate becomes nil, unless it has entered to a liability or a commitment. After the Group's interest in the associates becomes nil, additional losses are provided for, and a liability recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognized.

Since Vestel Savunma and Aydın Yazılım has net liability position as of 31 December 2013, carrying value of those investment in associates accounted for by equity method is resulted as nil in the consolidated balance sheets.

The Group's voting rights and effective ownership rates in Vestel Savunma and Aydın Yazılım are 35% and 21% respectively (31 December 2012: 35%, 21%).

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

**2.2 Changes in accounting policies**

Consolidated financial statements of the Group have been prepared comparatively with the preceding financial period, in order to enable determination of trends in financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the consolidated financial statements.

In the current period, the Group has made reclassifications in the consolidated statement of comprehensive income as of 31 December 2012 between the net sales and cost of sales mainly related to the outsourced supplier transactions that amount to 395.259 thousand TL; between net sales and other income from operating activities related to term sales transactions that amount to 36.310 thousand TL; between cost of sales and other expenses from operating activities related to term purchases transactions that amount to 17.158 thousand TL; between marketing, selling and distribution expenses and other expenses from operating activities related to doubtful receivables provision that amount to 16.323 thousand TL; between marketing, selling and distribution expenses and net sales related to sales premiums provided to customers that amount to 53.990 thousand TL. These reclassifications have no effect on the retained earnings and net profit /(loss) of the Group. On the other hand, the Group management has made reclassification in the consolidated balance sheet as of 31 December 2012 between legal reserves and accumulated deficit that amount to 39.332 thousand TL which has no effect on total shareholders' equity and net profit /(loss) of the Group.

The Group has made below reclassifications in prior period consolidated financial statements in line with the illustrative financial statements and disclosures guidance issued by CMB with the decision taken on the meeting held on 7 June 2013, numbered 20/670.

The Group has made reclassifications in the consolidated statement of comprehensive income as of 31 December 2012 between finance income and other income from operating activities that amount to 416.156 thousand TL, between finance expense and other expenses from operating activities that amount to 465.268 thousand TL, in the consolidated balance sheet as of 31 December 2012 between other current assets and prepaid expenses that amount to 47.141 thousand TL, between other current assets and current income tax assets that amount to 29.702 thousand TL, between other non-current assets and prepaid expenses that amount to 6.352 thousand TL, between short term employee benefit obligations and other current liabilities that amount to 17.345 thousand TL. These reclassifications have no effect on the retained earnings and net profit /(loss) of the Group.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.3 Restatement and errors in the accounting estimates

The Group management has made some corrections in 2013 related to disposal of Vestel Savunma and Aydın Yazılım from the scope of consolidation, non-controlling interest in share premium and revaluation fund of property, plant and equipment and foreign currency translation differences These corrections are applied on the grounds of materiality as of 1 January 2013 as follows:

| | 1 January 2013 |
|---|---|
| Decrease in revaluation funds | (23.529) |
| Increase in share premium | 2.887 |
| Decrease in currency translation reserves | (31.567) |
| Decrease in accumulated loses | 22.015 |
| Increase in non - controlling interests | 69.974 |
| **Total increase in shareholder's equity** | **39.780** |

The effects of those adjustments are presented as correction in the consolidated statement of changes in the shareholders' equity for the period 1 January – 31 December 2013 on the grounds of materiality.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

**2.4. Amendments in International Financial Reporting Standards**

**a) New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2013 and are adopted by the Group:**

- **TAS 19 (amendment), "Employee benefits"**, is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Actuarial gains and losses arising from the calculations of provision for employment termination benefits will be classified under other comprehensive income without having an effect on the net profit/ loss for the year.

  Interest cost incurred in employment termination benefits is classified as other income from operating activities instead of operational expenses in the income statement.

  As a result of retrospective application of these amendments, actuarial loss classified as general administrative expenses in Group's statement of comprehensive income as of 31 December 2012 amounting to 2.625 thousand TL is restated by presenting in other comprehensive expense and actuarial loss fund in the balance sheet; interest cost classified as general administrative expenses amounting to 2.634 thousand TL is restated by presenting in financial expenses. As a result of the restatement, the Group's net loss of the equity holders of the parent and non-controlling interests are decreased by 2.100 thousand TL and 234 thousand TL respectively as a result of actuarial loss and deferred tax effect related to employment termination benefits as of 31 December 2012 whereas the restatement has no effect on total comprehensive expenses and equity.

- **TAS 1(amendment), "Financial statement presentation"** regarding other comprehensive income, 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

  The amendment does not have a significant impact on the Group's consolidated financial statements.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

- **TFRS 13, "Fair value measurement"** is effective for annual periods beginning on or after 1 January 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

  The amendment does not have a significant impact on the Group's consolidated financial statements.

- **TFRS 7 (amendment), "'Financial instruments: Disclosures'**, on offsetting financial assets and financial liabilities", is effective for annual periods beginning on or after 1 January 2013. The amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.

  The amendment does not have a significant impact on the Group's consolidated financial statements.

- **TFRS 12, "Disclosures of interests in other entities"**, is effective for annual periods beginning on or after 1 January 2013. The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has disclosed necessary explanation within the context of TFRS 12 in note 3.

- **TAS 28, "Associates and joint ventures"**, is effective for annual periods beginning on or after 1 January 2013. The standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11 "Joint arrangements". The amendment does not have a significant impact on the Group's consolidated financial statements.

- **IFRS 10, "Consolidated financial statements"** is effective for annual periods beginning on or after 1 January 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The amendment does not have a significant impact on the Group's consolidated financial statements.

- **TAS 27, "Separate financial statements"**, is effective for annual periods beginning on or after 1 January 2013. The standard includes the provisions on separate financial statements that are left after the control provisions of TAS 27 have been included in the new IFRS 10. The amendment does not have a significant impact on the Group's consolidated financial statements.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

**b) New standards, amendments and interpretations issued and effective as of 1 January 2013 have not been presented since they are not relevant to the operations of the Group or have insignificant impact on the financial statements.**

**c) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group:**

- **TFRS 9, "Financial instruments"** is not applicable until 1 January 2015 but is available for early adoption. This standard is the first step in the process to replace TAS 39, "Financial instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets. "Impairment of financial assets" and TAS 39 hedge accounting provisions relating to the implementation are ongoing.

- **TAS 32 (amendment), "Financial instruments: Presentation"**, on offsetting financial assets and financial liabilities", is effective for annual periods beginning on or after 1 January 2014. The amendment updates the application guidance in TAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any impact on the Group's consolidated financial statements.

- **TAS 36 (amendment), "Impairment on Assets"**, is effective for annual periods beginning on or after 1 January 2014. These amendments address the disclosure of information about the recoverable amount of the impaired assets if that amount is based on fair value less cost of disposal.

- **TAS 39 (amendment), "Financial instruments: Recognition and Measurement"**, is effective for annual periods beginning on or after 1 January 2014. These amendments address on novation of derivatives and hedge accounting and will allow hedge accounting to continue in a situation where a derivative is novated to effect clearing with a central counterparty as result of laws or regulation, if specific conditions are met.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

- **TFRIC 21 – TAS 37, 'Levies'**, is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of "Provisions, contingent liabilities and contingent assets" that identifies the obligating event for the recognition of a liability for levy as the activity that triggers the payment of the levy in accordance with the relevant legislation. The interpretation is not applicable to the Group and will not have any impact on the Group's consolidated financial statements.

**Annual improvements 2012:** Effective for annual periods beginning on or after 1 July 2014. Annual Improvements to TFRSs 2010–2012 Cycle amend the following 7 standards:

- TFRS 2; Share-based Payment
- TFRS 3 Business Combinations
- TFRS 8, Operating Segments
- TMS 16; Property, Plant and Equipment and TMS 38, Intangible Assets
- TFRS 9, Financial Instruments: TMS 37, Provisions, Contingent Liabilities and Contingent Assets
- TMS 39, Financial Instruments: Recognition and Measurement

**Annual improvements 2013;** Effective for annual periods beginning on or after 1 July 2014. Annual Improvements to TFRSs 2011–2013 Cycle amend the following 4 standards:

- TFRS 1; First-time Adoption of TFRS
- TFRS 3, Business Combinations
- TFRS 13, Fair Value Measurement
- TAS 40, Investment Property

The amendments do not have significant impact on the Group's consolidated financial statements.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

**2.5. Summary of significant accounting policies**

**2.5.1 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- Group has transferred to the buyer the significant risks and rewards of ownership of the goods,
- Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**2.5.2 Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory. Group uses moving weighted average method for costing.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.5.3 Property, plant and equipment

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2013 and 2012 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş.

Property, plant and equipment except for land, land improvements and buildings acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of TL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less accumulated amortization and impairment losses, if any.

Any revaluation increase arising on the revaluation of such land, land improvements and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, land improvements and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued land improvements and buildings is charged to profit or loss. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statements of comprehensive income) and the depreciation based on the asset's original cost is transferred from revaluation reserves to the retained earnings.

Land is not depreciated. Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

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 method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate. On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

Subsequent costs such as repairs and maintenance or part replacement of plant and equipment are included in the asset's carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company. All other costs are charged to the statements of comprehensive income during the financial period in which they are incurred.

### 2.5.4 Intangible assets

#### a) Research and development costs

Research costs are recognized as expense in the period in which they are incurred. An intangible asset arising from development (or from the development phase of an internal project) are recognized as intangible assets when the following criteria are met;

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

In other cases, development costs are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. In cases where it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and expensed immediately.

### b) Rights and other intangible assets

Rights and other intangible assets consist acquired computer software, computer software development costs and other identifiable rights. Rights and other intangible assets are recognized at their acquisition costs and are amortized on a straight line basis over their expected useful lives which are less than five years.

### c) Goodwill

Goodwill arising on acquisition is the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities recognized. Within the scope of TFRS 3 "Business Combinations", beginning from 1 January 2005 the Group has stopped amortizing goodwill. Goodwill recognized on acquisitions before 31 December 2004 was being amortized until 31 December 2004 on a straight line basis over their useful lives not to exceed twenty years.

Goodwill is tested for impairment annually or more frequently when there is an indication of impairment. Goodwill arising on acquisitions measured at cost less any impairment losses.

### 2.5.5 Financial instruments

### a) Financial assets

The Group classifies its financial assets into the following specified categories: financial assets as at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Financial assets as at fair value through profit or loss</u>

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified in this category. Loans and receivables (trade and other receivables, bank deposits, cash and others) are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for cases when the recognition of interest would be immaterial.

Available for sale financial assets

Available for sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available- for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value can't be reliably measured.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For financial assets carried at amortized cost, if the amount of a past impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the impairment is reversed through profit or loss. However, the carrying amount should not be increased to an amount that exceeds what the amortized cost would have been at the date of the reversal had the impairment not been recognized.

For financial assets carried at cost, if there is objective evidence of impairment, the amount of the impairment loss is measured as the difference between carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset. Once an impairment loss has been recognized on a financial asset recognized at cost, it is not permitted to recognize a reversal.

For available for sale financial assets, a significant or prolonged decline in the fair value of the assets below its cost is considered as an objective indicator of impairment. Cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

### b) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

<u>Other financial liabilities</u>
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### c) Derivative financial instruments and hedge accounting:

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Derivative financial instruments held for trading

Group's held for trading derivative financial instruments consist of forward foreign currency purchase and sale contracts. Such derivative financial instruments providing effective protection against the risk for the Group economically and due to meeting the conditions for hedge accounting usually, they are accounted as derivative financial instruments held for trading in financial statements. The fair value changes of these derivative instruments are recognized in consolidated income statement as financial income / expense.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity within cash flow hedge reserves.. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income within finance income/ expense. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place or portion related to the accrued interest). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized, in the statement of comprehensive income within finance income/ expense. The Group has evaluated its forward contracts and recognized certain contracts as hedging derivative instruments since they have been carrying necessary hedging conditions regarding to TAS 39.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

**2.5.6 Foreign currency transactions**

Transactions in foreign currencies during the period are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated to TL at the rates prevailing on the balance sheet date. Exchange differences on foreign currency denominated monetary assets and liabilities are recognized in profit or loss in the period in which they arise except for the effective portion of the foreign currency hedge of net investments in foreign operations. on-monetary items which are denominated in foreign currency and measured with historical costs are translated using the exchange rates at the dates of initial transactions.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period. Exchange differences arising are recognized in other comprehensive income and in equity.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

**2.5.7 Provisions, contingent assets and liabilities**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the company are not included in the consolidated financial statements and treated as contingent assets or liabilities.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.5.8 Warranty and assembly expenses provision

Warranty expenses include repair and maintenance expenses of products sold and labor and material costs of authorized services for products under the scope of warranty terms without any charge to the customers. Based on estimations using past statistical information, warranty expense provision is recognized for the products sold with warranty terms in the period, for possible repair and maintenance expenses to be incurred during the warranty period.

Based on estimations using past statistical information, assembly expenses provision is recognized for products sold during the period but not yet installed in the sites of the end customers, against the cost of free of charge installments.

### 2.5.9 Related parties

Shareholders, key management personnel and board members, their close family members and companies controlled, jointly controlled or significantly influenced by them and Zorlu Holding Group companies are considered and referred to as related parties.

### 2.5.10 Taxation on income

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items directly recognized in equity. In that case, tax is recognized in shareholders' equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

**NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**2.5.11 Employee benefits**

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Group arising in case of the retirement of the employees. According to Turkish Labor Law and other laws applicable in Turkey, the Group is obliged to pay employment termination benefits to all personnel in cases of termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Employment termination benefits are considered as being part of defined retirement benefit plan as per TAS 19. All actuarial gains and losses are recognized in consolidated statements of income.

**2.5.12 Government grants**

Government grants, including non-monetary grants at fair value, are recognized in consolidated financial statements when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grants will be received.

Incentives for research and development activities are recognized in consolidated financial statements when they are authorized by the related institutions.

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.5.13 Earnings per share

Earnings per share disclosed in the consolidated statement of income is determined by dividing consolidated net income attributable to equity holder of the parent by the weighted average number of such shares outstanding during the year concerned.

### 2.5.14 Statement of cash flows

In the consolidated statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities. Cash flows from operating activities are those resulting from the Group's production and sales activities. Cash flows from investment activities indicate cash inflows and outflows resulting from property, plant and equipments and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. Cash and cash equivalents comprise of cash in hand accounts, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

### 2.5.15 Segment reporting

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Group Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategical decisions.

The Group management evaluates the operational results at industrial and geographical level. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses.

Group's operations are reported under three industrial segments:

- Television and electronic devices
- White goods
- Other

Group's operations are reported under three geographical segments:

- Turkey
- Europe
- Other

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### 2.5.16 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net if the nature of the transaction or the event qualify for offsetting.

### 2.5.17 Events after the balance sheet date

Events after the balance sheet date, announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue.

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Group makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and that do not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

### 2.6. Critical accounting estimates and judgments

Preparation of consolidated financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although these estimates and assumptions rely on the Group management's best knowledge about current events and transactions, actual outcomes may differ from those estimates and assumptions. Significant estimates of the Group management are as follows:

i. <u>Income Taxes:</u>

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Group recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made (Note 29).

## NOTE 2 – BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

ii. Revaluation of land, buildings and land improvements:

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2013 and 2012 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. (note 13).

As there were no recent similar buying/selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements and machinery and equipment were based on the method of cost approach and based on the following valuation techniques and assumptions:

- Revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements were based on the method of cost approach, considering existing utilization of the aforementioned property, plant and equipments are consistent to the highest and best use approach.

- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m2 sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.

- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.

The carrying values of land, land improvements and buildings do not necessarily reflect the amounts that would result from the outcome of a sales transaction between independent parties.

As of initial recognition and as of balance sheet date, the Group performs impairment assessment for buildings and land improvements of which valuations are based on cost approach, accordance with the TAS 36 "Impairment of Assets", and no impairment indicator is identified.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 3 – INTERESTS IN OTHER ENTITIES

**Subsidiaries:**

As of 31 December 2013 the Group's major subsidiaries are as follows:

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| Consolidated subsidiaries | Voting rights | Effective ownership | Voting rights | Effective ownership |
| Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. | 87,7 | 87,7 | 75,3 | 75,3 |
| Vestel Komünikasyon Sanayi ve Ticaret A.Ş. | 99,4 | 99,4 | 99,4 | 99,4 |
| Vestel Ticaret A.Ş. | 100 | 100 | 100 | 100 |
| Vestel CIS Ltd. | 100 | 100 | 100 | 100 |
| Deksar Multimedya ve Telekomünikasyon A.Ş. | 99,9 | 99,9 | 99,9 | 99,9 |
| Vestel Iberia SL | 100 | 100 | 100 | 100 |
| Vestel France SA | 99,9 | 99,9 | 99,9 | 99,9 |
| Vestel Holland BV | 100 | 100 | 100 | 100 |
| Vestel Germany GmbH | 100 | 100 | 100 | 100 |
| Cabot Communications Ltd. | 90,8 | 90,8 | 90,8 | 90,8 |
| Vestel Benelux BV | 100 | 100 | 100 | 100 |
| Vestel UK Ltd. | 100 | 100 | 100 | 100 |
| Vestek Elektronik Araştırma Geliştirme A.Ş. | 94 | 94 | 94 | 94 |
| Vestel Trade Ltd. | 100 | 100 | 100 | 100 |
| OY Vestel Scandinavia AB | 100 | 100 | 100 | 100 |
| Deksarnet Telekomünikasyon A.Ş. (*) | - | - | 99,9 | 99,9 |
| Intertechnika LLC | 99,9 | 99,9 | 99,9 | 99,9 |

(*) Refer to: note 2.1.3

Financial information of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. which is not wholly owned by the Group and has significant non-controlling interests is as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Accumulated non-controlling interests | 81.277 | 144.968 |
| Comprehensive income attributable to non-controlling interests | 8.965 | 10.027 |

The financial statements of the subsidiary is adjusted to include the effects of revaluation of land, buildings and land improvements in accordance with the Group's accounting policies applied in preparation of the consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 3 – INTERESTS IN OTHER ENTITIES (Cont'd)**

**Condensed balance sheet:**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Current assets | 963.168 | 954.766 |
| Non-current assets | 528.658 | 473.352 |
| Current liabilities | (556.330) | (720.139) |
| Non-current liabilities | (278.014) | (121.541) |
| **Net assets** | **657.482** | **586.438** |

**Condensed statement of comprehensive income:**

| | | |
|---|---|---|
| Net sales | 2.028.695 | 2.143.057 |
| Income / (loss) before tax | 85.095 | (28.611) |
| Tax benefit / (expense) | (762) | (39) |
| Current tax expense | (1.669) | - |
| Deferred tax benefit | 907 | (39) |
| Net income / (loss) for the period | 49.548 | (17.544) |
| Total comprehensive income | 75.552 | 76.704 |

**Condensed statement of cash flows:**

| | | |
|---|---|---|
| **Operating activities:** | | |
| Interest expense | (16.302) | (20.488) |
| Current income tax paid | (2.180) | (2.997) |
| **Net cash provided by / (used in) operating activities** | **238.092** | **(380)** |
| **Investing activities:** | | |
| Acquisition of tangible and intangible assets | (87.619) | (77.099) |
| **Net cash used in investing activities** | **(105.211)** | **(95.386)** |
| **Financing activities:** | | |
| Proceeds from bank borrowings | 263.350 | 408.328 |
| Repayment of bank borrowings | (387.962) | (272.750) |
| **Net cash provided by financing activities** | **(140.728)** | **115.768** |
| Cash and cash equivalents at the beginning of the period | 25.887 | 7.216 |
| Cash and cash equivalents at the end of the period | 18.040 | 27.218 |

Other financial information of Group's subsidiaries are not presented on the grounds of materiality.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Group's chief operating decision maker. The Group Board of Directors has been identified as the Group's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Group management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategical decisions.

Considering the fact that the Group's risks and rate of returns are dissimilar between product types and between geographical areas, The Group management uses industrial segments as primary reporting format and geographical segments as secondary reporting format.

**Industrial segments:**

| | Television and electronic devices | White goods | Other | Total |
|---|---|---|---|---|
| **1 January -31 December 2013** | | | | |
| Revenue | 3.712.060 | 2.487.581 | 18.316 | 6.217.957 |
| Cost of sales | (3.055.278) | (2.058.479) | (19.721) | (5.133.478) |
| Gross profit | 656.782 | 429.102 | (1.405) | 1.084.479 |
| Depreciation and amortization | 143.033 | 92.737 | 2.057 | 237.827 |
| **1 January -31 December 2012** | | | | |
| Revenue | 4.506.376 | 2.431.973 | 90.623 | 7.028.972 |
| Cost of sales | (3.951.896) | (2.151.007) | (87.511) | (6.190.414) |
| Gross profit | 554.480 | 280.966 | 3.112 | 838.558 |
| Depreciation and amortization | 94.829 | 75.078 | 17.897 | 187.804 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Cont'd)**

**Capital expenditure**

| | Television and Electronical devices | White goods | Other | Total |
|---|---|---|---|---|
| 1 January -31 December 2013 | 141.159 | 107.765 | 29.159 | 278.083 |
| 1 January -31 December 2012 | 167.321 | 111.961 | 29.997 | 309.279 |

**Geographical segments:**

| Segment revenue | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Turkey | 1.785.789 | 1.848.574 |
| Europe | 4.052.005 | 4.621.641 |
| Other | 667.949 | 848.987 |
| Gross segment sales | 6.505.743 | 7.319.202 |
| Discounts (-) | (287.786) | (290.230) |
| **Net sales** | **6.217.957** | **7.028.972** |

The amount of export for the period 1 January -31 December 2013 is 4.719.954 thousand TL (1 January - 31 December 2012: 5.470.628 thousand TL). Export sales are denominated in EUR and USD as 85,8% and 14,2% of total exports respectively. (1 January -31 December 2012: 84,5% EUR,15,5% USD).

The carrying value of segment assets and costs incurred in order to obtain these assets are not separately disclosed since significant portion of assets of the Group are located in Turkey.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 5– CASH AND CASH EQUIVALENTS

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Cash | 564 | 19.873 |
| Bank deposits | | |
| - Demand deposits | 220.812 | 219.840 |
| - Time deposits | 55.243 | 76.241 |
| Cheques and notes | 16.827 | 3.868 |
| Other | 14.244 | 11.855 |
| Blocked deposits | 43.288 | 1.331 |
| **Cash and cash equivalents** | **350.978** | **333.008** |

**Effective interest rates**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| EUR | 0,63% | 0,50% |
| TL | 7,25% | 6,00% |
| USD | 0,92% | 0,75% |

As of 31 December 2013 and 2012 the Group's time deposits have an average maturity of 1 month.

## NOTE 6 – FINANCIAL ASSETS

| | | Ownership | | Amount | |
|---|---|---|---|---|---|
| | | 31 December | | 31 December | |
| | Country | 2013 | 2012 | 2013 | 2012 |
| **Financial assets available for sale:** | | | | | |
| Zorlu Enerji Elektrik Üretim A.Ş. | Turkey | < %1 | < %1 | 2.085 | 2.320 |
| Tursoft A.Ş. | Turkey | 7% | 7% | 11 | 11 |
| Zorlu Endüstriyel Enerji A.Ş. | Turkey | 1% | 1% | 51 | 51 |
| İzmir Teknoloji Geliştirme A.Ş. | Turkey | 5% | 5% | 11 | 11 |
| | | | | **2.158** | **2.393** |

The Group's publicly traded available for sale financial asset Zorlu Enerji Elektrik Üretim A.Ş.'s fair value decrease of 235 TL (31 December 2012: 243 TL fair value decrease) is recognized in consolidated shareholders' equity considering 47 TL of deferred tax (31December 2012: 49 TL).

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 6 – FINANCIAL ASSETS (Cont'd)

| | | Ownership | | Amount | |
|---|---|---|---|---|---|
| | | 31 December | | 31 December | |
| **Non-consolidated subsidiaries :** | **Country** | **2013** | **2012** | **2013** | **2012** |
| Vestel USA Inc. | USA | 100% | 100% | - | 230 |
| Vestel Elektronica SRL | Romania | 100% | 100% | 1.778 | 1.778 |
| Vestel Electronics India Private Ltd. | India | 100% | 100% | - | 10 |
| Uts-United Technical Services, S.R.O | Slovakia | 60% | 60% | 6 | 6 |
| Vestel Central Asia | Kazakhstan | 100% | 100% | 8.989 | 8.989 |
| Vestel Electronics Shanghai Trading Co. Ltd | China | 100% | 100% | 288 | 288 |
| | | | | **11.061** | **11.301** |
| **Impairment of subsidiaries (-)** | | | | | |
| Vestel USA Inc. | | | | - | (230) |
| Vestel Elektronica SRL | | | | (1.778) | - |
| Vestel Central Asia | | | | (8.989) | - |
| | | | | **294** | **11.071** |

## NOTE 7 – FINANCIAL LIABILITIES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Short - term financial liabilities** | | |
| Short term bank loans | 265.296 | 513.222 |
| Short term portion of long term bank loans | 296.172 | 96.308 |
| | **561.468** | **609.530** |
| **Long - term financial liabilities** | | |
| Long term bank loans | 438.549 | 387.269 |
| | **438.549** | **387.269** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 7 – FINANCIAL LIABILITIES (Cont'd)**

Details of the Group's short term financial liabilities is given below:

| | 31 December 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| Currency | Weighted average of effective interest rates per annum | Original currency | TL Equivalent | Weighted average of effective interest rates per annum | Original currency | TL Equivalent |
| - USD | - | - | - | 3,09% | 28.694 | 51.149 |
| - TL | 9,53% | 265.296 | 265.296 | 8,55% | 462.073 | 462.073 |
| | | | 265.296 | | | 513.222 |

Details of the Group's long term financial liabilities is given below:

| | 31 December 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| Currency | Weighted average of effective interest rates per annum | Original currency | TL Equivalent | Weighted average of effective interest rates per annum | Original currency | TL Equivalent |
| - USD | 4,29% | 54.499 | 116.318 | 4,26% | 36.677 | 65.380 |
| - EUR | 5,07% | 24.658 | 72.409 | 4,35% | 8.781 | 20.649 |
| - TL | 13,26% | 107.445 | 107.445 | 13,73% | 10.279 | 10.279 |
| **Short term portion** | | | **296.172** | | | **96.308** |
| - USD | 3,86% | 28.980 | 61.851 | 4,26% | 135.268 | 241.128 |
| - EUR | 3,72% | 6.524 | 19.159 | 4,35% | 29.767 | 70.004 |
| - TL | 9,20% | 357.539 | 357.539 | 13,73% | 76.137 | 76.137 |
| **Long term portion** | | | **438.549** | | | **387.269** |
| | | | **734.721** | | | **483.577** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 7 – FINANCIAL LIABILITIES (Cont'd)

The maturity schedule of Group's long term financial liabilities is given below:

| | December 2013 | 31 December 2012 |
|---|---|---|
| One to two years | 272.697 | 322.831 |
| Two to three years | 153.281 | 30.136 |
| Three to four years | 12.571 | 24.428 |
| Four to five years | - | 9.874 |
| | **438.549** | **387.269** |

Total amount of Group's floating bank loans is 146.473 thousand TL (31 December 2012: 339.172 thousand TL).

The analysis of Group's borrowings in terms of periods remaining to contractual re-pricing dates is as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| 6 months or less | 146.473 | 339.172 |
| | **146.473** | **339.172** |

Fair value of short term bank borrowings are considered to approximate their carrying values due to immateriality of discounting. Fair values are determined using average effective annual interest rates. Long term bank borrowings are stated at amortized cost using effective interest rate method and their fair values are considered to approximate their carrying values since loans have a re-pricing period of three to six months.

Guarantees given for the bank loans obtained are presented in note 17, interest rate sensitivity analysis is disclosed in note 31.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 8 – RELATED PARTY DISCLOSURES

### a) Short-term trade receivables from related parties

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Vestel Central Asia | 31.559 | 37.555 |
| UTS- United Technical Services, Spol S.R.O. | 4.545 | 3.260 |
| Vestel Elektronica S.R.L. | 10.691 | 6.633 |
| Other related parties | 1.659 | 12.923 |
| | 48.454 | 60.371 |
| Unearned interest on receivables (-) | (14) | (58) |
| | **48.440** | **60.313** |

### b) Short-term trade payables to related parties

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ABH Turizm Temsilcilik ve Ticaret A.Ş. | 1.476 | 616 |
| Other related parties | 1.545 | 727 |
| | 3.021 | 1.343 |
| Unearned interest on payables (-) | (4) | (1) |
| | **3.017** | **1.342** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 8 – RELATED PARTY DISCLOSURES (Cont'd)**

**c) Other short term receivables from related parties**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Z.F.S Financial Services Ireland | 4.269 | - |

**d) Other long term receivables from related parties**

| | | |
|---|---|---|
| Z.F.S Financial Services Ireland | 61.562 | 59.848 |
| Zorlu Holding A.Ş. | 81.855 | - |
| | 143.417 | 59.848 |

As of 31 December 2013 the annual average effective interest rate of other receivables from Z.F.S Financial Services Ireland and Zorlu Holding denominated in USD is 6%.

**e) Other short term payables to related parties**

| | | |
|---|---|---|
| L-3 Communications Investment | - | 2.665 |

**f) Transactions with related parties**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Sales** | | |
| UTS- United Technical Services, Spol S.R.O. | 8.070 | 4.426 |
| Zorlu Yapı Yatırım A.Ş | 6.652 | 16.977 |
| Vestel Electronica S.R.L. | 5.500 | 2.461 |
| L-3 Communications Investments | - | 3.539 |
| Other related parties | 8.876 | 5.255 |
| | 29.098 | 32.658 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 8 – RELATED PARTY DISCLOSURES (Cont'd)**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Operating expenses** | | |
| ABH Turizm Temsilcilik ve Ticaret A.Ş. | 15.104 | 13.139 |
| Other related parties | 13.325 | 6.716 |
| | **28.429** | **19.855** |

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Other income from operating activities** | | |
| Z.F.S Financial Services Ireland | 12.454 | 2.340 |
| Zorlu Holding A.Ş. | 16.913 | - |
| Other related parties | 4.976 | 789 |
| | **34.343** | **3.129** |

g) Guarantees received from and given to related parties are disclosed in note 17.

**h) Compensation paid to key management including directors, the Chairman and members of Board of Directors, general managers and assistant general managers**

Compensation paid to key management for the twelve months period ended 31 December 2013 is 17.137 thousand TL (1 January -31 December 2012: 12.647 thousand TL).

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 9 – TRADE RECEIVABLES AND PAYABLES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Short - term trade receivables** | | |
| Trade receivables | | |
| - Related parties (note 8) | 48.454 | 60.371 |
| - Other parties | 1.314.874 | 1.244.009 |
| Cheques and notes receivables | 280.860 | 225.976 |
| Other | 66.216 | 59.007 |
| | 1.710.404 | 1.589.363 |
| Unearned interest expense (-) | | |
| - Related parties (note 8) | (14) | (58) |
| - Other parties | (14.343) | (7.822) |
| Allowance for doubtful receivables (-) | (68.079) | (112.691) |
| **Total short - term trade receivables** | **1.627.968** | **1.468.792** |

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Long - term trade receivables** | | |
| Receivables from other parties | 99.870 | 2.363 |
| Unearned interest expense (-) | (488) | (162) |
| **Total long - term trade receivables** | **99.382** | **2.201** |

The Group provides allowance for doubtful receivables based on historical experience. As of the balance sheet dates, movements of allowance for doubtful receivables is as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 01 January** | **112.691** | **80.079** |
| Current year additions | 11.375 | 33.398 |
| Correction (note 2.3) | (2.529) | - |
| Provisions no longer required | (11.974) | (1.404) |
| Doubtful receivables written-off | (42.653) | - |
| Currency translation differences | 1.169 | 618 |
| **Balance at 31 December** | **68.079** | **112.691** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 9 – TRADE RECEIVABLES AND PAYABLES (Cont'd)

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Short term trade payables** | | |
| Trade payables | | |
| - Related parties (note 8) | 3.021 | 1.343 |
| - Other parties | 2.807.956 | 2.137.308 |
| Notes payables | | |
| - Other parties | 6.337 | 3.050 |
| Other | 62 | 33 |
| | 2.817.376 | 2.141.734 |
| Unearned interest income (-) | | |
| - Related parties (note 8) | (4) | (1) |
| - Other parties | (1.741) | (2.050) |
| **Total short term trade payables** | **2.815.631** | **2.139.683** |

Risk analysis of trade receivables and payables is disclosed in note 31.

## NOTE 10 – OTHER RECEIVABLES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Short - term other receivables** | | |
| VAT receivable | 120.331 | 111.552 |
| Receivables from related parties (note 8) | 4.269 | - |
| Deposits and guarantees given | 24.256 | 20.735 |
| Other | 97.189 | 90.255 |
| | **246.045** | **222.542** |
| Allowance for doubtful receivables (-) | (89.376) | (89.376) |
| | **156.669** | **133.166** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 10 – OTHER RECEIVABLES (Cont'd)**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Long - term other receivables** | | |
| Deposits and guarantees given | 15.965 | 13.932 |
| Receivables from related parties (note 8) | 143.417 | 59.848 |
| Other | 8.278 | 8.278 |
| | 167.660 | 82.058 |
| Allowance for doubtful receivables (-) | (8.278) | (8.278) |
| | **159.382** | **73.780** |

The Group provides allowance for doubtful receivables. As of the balance sheet dates, movements of allowance for doubtful receivables is as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 01 January** | **97.654** | **89.735** |
| Current year additions | - | 7.964 |
| Provisions no longer required | - | (45) |
| **Balance at 31 December** | **97.654** | **97.654** |

**NOTE 11 – INVENTORIES**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Raw materials | 612.638 | 524.961 |
| Work in process | 44.901 | 44.795 |
| Finished goods | 555.833 | 392.866 |
| Merchandise | 69.193 | 64.971 |
| Other | 1.484 | 2.640 |
| | 1.284.049 | 1.030.233 |
| Provision for impairment on inventories (-) | (15.597) | (23.211) |
| | **1.268.452** | **1.007.022** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 11 – INVENTORIES (Cont'd)

Cost of the inventory included in the consolidated statement of comprehensive income in the period 1 January – 31December 2013 is 4.670.649 thousand TL (2012: 5.496.654 thousand TL)

As of 31 December 2013 the Group does not have inventories pledged as security for liabilities (31 December 2012: None).

Allocation of provision for impairment on inventories in terms of inventory type is as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Raw materials | 9.551 | 5.358 |
| Finished goods and merchandise | 6.046 | 17.853 |
| | **15.597** | **23.211** |

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

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 1 January** | **23.211** | **25.945** |
| Current year additions | 12.501 | 8.840 |
| Realised due to sale of inventory | (20.832) | (11.472) |
| Currency translation differences | 717 | (102) |
| **Balance at 31 December** | **15.597** | **23.211** |

## NOTE 12 – PREPAID EXPENSES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Prepaid expenses in current assets** | | |
| Order advances given | 45.526 | 24.220 |
| Prepaid expenses | 13.639 | 18.547 |
| Business advances given | 2.112 | 4.374 |
| | **61.277** | **47.141** |
| | | |
| **Prepaid expenses in non-current assets** | | |
| Advances given for fixed asset purchases | 4.321 | 5.647 |
| Prepaid expenses | 220 | 705 |
| | **4.541** | **6.352** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

| | 1 January 2013 | Correction (note 2.3) | Additions | Disposals | Currency translation differences | Transfers | Revaluation fund increase | 31 December 2013 |
|---|---|---|---|---|---|---|---|---|
| **Cost or revaluation** | | | | | | | | |
| Land | 145.069 | 585 | - | - | 440 | - | 17.900 | 163.994 |
| Land improvements | 43.742 | 3.413 | 617 | - | 542 | - | 876 | 49.190 |
| Buildings | 492.615 | (19.357) | 6.359 | (165) | 8.973 | 11.644 | 88.364 | 588.433 |
| Leasehold improvements | 115.886 | (2.260) | 6.836 | (426) | 201 | - | - | 120.237 |
| Plant and machinery | 1.365.043 | (20.289) | 106.734 | (101.846) | 10.511 | 41.213 | - | 1.401.366 |
| Motor vehicles | 5.144 | (1.703) | 1.416 | (36) | 117 | - | - | 4.938 |
| Furniture and fixtures | 209.960 | (11.602) | 27.017 | (4.081) | 1.175 | 1.552 | - | 224.021 |
| Other tangible assets | 849 | - | - | - | - | - | - | 849 |
| Construction in progress | 24.261 | - | 55.999 | (3) | 23 | (54.467) | - | 25.813 |
| | **2.402.569** | **(51.213)** | **204.978** | **(106.557)** | **21.982** | **(58)** | **107.140** | **2.578.841** |
| **Accumulated depreciation** | | | | | | | | |
| Land improvements | - | - | 5.876 | - | 173 | - | (6.049) | - |
| Buildings | - | - | 14.291 | (45) | 2.754 | 447 | (17.447) | - |
| Leasehold improvements | 84.085 | (980) | 5.745 | (19) | 55 | (447) | - | 88.439 |
| Plant and machinery | 899.839 | (8.056) | 146.983 | (95.326) | 5.319 | - | - | 948.759 |
| Motor vehicles | 2.331 | (558) | 725 | (24) | 59 | - | - | 2.533 |
| Furniture and fixtures | 148.612 | (5.892) | 21.849 | (3.657) | 855 | - | - | 161.767 |
| Other tangible assets | 843 | - | 1 | - | - | - | - | 844 |
| | **1.135.710** | **(15.486)** | **195.470** | **(99.071)** | **9.215** | **-** | **(23.496)** | **1.202.342** |
| **Net book value** | **1.266.859** | | | | | | | **1.376.499** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (Cont'd)

| | 1 January 2012 | Additions | Disposals | Currency translation differences | Transfers | Revaluation fund increase | 31 December 2012 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Land | 32.583 | - | (4) | (57) | - | 112.547 | 145.069 |
| Land improvements | 13.011 | 22 | - | (126) | - | 30.835 | 43.742 |
| Buildings | 288.534 | 5.209 | (332) | (1.746) | 5.465 | 195.485 | 492.615 |
| Leasehold improvements | 110.498 | 12.257 | (1.673) | (19) | (5.177) | - | 115.886 |
| Plant and machinery | 1.201.752 | 141.572 | (28.939) | (1.812) | 52.470 | - | 1.365.043 |
| Motor vehicles | 4.339 | 1.538 | (711) | (22) | - | - | 5.144 |
| Furniture and fixtures | 185.282 | 25.728 | (1.141) | (182) | 273 | - | 209.960 |
| Other tangible assets | 849 | - | - | - | - | - | 849 |
| Construction in progress | 35.059 | 42.409 | - | (104) | (53.103) | - | 24.261 |
| | **1.871.907** | **228.735** | **(32.800)** | **(4.068)** | **(72)** | **338.867** | **2.402.569** |
| **Accumulated depreciation** | | | | | | | |
| Land improvements | 5.686 | 998 | - | (13) | - | (6.671) | - |
| Buildings | 72.871 | 9.037 | (52) | (300) | 4.045 | (85.601) | - |
| Leasehold improvements | 83.722 | 6.087 | (1.673) | (6) | (4.045) | - | 84.085 |
| Plant and machinery | 801.386 | 124.370 | (24.905) | (1.012) | - | - | 899.839 |
| Motor vehicles | 2.516 | 361 | (536) | (10) | - | - | 2.331 |
| Furniture and fixtures | 132.372 | 17.327 | (947) | (140) | - | - | 148.612 |
| Other tangible assets | 842 | 1 | - | - | - | - | 843 |
| | **1.099.395** | **158.181** | **(28.113)** | **(1.481)** | **-** | **(92.272)** | **1.135.710** |
| **Net book value** | **772.512** | | | | | | **1.266.859** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Corrections within year 2013 are related to removal of Vestel Savunma and Aydın Yazılım from the scope of consolidation and currency translation differences (note 2.3).

Additions to property, plant and equipment in the period 1 January - 31 December 2013 mainly consist of machinery and equipment investments made to television and electronic devices factory, first and second refrigerator, washing machine, cooker and dishwasher factories.

Useful lives of property, plant and equipment is as follows:

| | Useful life |
|---|---|
| Land improvements | 5 - 35 years |
| Buildings | 25 - 50 years |
| Leasehold improvements | 3 - 10 years |
| Plant and machinery | 2 - 25 years |
| Motor vehicles | 5 - 10 years |
| Furniture and fixtures | 5 - 14 years |

Allocation of current year depreciation and amortization expenses is as follows:

| | **1 January - 31 December 2013** | **1 January - 31 December 2012** |
|---|---|---|
| Cost of sales | 160.804 | 129.970 |
| Research and development expenses | 45.752 | 32.873 |
| Marketing, selling and distribution expenses | 19.345 | 15.592 |
| General administrative expenses | 10.009 | 7.429 |
| Other operating expense (idle capacity depreciation expense) | 1.917 | 2.030 |
| | **237.827** | **187.894** |

Movements in revaluation fund of land, land improvements and buildings in years 2013 and 2012 is disclosed in note 27.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The carrying amounts of land, buildings and land improvements that would have been recognized if the assets have been carried under the cost model at 31 December 2013 and 2012 are as follows:

| | Land | Buildings, land improvements |
|---|---|---|
| **31 December 2013** | | |
| Cost | 32.266 | 325.316 |
| Less: Accumulated depreciation | - | (104.957) |
| **Net book value** | **32.266** | **220.359** |
| | | |
| **31 December 2012** | | |
| Cost | 32.163 | 297.009 |
| Less: Accumulated depreciation | - | (94.966) |
| **Net book value** | **32.163** | **202.043** |

## NOTE 14 - INTANGIBLE ASSETS

| | 1 January 2013 | Additions | Disposals | Currency translation differences | Transfers | 31 December 2013 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Rights | 53.727 | 2.665 | (1) | 417 | 87 | 56.895 |
| Development cost | 293.378 | 66.109 | (441) | - | (87) | 358.959 |
| Other intangible assets | 62.952 | 4.331 | - | 129 | 58 | 67.470 |
| | **410.057** | **73.105** | **(442)** | **546** | **58** | **483.324** |
| **Accumulated amortization** | | | | | | |
| Rights | 31.633 | 2.569 | (1) | 401 | - | 34.602 |
| Development cost | 138.935 | 31.725 | - | - | - | 170.660 |
| Other intangible assets | 38.234 | 8.878 | - | 84 | - | 47.196 |
| | **208.802** | **43.172** | **(1)** | **485** | **-** | **252.458** |
| **Net book value** | **201.255** | | | | | **230.866** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 14 – INTANGIBLE ASSETS (Cont'd)

| | 1 January 2012 | Additions | Disposals | Currency translation differences | Transfers | 31 December 2012 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Rights | 36.121 | 2.745 | (21) | (7) | 14.889 | 53.727 |
| Development cost | 229.313 | 66.976 | (2.911) | - | - | 293.378 |
| Other intangible assets | 66.969 | 10.823 | - | (23) | (14.817) | 62.952 |
| | **332.403** | **80.544** | **(2.932)** | **(30)** | **-** | **410.057** |
| **Accumulated amortization** | | | | | | |
| Rights | 26.437 | 893 | (2) | (4) | 4.309 | 31.633 |
| Development cost | 116.514 | 22.426 | (5) | - | - | 138.935 |
| Other intangible assets | 36.252 | 6.304 | - | (13) | (4.309) | 38.234 |
| | **179.203** | **29.623** | **(7)** | **(17)** | **-** | **208.802** |
| **Net book value** | **153.200** | | | | | **201.255** |

Development costs, incurred by the Group on development projects relating to television and electronic devices, refrigerators, split air conditioners, washing machines, cookers and dish washers are capitalized as intangible assets when it is probable that costs will be recovered through future commercial activity and only if the cost can be measured reliably.

Useful lives of intangible assets is as follows:

| | Useful life |
|---|---|
| Rights | 2 - 15 years |
| Development cost | 2 - 10 years |
| Other intangible assets | 2 - 15 years |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 15 – GOODWILL

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Cost at the begining of the period** | **202.433** | **228.274** |
| Accumulated amortization | - | (20.668) |
| Currency translation differences | - | (44) |
| Impairment | - | (5.129) |
| **Closing value** | **202.433** | **202.433** |

Goodwill is distributed on cash generating unit which are based on segmental reporting. Summary table of goodwill based on segmental reporting is given below:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| White goods | 168.543 | 168.543 |
| Television and electronic devices | 31.638 | 31.638 |
| Software | 2.252 | 2.252 |
| | **202.433** | **202.433** |

The recoverable amount of cash generating units was assessed by reference to value in use. Pre-tax cash flow projections of television and electronic devices, white goods and other segments based on budgets of entities approved by the management were used in these calculations. As a result of these assessments no impairment was determined.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 16 – GOVERNMENT GRANTS

There are investment incentive certificates to which the Group has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Group in nature are as follows:

i) Exemption from customs duty on machinery and equipment to be imported,
ii) VAT exemption with respect to purchases of investment goods both from domestic and export markets,
iii) Incentives under the jurisdiction of the research and development law,
iv) Inward processing permission certificates,
v) Cash refund from Tübitak - Teydeb for research and development expenses,
vi) Discounted corporate tax incentive,
vii) Insurance premium employer share incentive
viii) Brand support incentive (Turquality) given by Republic of Turkey Prime Ministry Undersecreteriat of Treasury.

Research and development incentive premium from Tübitak Teknoloji ve Yenilik Destek Programları Başkanlığı ("TEYDEB") amounts to 7.350 thousand TL for the period 1 January -31 December 2013 (1 January -31 December 2012: 8.317 thousand TL).

Brand support incentive Turquality obtained from Republic of Turkey Prime Ministry Undersecreteriat of Treasury amounts to 7.172 thousand TL in year 2013 ( 2012: 6.006 thousand TL).

## NOTE 17 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

### a) Provisions

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Short - term provisions** | | |
| Warranty and assembly provision | 82.352 | 71.567 |
| Other provisions | 42.064 | 28.751 |
| Provision for lawsuit risks | 3.627 | 9.202 |
| | **128.043** | **109.520** |
| **Long - term provisions** | | |
| Warranty and assembly provision | **21.146** | **21.735** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 17 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

As of 31 December 2013 and 2012 movements of warranty and assembly provisions are as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 1 January** | **93.302** | **76.537** |
| Current year additions | 159.364 | 110.877 |
| Provisions no longer required | (149.168) | (94.112) |
| **Balance at 31 December** | **103.498** | **93.302** |

### b) Waste Electrical and Electronic Equipment Directive

Legal regulation prepared in conformity with European Union Waste Electrical and Electronic Equipment Directive ("WEEE")has been effective in Turkey since 2012. The Directive set collection, recycling and recovery targets for all types of electrical and electronic goods upon manufacturers. Since the regulation is not yet in practice as of 31 December 2013, it will not have a significant impact on the consolidated financial statements of the Group as of 31 December 2013.

### c) Guarantees received by the Group

**Guarantee letters, collaterals, cheques and notes received**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Guarantee letters | 166.524 | 140.323 |
| Cheques and notes | 62.230 | 71.338 |
| Collaterals and pledges | 681.765 | 623.553 |
| | **910.519** | **835.214** |

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. and Vestel Ticaret A.Ş., has given collaterals to various banks on behalf of the Company for its forward contracts and loans utilized

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 17 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)**

**d) Collaterals, pledges and mortgages ("CPM's") given by the Group**

| CPM's given by the Group | USD ('000) | EUR ('000) | TL | TL Equivalent |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| A. CPM's given on behalf of its own legal entity | 2.636 | 25.033 | 79.184 | 158.319 |
| B. CPM's given on behalf of fully consolidated subsidiaries (*) | 2.143.804 | 413.522 | 2.271.037 | 8.060.865 |
| C. CPM's given on behalf of third parties for ordinary course of business | - | - | - | - |
| D. Total amount of other CPM's given | 64.466 | - | 87.891 | 225.481 |
| i. Total amount of CPM's given on behalf of the parent company | - | - | - | - |
| ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C. | 64.466 | - | 87.891 | 225.481 |
| iii.Total amount of CPM's given on behalf of third parties which are not in scope of C. | - | - | - | - |
| **Total** | **2.210.906** | **438.555** | **2.438.112** | **8.444.665** |

(*) Fully consolidated subsidiaries have given collaterals to various financial institutions on behalf of each other for their forward contracts and for the total amount of loans utilized

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 17 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

| CPM's given by the Group | USD ('000) | EUR ('000) | TL | TL Equivalent |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| A. CPM's given on behalf of its own legal entity | 41.081 | 21.948 | 55.079 | 179.925 |
| B. CPM's given on behalf of fully consolidated subsidiaries | 2.235.974 | 367.867 | 1.505.263 | 6.356.223 |
| C. CPM's given on behalf of third parties for ordinary course of business | - | - | - | - |
| D. Total amount of other CPM's given | - | - | - | - |
| i. Total amount of CPM's given on behalf of the parent company | - | - | - | - |
| ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C. | - | - | - | - |
| iii.Total amount of CPM's given on behalf of third parties which are not in scope of C. | - | - | - | - |
| **Total** | **2.277.055** | **389.815** | **1.560.342** | **6.536.148** |

The Group has blocked deposit of 41.800 thousand TL in favor of its subsidiary. As of 31 December 2013 proportion of other CPM's given by the Group to its equity is %17 (31 December 2012: None).

## NOTE 18 - COMMITMENTS

As of the balance sheet date the Group has committed to realize exports amounting to 741.733 thousand USD (31 December 2012: 427.336 thousand USD) due to the export and investment incentive certificates obtained

As of 31 December 2013 the Group has forward foreign currency purchase contract that amounts to 888.986 thousand USD, 43.975 thousand EUR, 389 thousand CHF, 198.232 thousand TL against forward foreign currency sales contract that amounts to 139.657 thousand USD, 456.997 thousand EUR, 349.499 thousand RUB, 1.744 thousand CHF, 4.089 thousand GBP and 577.556 thousand TL (31 December 2012 : 1.265.630 thousand USD, 188.192 thousand EUR, 60.723 thousand RUB ve 1.153.425 thousand TL purchase contracts against 571.315 thousand USD, 641.167 thousand EUR, 1.287 thousand CHF, 9.963 thousand GBP, 820.174 thousand RUR ve 1.290.559 thousand TL sales contract).

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 19 – EMPLOYEE BENEFITS**

**Liabilities for employee benefits:**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Due to personnel | 30.677 | 8.354 |
| Social security payables | 11.242 | 8.991 |
| | **41.919** | **17.345** |

**Long term provisions for employee benefits:**

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Provision for employment termination benefits | **40.262** | **41.529** |

Under Turkish law, the Company is required to pay employment termination benefits to each employee whose employment is terminated without due cause. In addition, under the existing Social Security Law No.506, clause No. 60, amended by the Labor Laws dated 6 March1981, No.2422 and 25 August1999, No.4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The amount payable is the equivalent of one month's salary for each year of service and is limited to a maximum of 3.438,22 TL/year as of 31 December 2013 (31 December 2012: 3.033,98 TL/year).

Provision for employment termination benefits is not subject to any funding.

The provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined employee plans. Accordingly actuarial assumptions were used in the calculation of the total liability which are described below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. An expected inflation rate and appropriate discount rate should both be determined, the net of these being real discount rate. Consequently in the accompanying financial statements as of 31 December 2013, the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 31 December 2013 provision is calculated based on real discount rate of 4,54% (31 December 2012: 3,83%) assuming 6,50% annual inflation rate and 11,56% discount rate.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 19 – EMPLOYEE BENEFITS (Cont'd)

The movements in the provision for employment termination benefit is as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Balance at 1 January** | **41.529** | **33.046** |
| Increase during the year | 12.390 | 10.490 |
| Payments during the year | (11.835) | (7.266) |
| Actuarial (gain) /loss | (1.187) | 2.625 |
| Interest expense | 2.582 | 2.634 |
| Correction (note 2.3) | (3.217) | - |
| **Balance at 31 December** | **40.262** | **41.529** |

## NOTE 20 – EXPENSES BY NATURE

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Raw materials, supplies and finished goods | 4.670.649 | 5.496.654 |
| Changes in finished goods, work in process, trade goods | (167.295) | 86.702 |
| Personnel expenses | 432.633 | 383.211 |
| Depreciation and amortization | 235.910 | 185.774 |
| Warranty and assembly expenses | 159.364 | 110.877 |
| Transportation expenses | 152.568 | 157.741 |
| Advertising expenses | 58.754 | 79.804 |
| Other | 519.617 | 601.211 |
| | **6.062.200** | **7.101.974** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 21 – OTHER ASSETS AND LIABILITIES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Other current assets** | | |
| VAT carried forward | 28.847 | 29.567 |
| Other | 7.665 | 8.373 |
| | **7.665** | **8.373** |

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Other non - current assets** | | |
| Assets held for sale | 9.991 | 10.596 |
| | **9.991** | **10.596** |

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Other current liabilities** | | |
| Advances received | 65.599 | 71.710 |
| Taxes and dues payable | 18.903 | 27.870 |
| Other | 20.764 | 3.138 |
| | **39.667** | **31.008** |

## NOTE 22 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

### a) Paid in capital

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Shares of par value Kr 1 each | | |
| Limit on registered share capital | 1.000.000 | 1.000.000 |
| Issued share capital | 335.456 | 335.456 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 22 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

As of 31 December 2013 and 31 December 2012 the shareholding structures are as follows:

| | Shareholding % | | Amount | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| Collar Holding B.V. (Holland) (*) | - | 64,41% | - | 216.054 |
| Zorlu Holding A.Ş. | 64,41% | - | 216.054 | - |
| Shares held by public | | | | |
| Other shareholders | 22,46% | 25,19% | 75.355 | 84.502 |
| Collar Holding B.V. (Holland) (*) | - | 10,40% | - | 34.900 |
| Zorlu Holding A.Ş. | 13,13% | - | 44.047 | - |
| | 100,00% | 100,00% | 335.456 | 335.456 |

(*) On 16 September 2013 Collar Holding B.V., the controlling shareholder of the Company resident in Holland, has sold all of its shares in Vestel Elektronik Sanayi ve Ticaret A.Ş. corresponding to 250.952.127,88 TL par value (74,81%) to Zorlu Holding A.Ş. which is a member of Zorlu Group, for 436.656.703 TL, for the purpose of gathering companies of Zorlu Group under the same shareholding structure. The sale transaction processed over-the-counter. Transfer price was determined without applying the +/- 20% margin, in accordance with the regulations of Establishment and Operation Principals Memorandum of Wholesale Market, by taking the average of weighted mean prices formed throughout 10 business days backwards from 13 September 2013 which was the last business day of the previous week as from the application date, over 1.74 TL of price per 1 TL par value share (100 shares). Collar Holding B.V has no stake remaining in Vestel Elektronik Sanayi ve Ticaret A.Ş. following this transaction.

**b) Adjustment to share capital**

Adjustment to share capital (restated to 31 December 2004 purchasing power of money) is the difference between restated share capital and historical share capital.

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Adjustments to share capital | 688.315 | 688.315 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 22 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

### c) Share premium

Share premium account refers the difference between par value of the company's shares and the amount the company received for newly issued shares. The share premium account is disclosed under equity as a separate line item and may not be distributed. It may be used in capital increase.

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Share premium | **95.566** | **79.191** |

### d) Legal reserves

The legal reserves consist of first and second legal reserves appropriated in accordance with the Turkish Commercial Code ("TCC"). The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. Under TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid in share capital.

| | | |
|---|---|---|
| Legal reserves | **28.314** | **22.348** |

### e) Revaluation reserve

| | | |
|---|---|---|
| Fair value gains on financial assets | 364 | 552 |
| Revaluation of property, plant and equipment | 443.773 | 361.794 |
| | **444.137** | **362.346** |

### f) Accumulated deficit

| | | |
|---|---|---|
| Extraordinary reserves | 415.036 | 415.036 |
| Previous year's loss | (774.051) | (671.100) |
| Other inflation adjustment of share capital | 119.718 | 119.718 |
| | **(239.297)** | **(136.346)** |

**NOTE 22 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)**

**g) Dividend distribution**

For quoted companies dividends are distributed in accordance with the Communiqué Serial II:-19.1 on "Principals Regarding Distribution of Interim Dividends" issued by the CMB effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and in conformity with relevant legislations. The communiqué does not state a minimum dividend rate. Companies distribute dividends in accordance with the method defined in their dividend policy or articles of association. Additionally, dividend can be distributed in fixed or variable installments and dividend advances can be paid over the profit on interim financial statements.

Unless the general reserves that has to be appropriated in accordance with TCC or the dividend to shareholders as determined in the articles of association or dividend policy are set aside; no decision can be taken to set aside other reserves, to transfer reserves to the subsequent year or to distribute dividends to holders of usufruct right certificates, to board of directors members or to employees; and no dividend can be distributed to those unless the determined dividend to shareholders is paid in cash.

On the other hand, in accordance with the Articles of Association of the Company, up to 5% of retained earnings after dividend distribution could be allocated to the Board of Directors or used for certain reasons designated by the Board of Directors when necessary.

- Based on the approval of the General Assembly, up to 3% of retained earnings after dividend distribution could be allocated to plant investments designated in accordance with article of 468 in TCC,
- Up to 5% of retained earnings after dividend distribution could be allocated to the Board of Directors as necessary,
- Up to 5% of retained earnings after dividend distribution could be allocated to donations, bonuses etc.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 23 – SALES

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Domestic sales | 1.785.789 | 1.848.574 |
| Overseas sales | 4.719.954 | 5.470.628 |
| **Gross sales** | **6.505.743** | **7.319.202** |
| Less: Sales discounts (-) | (287.786) | (290.230) |
| **Net sales** | **6.217.957** | **7.028.972** |
| Cost of sales | (5.133.478) | (6.190.414) |
| **Gross profit** | **1.084.479** | **838.558** |

## NOTE 24 – GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

### a) General administrative expenses:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Personnel expenses | 61.295 | 45.831 |
| Depreciation and amortization | 10.009 | 7.429 |
| Other | 89.979 | 116.426 |
| | **161.283** | **169.686** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 24 – GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (Cont'd)

**b) Marketing expenses:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Personnel expenses | 80.948 | 63.366 |
| Depreciation and amortization | 19.345 | 15.592 |
| Other | 570.926 | 593.179 |
| | **671.219** | **672.137** |

**c) Research and development expenses:**

| | | |
|---|---|---|
| Personnel expenses | 13.886 | 10.866 |
| Depreciation and amortization | 45.752 | 32.783 |
| Other | 36.582 | 26.088 |
| | **96.220** | **69.737** |

## NOTE 25 – OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

**a) Other income from operating activities:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Credit finance gains arising from trading activities | 77.773 | 79.236 |
| Foreign exchange gains arising from trading activities | 296.015 | 373.231 |
| Reversals of provisions | 8.896 | 2.122 |
| Other income | 46.991 | 40.192 |
| | **429.675** | **494.781** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 25 – OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES (Cont'd)

**b) Other expense from operating activities:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Debit finance charges arising from trading activities | 58.432 | 71.910 |
| Foreign exchange expenses arising from trading activities | 286.075 | 372.333 |
| Provision expenses | 3.731 | 22.771 |
| Provision for impairment on subsidiary | 10.767 | - |
| Other expenses | 55.695 | 54.513 |
| | **414.700** | **521.527** |

## NOTE 26 – FINANCIAL EXPENSE AND FINANCIAL INCOME

**a) Financial expense:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Foreign exchange losses | 178.140 | 52.567 |
| Losses on derivative financial instruments | 161.962 | 195.437 |
| Interest and commision expense | 116.456 | 108.658 |
| Other finance expenses | 5.570 | 6.901 |
| | **462.128** | **363.563** |

**b) Financial income:**

| | | |
|---|---|---|
| Foreign exchange gains | 30.301 | 111.169 |
| Gains on derivative financial instruments | 145.664 | 160.814 |
| Interest income | 12.591 | 39.523 |
| | **188.556** | **311.506** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 27 – ANALYSIS OF OTHER COMPREHENSVE INCOME ITEMS

**a) Fixed assets revaluation fund:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 1 January** | **361.794** | - |
| Correction (note 2.3) | (23.529) | - |
| Depreciation transfer upon revaluation reserves - net of deferred tax | (10.805) | - |
| Net depreciation transfer upon revaluation reserves attributable to non-controlling interests | 464 | - |
| Increase in reserves arising from revaluation of land, buildings and land improvements | 130.635 | 431.140 |
| Deferred tax income calculated over increase in revaluation reserves | (23.442) | (69.346) |
| Increase in revaluation reserves attributable to non-controlling interests | (3.792) | - |
| Deferred tax income calculated over increase in revaluation reserves attributable to non-controlling interest | 674 | - |
| Transactions with non-controlling interests | 11.774 | - |
| **Balance at 31 December** | **443.773** | **361.794** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 27 – ANALYSIS OF OTHER COMPREHENSVE INCOME ITEMS (Cont'd)**

**b) Cash flow hedge fund:**

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 1 January** | - | - |
| Loss from cash flow hedges | (16.802) | - |
| Deferred tax calculated over cash flow hedge fund | 3.360 | - |
| Loss from cash flow hedges attributable to non-controlling interests | 601 | - |
| Deferred tax calculated over loss from cash flow hedges attributable to non-controlling interests | (119) | - |
| **Balance at 31 December** | **(12.960)** | **-** |

**c) Actuarial gain / loss arising from defined benefit plans:**

| | | |
|---|---|---|
| **Opening balance, 1 January** | **(2.100)** | **-** |
| Actuarial gain/ loss arising from defined benefit plans | 1.187 | (2.625) |
| Deferred tax calculated over actuarial gain/ loss arising from defined benefit plans | (237) | 525 |
| Actuarial gain/ loss arising from defined benefit plans attributable to non-controlling interests | (116) | - |
| Deferred tax calculated over actuarial gain/ loss arising from defined benefit plans attributable to non-controlling interests | 23 | - |
| Transactions with non-controlling interests | (117) | - |
| **Balance at 31 December** | **(1.360)** | **(2.100)** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 28 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Corporation and income taxes | 3.707 | 7.512 |
| Prepaid taxes (-) | (2.737) | (7.151) |
| **Current income tax liabilities - net** | **970** | **361** |
| Deferred tax liabilities | (60.141) | (74.273) |
| Deferred tax assets | 41.279 | 69.559 |

Turkish Tax Legislation does not permit a parent company its subsidiaries and investments in associates to file a consolidated tax return. Therefore, tax liabilities as reflected in these consolidated financial statements have been calculated on a separate entity basis for the fully consolidated subsidiaries.

In Turkey, beginning from 1 January 2006, the corporate tax rate is 20%.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and by deducting other exempt income. 15% withholding tax rate applies to dividends distributed to resident real persons except for those who are not liable to income and corporation tax, and to corporations except for those are resident companies in Turkey or are Turkish branches of foreign companies. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In Turkey, advance tax returns are filed on a quarterly basis at the rate of %20, until the 10th day of the following month and paid until the 17th day. Advance tax returns files within the year are offset against corporate income tax calculated over the annual taxable corporate income.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments in equity shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity with the intention to be utilized in a share capital increase within five years from the date of the sale.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 28 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

There is no procedure for a final and definitive agreement on tax assessments. Tax returns are filed between 1-25 April following the close of the accounting year to which they relate. Tax authorities may however examine such returns and the underlying accounting records and may revise assessment within five years.

Russian Federation

In Russia, corporate tax rate applicable is 20% (2012: 20%). Under the Russian Federation taxation system, tax losses can be carried forward to be offset against future taxable income for up to ten years. There are no restrictions on the amounts subject to net off. On the other hand, tax, currency and customs legislations are subject to various interpretations and changes which can occurs frequently in Russian Federation. Management's interpretation for such legislation, which is applied to the Company's operations and activities, can be interpreted by regional and federal authorities in different ways. The events of the recent past in Russian Federation, shows that risk could be possible on approval of operations and activities, which approved in the past may not be approved in the future as a result of reviews by the tax authorities on legislation. According to a review by the tax inspection authorities, without exceptional circumstances, tax inspection covers three years prior to the final inspection. Under certain circumstances, such views may cover longer periods.

The tax results of Group's subsidiaries in other countries are not material to consolidated financial statements.

As of 1 January - 31 December 2013 and 2012 tax benefit in the consolidated statement of income is as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Current period tax expense | (2.379) | (7.428) |
| Deferred tax benefit | 11.734 | 35.240 |
| **Total tax benefit** | **9.355** | **27.812** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)**

Total tax benefit for the year can be reconciled to the accounting profit as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Loss before tax** | (102.840) | (151.805) |
| Local tax rate | 20% | 20% |
| Tax income calculated using local tax rate | 20.568 | 30.361 |
| Carry forward tax losses | 8.954 | - |
| Effect of unused tax losses for which no deferred tax asset was recognised | (24.221) | (5.407) |
| Exemptions | 9.637 | - |
| Non-deductible expenses | (10.757) | (5.392) |
| Adjustments with no tax effects | (7.786) | (946) |
| Research and development incentives | 12.598 | 7.653 |
| Reduced taxation | 362 | 243 |
| Other | - | 1.300 |
| | 9.355 | 27.812 |

**Deferred tax assets and liabilities**

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Communiqué II, No. 14.1 and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for the Communiqué and tax purposes.

Tax rate used in the calculation of deferred tax assets and liabilities based on the liability method is 20% (31 December 2012:%20).

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 28 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities provided using principal tax rate as of the balance sheet dates is as follows:

| | Cumulative temporary differences | | Deferred tax | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| **Deferred tax assets** | | | | |
| Employment termination benefits | (40.262) | (41.825) | 7.697 | 8.365 |
| Warranty provision | (58.230) | (57.315) | 11.646 | 11.463 |
| Provision for doubtful receivables | (147.920) | (151.425) | 29.584 | 30.285 |
| Unearned interest expense | (12.244) | (12.085) | 2.449 | 2.417 |
| Provision for impairment on inventories | (9.885) | (33.410) | 1.977 | 6.682 |
| Derivative financial instruments | (51.655) | (31.540) | 10.445 | 6.308 |
| Carryforward tax losses | (105.445) | (135.175) | 21.089 | 27.035 |
| Other | (68.520) | (65.915) | 13.704 | 13.183 |
| | | | **98.591** | **105.738** |

| | Cumulative temporary differences | | Deferred tax | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| **Deferred tax liabilites** | | | | |
| Income accruals of derivative transactions | 491 | 49.960 | (98) | (9.992) |
| Useful life and valuation differences on property, plant and equipment and intangible assets | 129.250 | 145.970 | (25.850) | (29.194) |
| Revaluation of tangible fixed assets | 548.269 | 431.139 | (90.086) | (69.346) |
| Other | 7.095 | 9.600 | (1.419) | (1.920) |
| | | | **(117.453)** | **(110.452)** |
| **Deferred tax liabilites - net** | | | **(18.862)** | **(4.714)** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 28 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

24.312 thousand TL of carry forward tax loses expires in 2018 and 44.603 thousand TL expires in 2017. The Group has also R&D deduction of 36.536 thousand TL due to the incentives obtained under the jurisdiction of the research and development law.

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Subsidiares with net deferred tax liabilities | (60.141) | (74.273) |
| Subsidiares with net deferred assets | 41.279 | 69.559 |

The movement of net deferred tax assets and liabilities is as follows:

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| **Opening balance, 01 January** | **(4.714)** | **29.091** |
| Tax expense recognized in income statement | 11.734 | 35.240 |
| Disposal from the scope of consolidation (note 2.5) | (8.403) | - |
| Changes in fair value of financial assets available for sale | (20.272) | (68.772) |
| Currency translation differences | 2.793 | (273) |
| **Deferred tax (liabilities) / assets at the end of the period, net** | **(18.862)** | **(4.714)** |

## NOTE 29 – (LOSS) / EARNINGS PER SHARE

| | 1 January - 31 December 2013 | 1 January - 31 December 2012 |
|---|---|---|
| Net (loss) / income attributable to equity holders of the parent | (99.721) | (110.725) |
| Weighted number of ordinary shares with a Kr 1 of face value (thousand shares) | 33.546.000 | 33.546.000 |
| | **(0,30)** | **(0,33)** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 30 – DERIVATIVE INSTRUMENTS

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | Contract amount | Fair Value Assets / (Liabilities) | Contract amount | Fair Value Assets / (Liabilities) |
| **Held for trading** | | | | |
| Forward foreign currency transactions | 1.150.045 | (17.971) | 3.881.252 | (35.504) |
| Foreign currency swap contracts | 220.000 | (10.191) | 100.000 | 4.549 |
| **Cash flow hedge** | | | | |
| Forward foreign currency transactions | 1.084.704 | (23.984) | - | - |
| | **2.454.749** | **(52.146)** | **3.981.252** | **(30.955)** |

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### a) Capital risk management:

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group's management reviews the capital structure considering the cost of capital and the risks associated with each class of capital. Based on recommendations, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of the existing debt

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

As of 31 December 2013 and 2012 gearing ratios are as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Total financial liabilities (note 7) | 1.000.017 | 996.799 |
| Cash and cash equivalents (note 5) | (350.978) | (333.008) |
| **Net debt** | **649.039** | **663.791** |
| Total shareholders equity | 1.345.190 | 1.341.682 |
| **Total capital invested** | **1.994.229** | **2.005.473** |
| **Gearing ratio** | **33%** | **33%** |

**b) Financial risk factors:**

The Group's activities expose it to currency risk, credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

**b.1) Credit risk:**

The Group is exposed to credit risk arising from receivables from credit finance sales and deposits with banks. Credit risk of receivables from third parties is managed by securing receivables with highest possible coverage. Methods used are:

- Bank guarantees (guarantee letters, etc.)
- Credit insurance
- Mortgages
- Cheque-notes

For customers receivables from which are not secured with collaterals, the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors and individual risk limits are determined and monitored regularly.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

| | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | | |
| 31 December 2013 | Related party | Other party | Related party | Other party | Bank deposits | Other |
| **Maximum exposed credit risk as of 31 December 2013 (A+B+C+D)** | **48.440** | **1.678.910** | **147.686** | **168.365** | **276.055** | **74.923** |
| - Secured portion of the maximum credit risk by guarantees, etc. | - | (852.733) | - | - | - | - |
| A.Net book value of financial assets either are not due or not impaired | 48.440 | 1.250.845 | 147.686 | 168.365 | 276.055 | 74.923 |
| - Secured portion by guarantees etc. | - | (683.592) | - | - | - | - |
| B. Financial assets with renegotiated conditions | - | 92.860 | - | - | - | - |
| C.Net book value of the overdue but not impaired financial assets | - | 314.581 | - | - | - | - |
| - Secured portion by guarantees etc. | - | (148.517) | - | - | - | - |
| D.Net book value of the impaired financial assets | - | 20.624 | - | - | - | - |
| -Over due (gross book value) | - | 88.703 | - | 97.654 | - | - |
| -Impairment (-) | - | (68.079) | - | (97.654) | - | - |
| -Secured portion of the net value by guarantees etc. | - | (20.624) | - | - | - | - |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

| | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | | |
| 31 December 2012 | Related party | Other party | Related party | Other party | Bank deposits | Other |
| **Maximum exposed credit risk as of 31 December 2012 (A+B+C+D)** | **60.313** | **1.410.680** | **59.848** | **147.098** | **296.081** | **35.596** |
| - Secured portion of the maximum credit risk by guarantees, etc. | - | (*) | - | - | - | - |
| A.Net book value of financial assets either are not due or not impaired | 60.313 | 1.127.312 | 59.848 | 147.098 | 296.081 | 56.953 |
| - Secured portion by guarantees etc. | - | 12.521 | - | - | - | - |
| B. Financial assets with renegotiated conditions | - | 270.847 | - | - | - | - |
| C.Net book value of the overdue but not impaired financial assets | - | - | - | - | - | - |
| - Secured portion by guarantees etc. | - | (*) | - | - | - | - |
| D.Net book value of the impaired financial assets | - | - | - | - | - | - |
| -Over due (gross book value) | - | 112.691 | - | 97.654 | - | - |
| -Impairment (-) | - | (112.691) | - | (97.654) | - | - |
| -Secured portion of the net value by guarantees etc. | - | (*) | - | - | - | - |

(*) Domestic sales are realized through the marketing company Vestel Ticaret A.Ş. İstanbul Branch and its receivables are secured by guarantees and mortgages obtained from dealers. Export sales are realized through Vestel Ticaret A.Ş. and its receivables are secured by Turkish Eximbank and other international insurance institutions

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

Aging of financial assets which are overdue but not impaired is as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Overdue 1 - 30 days | 132.577 | 83.190 |
| Overdue 1 - 3 months | 70.035 | 53.779 |
| Overdue 3 - 12 months | 66.397 | 52.093 |
| Overdue 1 - 5 years | 43.254 | 79.810 |
| Overdue more than 5 years | 2.318 | 1.975 |
| **Total** | **314.581** | **270.847** |

**b.2) Liquidity risk:**

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Derivative financial liabilities are presented by undiscounted net inflows and outflows.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2013 maturity analysis of the Group's financial liabilities is as follows:

| Contractual maturities | Carrying value | Contractual cash flows | Up to 3 months | 3 - 12 months | 1 - 5 year | More than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Financial liabilities | 1.000.017 | 1.087.716 | 101.694 | 480.575 | 505.447 | - |
| Trade payables | 2.836.012 | 2.837.452 | 1.322.352 | 1.494.718 | 20.381 | - |
| Other payables | 110.471 | 110.471 | 110.471 | - | - | - |
| | **3.946.500** | **4.035.639** | **1.534.517** | **1.975.293** | **525.828** | **-** |
| **Derivative financial instruments** | | | | | | |
| Derivative cash inflows | | 2.234.749 | 1.228.464 | 866.005 | 140.280 | - |
| Derivative cash outflows | | (2.263.440) | (1.231.106) | (878.974) | (153.360) | - |
| | **52.146** | **(28.691)** | **(2.642)** | **(12.969)** | **(13.080)** | **-** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

As of 31 December 2012 maturity analysis of the Group's financial liabilities is as follows:

| Contractual maturities | Carrying value | Contractual cash flows | Up to 3 months | 3 - 12 months | 1 - 5 year | More than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Financial liabilities | 996.799 | 1.046.793 | 291.238 | 332.299 | 423.256 | - |
| Trade payables | 2.139.683 | 2.141.734 | 1.089.027 | 1.052.707 | - | - |
| Other payables | 140.530 | 140.530 | 83.013 | 25.461 | 32.056 | - |
| | **3.277.012** | **3.329.057** | **1.463.278** | **1.410.467** | **455.312** | **-** |
| **Derivative financial instruments** | | | | | | |
| Derivative cash inflows | | 3.866.597 | 1.693.448 | 2.161.179 | 11.970 | - |
| Derivative cash outflows | | (3.835.642) | (1.682.860) | (2.138.641) | (14.141) | - |
| | **30.955** | **30.955** | **10.588** | **22.538** | **(2.171)** | **-** |

**b.3) Foreign currency risk:**

The Group is exposed to exchange rate risk due to its foreign currency denominated transactions. The main principle of foreign currency risk management is to maintain foreign exchange position at the level that minimizes the impact of foreign exchange fluctuations.

Derivative instruments are used in foreign currency risk management where necessary. In this respect the Group mainly prefers using foreign exchange forward contracts.

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

| 31 December 2013 | USD | EUR | Other (TL Equivalent) | TL Equivalent |
|---|---|---|---|---|
| 1. Trade receivables | 386.901 | 262.023 | 65.704 | 1.660.897 |
| 2a. Monetary financial assets (including cash and cash equivalents) | 56.059 | 10.613 | 15.866 | 166.678 |
| 2b. Non-monetary financial assets | - | - | - | - |
| 3. Other | 1.493 | - | 983 | 4.170 |
| **4. Current assets (1+2+3)** | **444.453** | **272.636** | **82.553** | **1.831.745** |
| 5. Trade receivables | - | - | - | - |
| 6a. Monetary financial assets | - | - | - | - |
| 6b. Non-monetary financial assets | - | - | - | - |
| 7. Other | 96.374 | 17 | - | 205.741 |
| **8. Non-current assets (5+6+7)** | **96.374** | **17** | **-** | **205.741** |
| **9. Total assets (4+8)** | **540.827** | **272.653** | **82.553** | **2.037.486** |
| 10. Trade payables | 1.184.792 | 36.156 | 15.612 | 2.650.486 |
| 11. Financial liabilities | 54.499 | 24.658 | - | 188.725 |
| 12a. Other monetary liabilities | 6 | 2 | - | 19 |
| 12b. Other non-monetary liabilities | - | - | - | - |
| **13. Current liabilities (10+11+12)** | **1.239.297** | **60.816** | **15.612** | **2.839.230** |
| 14. Trade payables | - | 6.941 | - | 20.382 |
| 15. Financial liabilities | 28.980 | 6.524 | - | 81.010 |
| 16a. Other monetary liabilities | - | - | - | - |
| 16b. Other non-monetary liabilities | - | - | - | - |
| **17. Non-current liabilities (14+15+16)** | **28.980** | **13.465** | **-** | **101.392** |
| **18. Total liabilities (13+17)** | **1.268.277** | **74.281** | **15.612** | **2.940.622** |
| **19. Off-balance sheet derivative instruments net asset / (liability) position (19a+19b)** | **749.329** | **(413.022)** | (40.240) | 346.213 |
| 19a. Hedged total assets | 888.986 | 43.975 | 928 | 2.027.423 |
| 19b. Hedged total liabilities | (139.657) | (456.997) | (41.168) | (1.681.210) |
| **20. Net foreign currency asset/ (liability) position (9-18+19)** | **21.879** | **(214.650)** | **26.701** | **(556.923)** |
| **21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)** | **(825.317)** | **198.355** | **65.958** | **(1.113.047)** |
| **22. Fair value of financial instruments used in foreign currency hedging** | - | - | - | (52.146) |
| 23. Export | 351.310 | 1.604.532 | - | 4.719.954 |
| 24. Import | 1.509.884 | 226.842 | 10.566 | 3.448.860 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

| 31 December 2012 | USD | EUR | Other (TL Equivalent) | TL Equivalent |
|---|---|---|---|---|
| 1. Trade receivables | 286.307 | 199.411 | - | 979.326 |
| 2a. Monetary financial assets (including cash and cash equivalents) | 88.992 | 33.361 | - | 237.092 |
| 2b. Non-monetary financial assets | - | 65.965 | - | 155.130 |
| 3. Other | 11.307 | 13.528 | - | 51.970 |
| **4. Current assets (1+2+3)** | **386.606** | **312.265** | - | **1.423.518** |
| 5. Trade receivables | 668 | 6 | - | 1.205 |
| 6a. Monetary financial assets | - | - | - | - |
| 6b. Non-monetary financial assets | - | - | - | - |
| 7. Other | 888 | 5.008 | - | 13.360 |
| **8. Non-current assets (5+6+7)** | **1.556** | **5.014** | - | **14.565** |
| **9. Total assets (4+8)** | **388.162** | **317.279** | - | **1.438.083** |
| 10. Trade payables | 877.075 | 102.547 | - | 1.804.634 |
| 11. Financial liabilities | 65.370 | 8.781 | - | 137.178 |
| 12a. Other monetary liabilities | 8.664 | 24.497 | - | 73.054 |
| 12b. Other non-monetary liabilities | - | - | - | - |
| **13. Current liabilities (10+11+12)** | **951.109** | **135.825** | - | **2.014.866** |
| 14. Trade payables | - | - | - | - |
| 15. Financial liabilities | 135.267 | 29.767 | - | 311.132 |
| 16a. Other monetary liabilities | 11.386 | 2.930 | - | 27.187 |
| 16b. Other non-monetary liabilities | - | - | - | - |
| **17. Non-current liabilities (14+15+16)** | **146.653** | **32.697** | - | **338.319** |
| **18. Total liabilities (13+17)** | **1.097.762** | **168.522** | - | **2.353.185** |
| **19. Off-balance sheet derivative instruments net asset / (liability) position (19a+19b)** | **694.315** | **(452.975)** | **(75.210)** | **97.214** |
| 19a. Hedged total assets | 1.265.630 | 188.192 | 3.527 | 2.702.210 |
| 19b. Hedged total liabilities | (571.315) | (641.167) | (78.737) | (2.604.996) |
| **20. Net foreign currency asset/ (liability) position (9-18+19)** | **(15.285)** | **(304.218)** | **(75.210)** | **(817.888)** |
| **21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)** | **(721.795)** | **64.256** | - | **(1.135.562)** |
| **22. Fair value of financial instruments used in foreign currency hedging** | - | - | - | **(30.955)** |
| 23. Export | 475.137 | 2.035.891 | - | 5.470.628 |
| 24. Import | 2.043.898 | 218.536 | 1.701 | 4.158.192 |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2013 and 2012 sensitivity analysis of foreign exchange rates is presented in below tables. Secured portions include impact of off-balance sheet derivative instruments.

| | Gain / Loss | | Equity | |
|---|---|---|---|---|
| **31 December 2013** | **Foreign exchange appreciation** | **Foreign exchange depreciation** | **Foreign exchange appreciation** | **Foreign exchange depreciation** |
| **+/- 10% fluctuation of USD rate:** | | | | |
| USD net asset / liability | (176.147) | 176.147 | (176.147) | 176.147 |
| Secured portion from USD risk (-) | 107.145 | (107.145) | 159.561 | (159.561) |
| **USD net effect** | **(69.002)** | **69.002** | **(16.586)** | **16.586** |
| **+/- 10% fluctuation of EUR rate:** | | | | |
| EUR net asset / liability | 58.247 | (58.247) | 58.247 | (58.247) |
| Secured portion from EUR risk (-) | (54.306) | 54.306 | (121.964) | 121.964 |
| **EUR net effect** | **3.941** | **(3.941)** | **(63.717)** | **63.717** |
| **+/- 10% fluctuation of other currency rates:** | | | | |
| Other currencies net asset / liability | 6.596 | (6.596) | 6.596 | (6.596) |
| Secured portion from other currency risk (-) | (2.589) | 2.589 | (2.589) | 2.589 |
| **Other currency net effect** | **4.007** | **(4.007)** | **4.007** | **(4.007)** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

| | **Gain / Loss** | | **Equity** | |
|---|---|---|---|---|
| **31 December 2012** | **Foreign exchange appreciation** | **Foreign exchange depreciation** | **Foreign exchange appreciation** | **Foreign exchange depreciation** |
| **+/- 10% fluctuation of USD rate:** | | | | |
| USD net asset / liability | (128.667) | 128.667 | (128.667) | 128.667 |
| Secured portion from USD risk (-) | 123.769 | (123.769) | 123.769 | (123.769) |
| **USD net effect** | **(4.898)** | **4.898** | **(4.898)** | **4.898** |
| **+/- 10% fluctuation of EUR rate:** | | | | |
| EUR net asset / liability | 15.111 | (15.111) | 15.111 | (15.111) |
| Secured portion from EUR risk (-) | (106.526) | 106.526 | (106.526) | 106.526 |
| **EUR net effect** | **(91.415)** | **91.415** | **(91.415)** | **91.415** |
| **+/- 10% fluctuation of other currency rates:** | | | | |
| Other currencies net asset / liability | - | - | - | - |
| Secured portion from other currency risk (-) | 7.521 | (7.521) | 7.521 | (7.521) |
| **Other currency net effect** | **7.521** | **(7.521)** | **7.521** | **(7.521)** |

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 31 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

### b.4) Interest rate risk:

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts

The financial instruments of the Group which are sensitive to exchange rate changes are as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Financial instruments with fixed interst rates** | | |
| Bank deposits | 98.531 | 77.572 |
| Financial liabilities | 853.544 | 657.627 |
| **Financial instruments with floating interst rates** | | |
| Financial liabilities | 146.473 | 339.172 |

For floating rate liabilities if as of 31 December 2013 the interest rates for all currencies had been 100 basis points higher/lower and all other variables were held constant, higher/lower interest income/expense from floating rate bank loans and bank deposits would result loss before decrease /increase by 1.483 TL (2012: 901 TL).

## NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

### Categories of financial instruments and fair values

Group has classified its financial assets and liabilities as at fair value through profit or loss, available for sale financial assets and loans and receivables. Among Group's financial assets, cash and cash equivalents (note 5), trade receivables (notes 8 and 9) and other receivables (notes 8 and 10), are classified as loans and receivables and are measured at amortized cost using the effective interest method. Group's available for sale financial assets are disclosed in note 6.

Group's financial liabilities consist of financial liabilities (note 7), trade payables (note 8 and 9) and other payables (note 8) and are measured at amortized cost using the effective interest method.

## NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (Cont'd)

**Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instrument have been determined by the Group using available market information and appropriate valuation methods. However judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Group could realize in a current market exchange. Following methods and assumptions are used to estimate the fair value of the financial instruments:

Monetary assets

The book value of foreign currency denominated balances which are translated to TL using exchange rates prevailing on the date of the balance sheet approximate their fair values. For financial assets measured at cost including cash and cash equivalents, the carrying amounts are the same with fair values due to their short term nature. Carrying amounts of trade receivables net of impairments approximate their fair values.

Monetary liabilities

Due to their short term nature, the carrying amount of short term bank loans and other monetary liabilities approximate their fair values. As of 31 December 2013, the fair value of long term bank loans including short term portions as well is 734.721 thousand TL (31 December 2012: 483.577 thousand TL) (note 7).

Fair value is estimated based on cash flows discounted by rates determined considering variable country risks an market interest rates.

**Fair value hierarchy**

Group classifies the fair value measurement of each class of financial instruments according to the source using the three-level hierarchy as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not include observable market inputs

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

## NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (Cont'd)

Fair value hierarchy tables as of 31 December 2013 and 2012 are as follows:

| 31 December 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial assets | - | - | - | - |
| Financial investements | 2.085 | - | - | 2.085 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | - | (52.146) | - | (52.146) |

| 31 December 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial assets | - | - | - | - |
| Financial investements | 2.320 | - | - | 2.320 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | - | (30.955) | - | (30.955) |

## NOTE 33 – EVENTS AFTER THE REPORTING PERIOD

As of 31 December 2013 USD and EUR exchange rates are 2,1343 and 2,9365 respectively. Indicative exchange rates of USD and EUR are set by Central Bank of Turkey as 2,2118 and 3,0700 respectively on 11 March 2014 at 15.30.

The Group has won the tender held on 6 December 2013 by the Ministry of Transport, Maritime Affairs and Communication for the purchase of 347.369 interactive boards as part of the "Movement of Enhancing Opportunities and Improving Technology"(FATIH) Project. The agreement for the tender has been signed between the Group and the related Ministry as of 9 January 2014. The total contract value amounts to 999.722.266 TL.