

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
AND
ITS SUBSIDIARIES
INFLATION ADJUSTED
CONSOLIDATED
FINANCIAL STATEMENTS AT
30 JUNE 2002**

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

1. We have audited the accompanying consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (a Turkish corporation) and its subsidiaries at 30 June 2002 and the related consolidated income statement, shareholders' equity movements and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. The Company is unable to provide revenue from transactions with other segments, segment results, carrying amounts of segment assets, segment liabilities, cost of property, plant, equipment and intangibles and depreciation and amortisation by business segment as required by IAS 14.
4. In our opinion, except for non compliance with IAS 14 mentioned above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its subsidiaries at 30 June 2002 and the consolidated results of their operations and cash flows for the period then ended, in accordance with International Accounting Standards.

ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik AŞ
Member Firm of Grant Thornton International

Aykut Halit
Managing Partner

Nazım Hikmet
Engagement Partner

Istanbul
26 September 2002

VESTEL ELEKTRONİK SANAYİ VE TİCARET AŞ
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2002
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1 Organisation and nature of activities

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (the Company) was founded in March 1983 under the name of Ferguson Elektronik Sanayi ve Ticaret AŞ under the Turkish Commercial Code and is registered in İstanbul, Turkey. The name was changed to Star Elektronik Sanayi ve Ticaret AŞ during the same year. In April 1984 Polly Peck Group acquired the Company and changed its name to Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi which is its current name. In 1990 18% of the Company's shares were issued to the public at the İstanbul Stock Exchange. The Company has been operating under Law 6224 (Foreign Capital Incentive Law) since July 1985. In 1991 Polly Peck Group transferred all of its shares to one of its subsidiaries named Collar Holding BV based in the Netherlands and in the same year, following the collapse of the Polly Peck Group, the Company was placed in administration. In November 1994 Ahmet Nazif Zorlu acquired the Company from the administrator of the Polly Peck Group by buying the entire share capital of Collar Holding BV which at the time held 82% of the Company's issued share capital.

The Company is mainly engaged in the production of colour televisions and computer monitors and the trade of brown and white durable consumer goods. The Company's production facilities are located in Manisa. At 30 June 2002 the Company's production capacity for colour televisions and monitors was 7,500,000, (2001: 6,500,000) units and 1,000,000, (2000: 1,000,000) units per year respectively.

Vestel Group is made up of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its subsidiaries Vestel Dayanıklı Tüketim Malları Pazarlama Anonim Şirketi (Vestel Marketing), Vestel Bilişim Teknolojileri Ticareti Anonim Şirketi (Vestel Information), Vestel Komünikasyon Sanayi ve Ticareti Anonim Şirketi (Vestelkom), Vestel Dış Ticaret Anonim Şirketi (Vestel Foreign Trade) and Vestelnet Elektronik İletişim ve Bilgilendirme Anonim Şirketi (Vestelnet). The Company has always exercised effective control over the management of each of these companies and at 31 December 1999 held nearly all of their shares.

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The companies included in the group consolidation, and the direct and indirect shareholding of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi in their capital, are:

	<u>30.06.2002</u>	<u>31.12.2001</u>
Vestel Dayanıklı Tüketim		
Malları Pazarlama AŞ (Marketing) (İstanbul)	99.88%	97.22%
Vestel Bilişim Teknolojileri		
Ticaret AŞ (Information) (İstanbul)	99.74%	98.10%
Vestel Komunikasyon Sanayi ve Ticaret AŞ (İzmir)	98.72%	97.97%
Vestel Dış Ticaret AŞ (Foreign Trade) (Manisa)	99.66%	98.20%
Vestelnet Elektronik İletişim ve Bilgilendirme AŞ (İstanbul)	98.75%	99.67%

2 Basis of presentation of the financial statements

The Company, which is quoted on the İstanbul Stock Exchange, maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code, accounting policies prescribed by the Turkish Capital Markets Board and tax legislation and since 1994 has adopted the Uniform Chart of Accounts issued by the Ministry of Finance (collectively “Turkish Practices”). The accompanying financial statements (the “IAS Financial Statements”) are based on the statutory records, which are maintained under the historical cost convention, with adjustments and reclassifications and restatement for the changes in the general purchasing power of Turkish Lira, for the purpose of fair presentation in accordance with Statements of International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee.

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Restatement for changes in the general purchasing power of Turkish Lira at 30 June 2002 is based on IAS 29, which requires financial statements prepared in the currency of a highly inflationary economy to be stated in terms of the measuring unit current at the balance sheet date. Corresponding figures for the previous period must be restated on the same basis. One measure of the applicability of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the national wholesale price index published by the State Institute of Statistics. The relevant conversion factors for the current and prior years are as follows:

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 1999	1979.5	2.815
31 December 2000	2626	2.122
31 December 2001	4951.7	1.125
30 June 2002	5572.0	1.000

The method of restatement is as follows:

- The financial statements of prior years, including monetary assets and liabilities, which were previously reported in terms of the measuring unit current at the end of those years are restated in their entirety to the measuring unit current at 30 June 2002.
- Monetary assets and liabilities shown in the balance sheet at the year end do not need to be restated, as they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items shown in the income statement are restated by applying the relevant conversion factors.
- The effects of general inflation on the Company's net monetary position are included in the income statement as a net monetary gain or loss.

Adoption of IAS 39

The Company adopted IAS 39, Financial Instruments: Recognition and Measurement, on 31 December 2001. The financial effects of adopting IAS 39 as of 30 June 2001 are not material and therefore no adjustment is reflected in the accompanying consolidated income statement for the six months ended 30 June 2001.

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3 Principles of consolidation and summary of significant accounting policies

(i) Principles of consolidation – The principles of consolidation followed in the preparation of the accompanying financial statements are as follows:

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

(b) All significant intercompany transactions and balances between the Company and the subsidiaries have been eliminated.

(c) Goodwill arising on consolidation is written off over 20 years on a straight-line basis.

(d) Minority interest is calculated as part of the net results of operations and net assets of subsidiaries which are not owned by Vestel Elektronik Sanayi ve Ticaret AŞ (the parent).

(e) Certain companies in which the Company has a controlling interest or significant influence are not consolidated or equity accounted as they are immaterial individually and in aggregate to the results and financial position of the group.

(ii) Summary of significant accounting policies:

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

Related parties - For the purpose of the accompanying financial statements, the shareholders of the Company, its directors and the companies identified by the Company as being controlled by/affiliated with them are considered and referred to as related parties. A number of transactions are entered into with related parties in the normal course of business (see note 6).

Marketable securities – Marketable securities include Turkish government bonds and treasury bills acquired under reverse repurchase agreements with predetermined sales prices at fixed future dates (repo transactions), inflation indexed government bonds (classified under other non-current assets) and Eurobonds issued by the Turkish government denominated in US\$. For marketable securities traded in active markets, fair value is determined by reference to stock exchange quoted bid prices. For other marketable securities fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net asset.

Allowance for unearned interest expense on notes receivable and unrealised interest income on notes payable (discounting to present value at year end) – Unearned interest is calculated on all the notes receivable and post dated cheques at the balance sheet date, at the rate of 64% (2001: 70%) per annum, which is the statutory rate determined by the Central Bank of Turkey, to set an allowance for unearned interest expense on notes receivable and post dated cheques.

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At 30 June 2002 the Company provided for unrealised interest income on notes payable at the rate of 64% (2001: 70%).

Allowance for doubtful receivables – The allowance for doubtful receivables represents specific provisions charged to expenses. The allowance is an estimated amount that management believes will be adequate to absorb possible future losses on existing receivables that may become uncollectable due to current economic conditions and inherent risks in the receivables.

Inventory valuation - Inventories (including finished goods and imported raw material inventories) are valued at the lower of weighted average cost, restated at the equivalent purchasing power at 30 June 2002, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Cost elements included in inventory are materials, labour and an apportionment of factory overheads.

Investments - These consist of participations in the share capital of subsidiaries, associated companies and other investments not included in the consolidation. They are shown at cost, restated at the equivalent purchasing power of Turkish lira at 30 June 2002, unless the market value is known, in which case they are restated at market value.

Leases – The Company acquired machinery, equipment and motor vehicles under finance lease agreements. These finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the financial balance outstanding. The assets acquired under finance leases are depreciated over the useful lives of the assets as there is reasonable certainty, that the Company will obtain ownership at the end of the lease terms.

Property, plant and equipment and related depreciation and amortisation – Property, plant and equipment are carried at cost, restated in equivalent purchasing power at 30 June 2002. Depreciation and amortisation are provided on the restated amounts of property, plant and equipment on a straight-line basis.

The depreciation and amortisation periods for property, plant and equipment, which approximate the useful economic lives of these assets, are as follows:

	<u>Years</u>
Buildings	50
Machinery, equipment, installations and moulds	12.5
Furniture, fixtures and office equipment	5-12.5
Motor vehicles	5-12.5

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Deferred income taxes – Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements (note 16). Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

In previous years the Company did not make any deferred tax liability provision in respect of its property, plant and equipment and inventories restatements pursuant to IAS 29 for the years ended 31 December 1999 and 2000 and accordingly the auditors' opinion was qualified. However, on 31 December 2001 the Company adopted a policy of creating a deferred tax liability on the effects of restatement pursuant to IAS 29 and this liability is shown in the balance sheets as of 30 June 2002 and 31 December 2001. The amount of the correction (deferred tax charge of TL 1,505 billion) relating to six months period of 1 January to 30 June 2001 is not however reflected in the relevant period income statement.

Reserve for retirement pay - Under Turkish labour law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who retires, completes 25 years of service (20 years for women) or is called up for military service or dies. The reserve for retirement pay is made for the maximum amount payable to employees, based on their accumulated period of service at the balance sheet date (note 17).

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

Revenue recognition - Revenue is recognised on the accrual basis at the time deliveries are made, at the invoiced values. Net sales reflect gross sales, net of sales discounts and returns, all restated in equivalent purchasing power at 30 June 2002. All gains and losses, both realised and unrealised, go through the statements of income.

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

Repair and maintenance expenditure - Repair and maintenance expenditure is charged to income as it is incurred.

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Research and development costs – Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that the expenditure is expected to generate future economic benefits. Development costs that have been capitalised are amortised over five years.

Borrowing costs – Borrowing costs are recognised as an expense in the period in which they are incurred.

Fair value of financial instruments - Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The estimated fair values of financial instruments have been determined by the Company using available market information, management's judgement and appropriate valuation methodologies. The following disclosure of the estimated fair value of financial instruments is made with the requirements of IAS 32. To the extent relevant and reliable information is available from the financial markets in Turkey, the fair value of the financial instruments of the Company is based on such market data. The fair values of the remaining financial instruments of the Company can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange. The following methods and assumptions were used to estimate the fair value of the Company's financial instruments:

Financial Assets

Monetary assets for which fair value approximates carrying value:

- Balances denominated in foreign currencies are translated at year-end exchange rates.
- The fair value of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values.

Financial Liabilities

Monetary liabilities for which fair value approximates carrying value:

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

Financial risk factors – The Company's activities expose it to a variety of financial risks including the effects of: foreign exchange rates and interest rates.

Foreign exchange risk – The Company operates internationally and matches its foreign currency commitments primarily from its foreign currency trade receivables.

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Interest rate risk – The Company’s operating income and operating cash flows are substantially independent from changes in market interest rates. The Company borrows short term at variable rates. At the period end long term borrowings are at fixed interest rates.

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

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

Securities under repurchase agreements - The carrying amount is a reasonable estimate of fair value.

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

Commitments and contingencies - Transactions that may give rise to contingencies and commitments are those where the outcome and the performance of which will be ultimately confirmed only on the occurrence or non-occurrence of certain future events, unless the expected performance is remote. Accordingly, contingent losses are recognised in the financial statements if a reasonable estimate of the amount of the resulting loss can be made. Contingent gains are reflected only if it is probable that the gain will be realised.

Cash flow statement - Cash and cash equivalents include cash and deposits with banks.

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

EBITDA – EBITDA is defined as earnings before interest expense, income tax expense (benefit), depreciation and amortisation. This information should be read with the statements of cash flows contained in the accompanying financial statements.

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4 Marketable securities

These comprised the following :

	<u>30.06.2002</u>	<u>31.12.2001</u>
Treasury bills	-	52,928
Eurobonds	28,028	16,545
Repurchase transactions	35,076	21,513
	<u>63,104</u>	<u>90,986</u>

At 30 June 2002 and 31 December 2001 the cost of marketable securities together with accrued interest were equal to their market value. Marketable securities were held on a short term basis.

At 30 June 2002 foreign currency denominated marketable securities bear annual interest 12.38% (2001 : 12,38%) and at 31 December 2001 Turkish Lira marketable securities bear annual interest at the rates of 70% and 119%.

5 Trade receivables

These comprised the following :

	<u>30.06.2002</u>	<u>31.12.2001</u>
Trade receivables	442,699	362,111
Notes and cheques receivable	61,346	85,588
Allowance for doubtful receivables	(4,904)	(1,778)
Allowance for unearned interest income	(2,839)	(4,678)
Others	4,002	3,950
	<u>500,304</u>	<u>445,193</u>

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Trade receivables include TL 185,944 billion and TL 156,837 billion owed by related parties at 30 June 2002 and 31 December 2001 respectively:

	<u>30.06.2002</u>	<u>31.12.2001</u>
Vestel Beyaz Eşya (Vestel White Goods Company)	3,911	2,858
Deksar	8,721	-
Zorlu Linen Dok ve Emp Konf AŞ	27	29
Zorlu Dış Ticaret	2	1
Zorlu Enerji	16	16
Zorlu Tekstil	-	14
Zorlu O&M Enerji Tesisleri	-	2
Korteks	42	-
Denizbank	86	-
Zorlu Air	-	-
Vestel Danışmanlık	-	-
Vestel France	18,867	18,834
Vestel Holland	88,557	75,239
Collar Holding	-	-
Veseg GmbH	24,215	29,838
Vestel Italia SRL	10,269	-
Debis Bilisim Teknolojileri	-	7
Deniz Leasing	-	-
Deniz Yatırım	1	1
Vestel Iberia	28,408	26,514
Vescolor	-	2
Zorlu Ev Tekstil Ürünleri	1	-
Vinpa Pazarlama	565	947
Vestel İletişim ve Bil Hiz. A.Ş. (Vestel Customer Services Company)	2,254	2,534
Other group companies	2	1
	<u>185,944</u>	<u>156,837</u>

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6 Balances with related parties

These comprised the following:

	<u>30.06.2002</u>	<u>31.12.2001</u>
<u>Due from related parties</u>		
Vestel USA	13,847	14,134
Deksar	17,175	14,586
Zorlu Holding AŞ	-	-
Vestel Holland	3,810	438
Veseg GmbH	479	1,854
Cabot Communications Ltd.	4,873	138
Collar Holding	123	-
Vestel Danışmanlık	-	316
Vestel Beyaz Eşya (Vestel White Goods Company)	16,825	14,905
	<u>57,132</u>	<u>46,371</u>

Vestel USA and Cabot Technologies UK are research and development companies. Receivables from Vestel USA and Cabot Technologies UK will in future be capitalised as investments.

<u>Due to related parties</u>		
Vescolor Tüp	-	-
Due to shareholders	4	5
	<u>4</u>	<u>5</u>

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7 Inventories

These comprised the following :

	<u>30.06.2002</u>	<u>31.12.2001</u>
Raw materials	133,183	130,230
Work-in-process	31,054	11,481
Finished goods	120,158	104,100
Merchandise	13,552	13,248
Spares and supplies	18,414	5,196
Goods-in-transit	99,116	107,832
	<u>415,477</u>	<u>372,087</u>

8 Other current assets

Other current assets comprised the following :

	<u>30.06.2002</u>	<u>31.12.2001</u>
Prepaid lease expenses relating to Vestelnet VeezyGo Campaign	50,324	43,569
Prepaid Expenses	8,857	5,141
Income Accruals	34,724	87,967
VAT Receivable	5,286	3,351
Work Advances	8,852	3,253
Due from Personnel	196	257
Personnel Advances	131	16
Count & Delivery Shortages	-	-
Other Current Assets	410	496
	<u>108,780</u>	<u>144,050</u>

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9 Long term trade receivables and deposits

	<u>30.06.2002</u>	<u>31.12.2001</u>
Prepaid lease expenses relating to Vestelnet VeezyGo Campaign	26,827	25,223
Various prepaid expenses	6,068	6,333
Deposits and guarantees given	-	35
	<u>32,895</u>	<u>31,591</u>

Vestelnet (a consolidated subsidiary) first introduced the VeezyGo campaign in June 1999. Subsequently Vestelnet introduced similar campaigns in 2000. For an upfront fee of US\$99 and 36 monthly payment instalments of US\$30, a VeezyGo subscriber receives a free PC, Veezy Card (a mastercard) and three years' free unlimited internet usage. In respect of these campaigns, Vestelnet leases VeezyGo PCs and monitors from various leasing companies and delivers the VeezyGo PCs to its subscribers.

Within this framework at 30 June 2002 the Company had capitalised TL 50,324billion (2001: TL 43,569 billion) of lease contracts in other current assets (which will be expensed in the income statement over the next 12 months) and TL 26,827 billion (2001: TL 25,223 billion) in long term receivables and deposits (which will be expensed in the income statement after 12 months) as set out above.

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10 Investments

The Company's investments at 30 June 2002 and 31 December 2001 were as follows:

	Percentage	30.06.2002	Percentage	31.12.2001
Vescolor Tüp ve Komponent Sanayi ve Ticaret AŞ (Turkey)	100.0%	3,639	100.0%	3,639
Deksar Multimedya Telekom AŞ (Turkey)	99.9%	10,903	99.9%	10,903
Vestpro Electronics SA (Romania)	52.0%	190	52.0%	190
Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu AŞ (Turkey)	Less than 1%	1,783	Less than 1%	2,074
Vestel Beyaz Eşya Sanayi ve Ticaret AŞ (Turkey)	10.0%	3,937	10.0%	3,937
Teralogic Inc USA	1.5%	882	1.5%	882
Tursoft A.Ş. (Turkey)	7.1%	7	7.1%	24
Vestel France	99.9%	131	99.9%	131
Vestel Holland	100.0%	135	0.0%	-
Veseg Video Handelsgesellschaft GmbH	51.0%	107	51.0%	108
Vestel Danışmanlık (Turkey)	0.0%	-	0.0%	-
Vestel Iberia LTD. (Spain)	95.0%	21	95.0%	21
Vestel Müşteri İletişim AŞ. (Turkey)	99.9%	2,123	99.9%	2,123
Zorlu End. Enerji A.Ş. (Turkey)	1.0%	1	1.0%	1
Sanalnet İnternet Pazarlama ve Ticaret A.Ş. (Turkey)	80.0%	7	80.0%	7
Noktakom İnternet Reklamcılık ve Geliştirme A.Ş. (Turkey)	20.0%	7	20.0%	7
Vestel Italy S.R.L.	51.0%	43	51.0%	43
Vinpa Pazarlama Ticaret A.Ş. (Turkey)	100.0%	1	100.0%	1
		<u>23,917</u>		<u>24,091</u>

- Investments are shown net of called up share capital unpaid. At 30 June 2002 and 31 December 2001 the Company had no commitments to invest.
- Deksar Multimedya Telekom AŞ (subsidiary) was established in December 1998 as an Internet service provider via satellite.
- Vestel Beyaz Eşya Sanayi ve Ticaret AŞ (investment) was established in November 1997 for the manufacture of white durable goods.
- Teralogic Inc USA (investment) was established in May 1996 for the purpose of providing components for digital televisions.
- Both Vestpro Electronics SA (subsidiary) and Vescolor Tüp ve Komponent Sanayi ve Ticaret Anonim Şirketi (subsidiary) have been inactive in 2002 and 2001.
- The Company's balances under related parties with Vestel USA and Cabot Technologies are currently shown under "balances with related parties" but will in future be capitalised as an investment.
- Vestel Müşteri İletişim ve Bilgi Merkezi Paz. Ve Tic. AŞ. (subsidiary) was established in 2000 for customer services.
- Sanalnet İnternet (subsidiary) was established in 2000 as a producer of web page content.
- Noktakom (associated company) was established in 2000 as a monitor of web site advertising.
- Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu AŞ (investment) shares are quoted at the İstanbul Stock Exchange and are shown at market value by reference to the average of the closing bid prices of the last five days preceding 30 June 2002, in line with changes required by IAS 39.

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No consolidation or equity basis accounting has been applied to the Company's investment in subsidiaries and associated companies as explained in note 3.

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

11 Property, plant and equipment

Property, plant and equipment comprised the following:

	<u>Land and Buildings</u>	<u>Machinery and equipment</u>	<u>Motor vehicles</u>	<u>Furniture and fixtures</u>	<u>Constructio n in progress</u>	<u>Work advances given</u>	<u>Total</u>
COST							
Balance at 31 December 2000	44,557	325,314	2,958	28,607	14,360	-	415,796
Additions/(disposals)	3,256	50,871	(1,899)	6,881	(11,245)	1,942	49,806
Balance at 31 December 2001	47,813	376,185	1,059	35,488	3,115	1,942	465,602
Additions/(disposals)	1,791	8,495	-	181	4,054	(1,918)	12,603
Balance at 30 June 2002	<u>49,604</u>	<u>384,680</u>	<u>1,059</u>	<u>35,669</u>	<u>7,169</u>	<u>24</u>	<u>478,205</u>
ACCUMULATED DEPRECIATION							
Balance at 31 December 2000	3,881	167,965	1,303	13,471	-	-	186,620
Additions/(disposals)	921	25,837	(886)	2,816	-	-	28,688
Balance at 31 December 2001	4,802	193,802	417	16,287	-	-	215,308
Additions/(disposals)	489	15,769	41	1,403	-	-	17,702
Balance at 30 June 2002	<u>5,291</u>	<u>209,571</u>	<u>458</u>	<u>17,690</u>	<u>-</u>	<u>-</u>	<u>233,010</u>
NET BOOK VALUE							
Balance at 31 December 2000							<u>229,176</u>
Balance at 31 December 2001							<u>250,294</u>
Balance at 30 June 2002							<u>245,195</u>

At 30 June 2002 the construction-in-progress balance represented investment made by the Company during 2002 and 2001 to increase its production capacity.

The net book value of fixed assets held under finance leases (which mainly comprise machinery and equipment) amounted to TL 5,345 billion at 30 June 2002 (31 December 2001: TL 5,349 billion).

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Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (31 December 2001: TL 45,000 billion) as collateral against bank loans and bank guarantees on letters of credit.

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12 Intangible assets

These comprised the following:

	<u>Goodwill</u>	<u>Research and Development cost</u>	<u>Other Intangible assets</u>	<u>Total</u>
COST				
Balance at 31 December 2000	22,086	18,697	42,490	83,273
Additions/(disposals)	-	26,168	12,000	38,168
Balance at 31 December 2001	22,086	44,865	54,490	121,441
Additions/(disposals)	-	6,807	9,390	16,197
Balance at 30 June 2002	<u>22,086</u>	<u>51,672</u>	<u>63,880</u>	<u>137,638</u>
ACCUMULATED DEPRECIATION				
Balance at 31 December 2000	2,197	7,297	17,599	27,093
Additions/(disposals)	1,105	8,466	11,098	20,669
Balance at 31 December 2001	3,302	15,763	28,697	47,762
Additions/(disposals)	553	5,129	6,380	12,062
Balance at 30 June 2002	<u>3,855</u>	<u>20,892</u>	<u>35,077</u>	<u>59,824</u>
NET BOOK VALUE				
Balance at 31 December 2000				<u>56,180</u>
Balance at 31 December 2001				<u>73,679</u>
Balance at 30 June 2002				<u>77,814</u>

Goodwill arose on the acquisition of Vestel Dayanıklı Tüketim Malları Pazarlama (Marketing), Vestel Bilişim (Information), Vestel Komünikasyon (Vestelkom) and Vestel Dış Ticaret (Vestel Foreign Trade Company) in 1999. The Company paid TL 22,259 billion in cash for the acquisition of 66.95% in Vestel Marketing, 62.15% in Vestel Information, 54.0% in Vestelkom and 53.42% in Vestel Foreign Trade Company.

Other intangible assets mainly comprise leasehold improvements and computer software licences.

Other intangible assets and development costs are amortised over five years. Goodwill is amortised over 20 years.

Development costs are in respect of the following major projects: Integrated Digital TV(DTV), DLP TV, Digital Sattelite Receiver, Hybrid TV, Digital TV, TV-DVD, Large Digital TV and Large Flat Screen TV.

Research expenditure expensed amounted to TL 1,946 billion for the six months to 30 June 2002 (year to 31 December 2001: TL 466 billion).

During the six months to 30 June 2002 Vestel USA issued no invoices to Vestel and for the year to 31 December 2001 invoices amounting to US\$10,993,000 were issued in respect of development expenditure. Development expenditure for the year 2001 were capitalised as noted above.

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13 Bank borrowings

At 30 June 2002 and 31 December 2001 the breakdown of the Company's bank borrowings was:

	30.06.2002		31.12.2001	
	Balance foreign currency	Balance TL billion	Balance foreign currency	Balance TL billion
Foreign currency borrowings				
- US Dollars	252,548,534	396,284	125,014,676	202,512
- German Marks			15,843,263	11,559
- Euro	104,127,115	162,476	112,056,428	159,902
		<u>558,760</u>		<u>373,973</u>
Turkish Lira borrowings and accrued interest on bank borrowings		22,570		18,044
		<u>581,330</u>		<u>392,017</u>
Long term portion				
- US Dollars	(210,455,969)	(330,235)	(723,083)	(1,171)
- Euro	(50,000,000)	(78,018)	(59,879,093)	(85,447)
		<u>173,077</u>		<u>305,399</u>
Total short term bank borrowings		<u><u>173,077</u></u>		<u><u>305,399</u></u>

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 4% and 9% (2001: 12% and 20%), and between 40% and 60% (2001: 48% and 110%) respectively.

Letters of guarantee and notes amounting to US\$ 10,648,000, EURO 3,132,145 and TL 451 billion have been given as collateral for Turkish Eximbank and other credits (2001: letters of guarantee amounting to US\$ 10,635,103, EURO 1,249,500 and TL 7,323). At 30 June 2002 and 31 December 2001 a short-term loan of EURO 40,000,000 was secured by Vestel Holland.

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14 Trade payables

These comprised the following:

	<u>30.06.2002</u>	<u>31.12.2001</u>
Trade payables	192,107	111,421
Letters of credit	245,504	304,389
Lease payables		
-Principal amount	22,512	33,271
-Interest (-)	(4,366)	(5,883)
Notes payable	26,480	24,283
Allowance for unearned interest income	(441)	(3,270)
	<u>481,796</u>	<u>464,211</u>

Notes payable represent promissory notes which are payable within 1 year, are unsecured and bear no interest.

15 Other payables and accrued expenses

These comprised the following:

	<u>30.06.2002</u>	<u>31.12.2001</u>
Income tax and social security payables	11,741	7,753
Advances received	5,766	3,592
Warranty expense provision	15,340	14,681
Accrued expenses	13,166	15,642
Other payables	1,442	1,137
	<u>47,455</u>	<u>42,805</u>

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16 Taxation on income

The group is subject to Turkish corporation and income withholding taxes on its taxable income. The effective corporation tax rate is 33% (including a 10% surcharge over the corporation tax rate) applicable to the fiscal periods starting 1 January 2000.

Withholding taxes are payable on the portion of the distributed profits, at the effective rate of 5.5% for publicly quoted and 16.5% for unquoted entities. No corporate withholding tax is payable in respect of profits added to share capital. Accordingly for an entity that does not distribute profit, the effective tax rate is computed as 33%.

Dividend income is exempt from Corporation Tax. Income earned from the sale of fixed assets and participation shares within the context of Corporation Tax Law, Transitory Article No.28, although exempt from corporation tax, are subject to a corporation withholding tax at the rate of 11%, provided that such income is added to share capital.

During 2000, under Law 4369 advance Corporation tax became payable, computed on the quarterly taxable profits at the rate of 25%. This tax may be offset against the corporation tax payable later on. With changes made under Law 4444 (effective from 1 January 2000), the advance taxes had to be paid on a six monthly basis at the rate of 20% applicable for the period from 1 January to 30 June 2001. In accordance with Ministry Decree 2001/329 (dated 25 April 2001), advance tax has become payable on a quarterly basis from 1 July to 31 December 2001. With effect from 1 January 2001, the advance tax rate has been increased to 25%.

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

A percentage of up to 100% of the value of tangible fixed assets acquired under on Investment Incentive Certificate from the Government may be deducted from the taxable profits. Such deductions are known as Investment Allowances. Investment Allowances are exempt from Corporation Tax but subject to Withholding Tax of 18% plus surcharge of 10 % thereon (effectively taxed at 19.8%) both for public and non public companies. Investment allowances of one year may be carried forward to future years indefinitely and the balance carried forward may be adjusted for inflation.

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Accordingly, the Company's corporation and income tax liability is:

	<u>2002</u>	<u>2001</u>
Corporation and income tax charge on current period income	8,226	30,458
Prepaid corporation tax	(3,299)	(6,546)
Taxes payable	<u>4,927</u>	<u>23,912</u>

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

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The composition of cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at 30 June 2002 and 31 December 2001 using the expected future tax rates were as follows:

	<u>30.06.2002</u>		<u>31.12.2001</u>	
	Cumulative timing difference	Deferred Tax	Cumulative timing difference	Deferred Tax
<u>Deferred tax asset</u>				
Warranty expense provision	4,366	1,441	3,080	1,016
Retirement pay provision	1,244	411	886	293
Unearned interest expense on notes receivable	2,839	937	4,678	1,544
Capitalised interest on inventory written off	4,566	1,507	3,260	1,076
Capitalised interest on intangible assets written off	5,466	1,804	5,626	1,857
Net effect of adjustments related to leased assets	21,132	6,974	19,872	6,558
Doubtful receivable provision	3,995	1,318	1,626	537
Interest income on marketable securities	883	291	667	221
Expense accruals	14,345	4,734	3,053	1,007
Others	12,533	4,136	15,180	5,010
	<u>71,369</u>	<u>23,553</u>	<u>57,928</u>	<u>19,119</u>
<u>Deferred tax liability (current)</u>				
Restatement differences on:				
- Inventory	40,335	13,311	42,995	14,189
- Prepaid expenses	3,945	1,302	1,080	357
- Investments	13,245	1,457	13,238	1,454
- Property plant and equipment and intangibles	150,161	16,518	145,589	16,015
Income accruals	42,221	13,933	1,811	598
Unearned interest income on notes payable and cheques payable	441	146	46	15
Others	2,918	963	351	117
	<u>253,266</u>	<u>47,630</u>	<u>205,110</u>	<u>32,745</u>

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As of 30 June 2002 and 31 December 2001 taxes on income comprised:

	<u>30.06.2002</u>	<u>31.12.2001</u>
Current taxes	(8,226)	-
Net deferred tax asset/(liability)	(24,077)	(13,626)
Cancellation of prior year deferred tax	13,626	1,519
	<u>(18,677)</u>	<u>(12,107)</u>

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

17 Reserve for retirement pay

The Company's reserve for retirement pay is calculated as explained in note 3. Payments are calculated on the basis of 30 days' pay, limited to a maximum of TL 1,103.5 (2001: TL 978.0 million) million per person per year of employment, at the rate of pay applicable at the date of retirement or termination.

With effect from 1 July 2002 the ceiling for retirement pay has been increased to TL 1,160.2 million.

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

IAS 19 (Employee Benefits) requires actuarial valuation methods to be adopted to calculate the company's obligations under defined benefit plans. The Company has not adopted actuarial assumptions because of the impracticality in the hyperinflationary environment and the unpredictability of future government-specified increases in the limit of the rate of pay.

The difference between the application of the above method and the actuarial basis required under IAS 19 is considered immaterial both to shareholders' equity and net income.

The Company does not provide any other employee benefit than the reserve for retirement pay described above.

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Movements of the reserve for retirement pay during the years are as follows:

1 January 2001	<u>11,946</u>
Charge of the period	3,771
Disposal	-
Monetary Gain	(5,138)
31 December 2001	<u>10,579</u>
Charge of the period	1,276
Disposal	-
Monetary Gain	(1,426)
30 June 2002	<u>10,429</u>

The number of personnel at 30 June 2002 was 3,705 (2001: 4,052).

Wages and salaries paid for the six month period ended 30 June 2002 amounted to TL 23,308 (year ended 31 December 2001: TL 52,332).

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18 Share capital

The authorised share capital of the Company comprised 220,000,0000 shares of par value TL 1,000 each at 30 June 2002. The issued and paid up share capital of the Company comprised 159,100,000,000 shares of par value TL 1,000 each at 30 June 2002.

Based on the register held at the last annual general meeting dated 28 May 2002 the shareholders of the Company and their percentage shareholdings were as below. Subsequent to 30 June 2002 Credit Agricole sold its shares in the stock market. Accordingly the shareholders of the Company and their percentage shareholdings at 30 June 2002 and 31 December 2001 were:

	<u>30.06.2002</u>		<u>31.12.2001</u>	
	Shareholding		Shareholding	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Collar Holding BV	82,082	51.6%	82,082	51.6%
Credit Agricole	11,185	7.0%	11,185	7.0%
Other shareholders	65,833	41.4%	65,833	41.4%
	<u>159,100</u>	<u>100.0%</u>	<u>159,100</u>	<u>100.0%</u>
Inflation adjustment to share capital	206,751		206,751	
	<u>365,851</u>		<u>365,851</u>	

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

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19 General reserve

General reserves comprise legal reserves and retained earnings.

At 30 June 2002 the legal reserves amounted to TL 6,551 billion (historic cost per statutory records). Legal reserves are appropriated based on statutory profits and dividend distribution and are not available for distribution unless they exceed 50% of share capital, but they may be used to offset losses in the event that the general reserve is exhausted.

The retained earnings are available for distribution. However, if this reserve is distributed as dividends, a further legal reserve is required to be provided equal to 10% of dividends declared, reduced by an amount equal to 5% of share capital.

20 Commitments and contingencies

- (a) At 30 June 2002 the Company had contingent liabilities of TL 102,660 billion (31 December 2001: TL 60,618 billion) in respect of letters of guarantee obtained from local banks and submitted to various customs and state authorities for import and Turkish Eximbank credits.
- (b) Due to the export and investment incentive certificates obtained, the Company has committed to realise exports amounting to US\$ 162,715,372 at the date of our report.
- (c) Under the terms of the Customs Union Agreement with the European Union, with effect from 1 January 1998 television tubes (a major component of television sets) became subject to Customs Tax of 14.2% when sourced from countries outside the European Union or certain specified underdeveloped countries.
- (d) Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (31 December 2001: TL 45,000 billion) as collateral against bank loans and bank guarantees on letters of credit.
- (e) In December 1999 Collar Holding BV sold 320 million shares of Vestel Elektronik to Credit Agricole at a price of Euro 0.229537. In respect of this sale Collar Holding BV has given guarantees to Credit Agricole that if the share price of Vestel Elektronik falls below the purchase price the Collar Holding BV will compensate Credit Agricole. Vestel Elektronik provided a secondary guarantee to Credit Agricole in support of this arrangement. Subsequent to 30 June 2002 Credit Agricole sold its shares in Vestel Elektronik and accordingly the Company's contingent liability under this transaction is removed.