

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ AND
ITS SUBSIDIARIES
INFLATION ADJUSTED
CONSOLIDATED
FINANCIAL STATEMENTS AT
31 DECEMBER 2002 AND 2001
TOGETHER WITH AUDITORS REPORT**

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

- 1 We have audited the accompanying consolidated balance sheets of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (a Turkish corporation) and its subsidiaries at 31 December 2002 and 2001 and the related consolidated income statements, shareholders' equity movements and cash flows for the years 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. In our opinion, 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 31 December 2002 and 2001 and the consolidated results of their operations and cash flows for the years then ended, in accordance with International Accounting Standards.

ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik AŞ
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İstanbul
1 April 2003

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 Istanbul Stock Exchange. The Company has been operating under Law 6224 (Foreign Capital Incentive Law) since July 1985. In 1991 Polly Peck Group transferred all of its shares to one of its subsidiaries named Collar Holding BV based in the Netherlands and in the same year, following the collapse of the Polly Peck Group, the Company was placed in administration. In November 1994 Ahmet Nazif Zorlu acquired the Company from the administrator of the Polly Peck Group by buying the entire share capital of Collar Holding BV which at the time held 82% of the Company's issued share capital.

The Company is mainly engaged in the production of colour televisions and computer monitors and in the trade of brown and white durable consumer goods. The Company's production facilities are located in Manisa. At the end of 2002 the Company's production capacity for colour televisions and monitors was 7,000,000 (2001-6,500,000) and 1,000,000 (2001-1,000,000)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) and Vestel Dış Ticaret Anonim Şirketi (Vestel Foreign Trade). 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:

	2002	2001
Vestel Dayanıklı Tüketim		
Malları Pazarlama AŞ (Marketing) (İstanbul)	99.88%	97.22%
Vestel Bilişim Teknolojileri		
Ticaret AŞ (Information) (İstanbul)	99.74%	98.10%
Vestel Komünikasyon 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)	-	99.67%

The group was restructured and inter-group shareholdings changed on 30 December 1999. However, the financial results of newly acquired subsidiaries or shareholdings have been included in the accompanying financial statements from the beginning of 1999 as, in essence, Vestel Elektronik has had control of the net assets and operations of the newly acquired subsidiaries from the beginning of 1999.

As of 31 December 2002, the Group sold its shares in Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş. except for 2.2% (see note 12 and 20).

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 31 December 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 2000	2626.0	2.467
31 December 2001	4951.7	1.308
31 December 2002	6478.8	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 31 December 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 1 January 2001 prospectively. The financial effects of adopting IAS 39 are reported in the statement of changes in shareholders' equity as an adjustment to the opening retained earnings at 1 January 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 31 December 2002 the Company provided for unrealised interest income on notes payable at the rate of 64% (2000: 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 31 December 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 31 December 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 31 December 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 1 January 2001 the Company adopted a policy of creating a deferred tax liability on the effects of restatement pursuant to IAS 29. Accordingly, the financial effects of adopting such a policy resulted in the restatement of comparative information for prior periods as if the fundamental error had been corrected in the period in which it was made. The amount of the correction relating to periods prior to 1 January 1999 included in the financial statements is adjusted against the opening balance of retained earnings at that date (note 16).

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 31 December 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 year 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

	<u>31.12.2002</u>	<u>31.12.2001</u>
Treasury bills	-	61,542
Eurobonds	36,594	19,237
Repurchase transactions	-	25,014
	<u>36,594</u>	<u>105,793</u>

At 31 December 2002, and 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 31 December 2002 and 2001 Turkish Lira marketable securities bear annual interest at the rates of 40% and 70% (2000: 70% and 119%) for TL denominated securities and 12.4% (2001-12.4%) for foreign currency denominated securities.

5 Trade receivables

	<u>31.12.2002</u>	<u>31.12.2001</u>
Trade receivables	595,519	421,042
Notes and cheques receivable	82,201	99,517
Allowance for doubtful receivables	(3,477)	(2,067)
Allowance for unearned interest income	(3,525)	(5,439)
Others	595	4,592
	<u>671,313</u>	<u>517,645</u>

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Trade receivables include TL 190,593 billion, TL 182,362 billion owed by related parties at 31 December 2002 and 2001 respectively:

	<u>31.12.2002</u>	<u>31.12.2001</u>
Vestel Beyaz Eşya San. Ve Tic. A.Ş.	59	3,323
Deksar Multimedya ve Telekom. A.Ş.	23,167	-
Zorlu Linen Dok ve Emp Konf AŞ	25	34
Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş.	10	18
Zorluteks Tekstil San. Ve Ticaret A.Ş.	-	16
Korteks Mensucat San. Ve Tic. A.Ş.	151	-
Vestel France S.A.	18,922	21,899
Vestel Holland B.V.	74,275	87,483
Vestel USA Inc.	11,670	-
Veseg GmbH	32,607	34,694
Vestel Italia SRL	10,269	-
Deniz Finansal Kiralama	247	-
Vestel Iberia S.L.	18,277	30,829
Zorlu Holding	851	-
Vinpa Pazarlama Ticaret A.Ş.	35	1,102
Bel Air Industries S.A. / France	16	-
Vestel İletişim ve Bil Hiz. A.Ş. (Vestel Customer Services Company)	-	2,947
Other group companies	12	17
	<u>190,593</u>	<u>182,362</u>

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6 Balances with related parties

Year-end balances with subsidiaries and affiliated companies were:

	<u>31.12.2002</u>	<u>31.12.2001</u>
<u>Due from related parties</u>		
Vestelnet Elektronik İletişim ve Bil. A.Ş.	83,215	-
Vestel USA Inc.	11	16,434
Deksar Multimedya ve Telekom. A.Ş.	18,965	16,959
Zorlu Holding AŞ	-	-
Vestel Holland B.V.	3,147	509
Veseg GmbH	534	2,156
Cabot Communications Ltd.	1,824	161
Vestel Iberia S.L.	17	-
Vestel İletişim ve Bil Hiz. A.Ş. (Vestel Customer Services Company)	-	-
Vestel Danışmanlık	-	368
Vestel Beyaz Eşya (Vestel White Goods Company)	43,298	17,331
Zorlu Financial Services	-	-
	<u>151,011</u>	<u>53,918</u>
 <u>Due to related parties and shareholders</u>		
Due to shareholders	-	5
	-	5

7 Inventories

	<u>31.12.2002</u>	<u>31.12.2001</u>
Raw materials	140,563	151,424
Work-in-process	20,728	13,350
Finished goods	106,098	121,041
Merchandises	27,082	15,404
Spares and supplies	5,396	6,042
Goods-in-transit	122,813	125,381

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	422,680	432,642
8 Other current assets		
	31.12.2002	31.12.2001
Prepaid lease expenses relating to Vestelnet		
VeezyGo Campaign	-	50,660
Prepaid Expenses	13,399	5,978
Income Accruals	96,557	102,283
VAT Receivable	2,223	3,896
Work Advances	7,054	3,783
Due from Personnel	246	298
Personnel Advances	53	18
Count & Delivery Shortages	-	-
Other Current Assets	2,405	577
	121,937	167,493

9 Long term trade receivables and deposits

	31.12.2002	31.12.2001
Prepaid lease expenses relating to Vestelnet		
VeezyGo Campaign	-	29,328
Various prepaid expenses	7,452	7,364
Deposits and guarantees given	21	40
	7,473	36,732

Vestelnet (a discontinued subsidiary sold at 31 December 2002) 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 31 December 2001 the Company had capitalised TL 50,660 billion of lease contracts in other current assets (which will be expensed in the income statement over the next 12 months) and TL 29,328 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

	<u>Percentage</u>	<u>31.12.2002</u>	<u>Percentage</u>	<u>31.12.2001</u>
Vescolor Tüp ve Komponent Sanayi ve Ticaret A.Ş. (Turkey)	100.0%	4,232	100.0%	4,232
Deksar Multimedya Telekom A.Ş. (Turkey)	99.9%	12,677	99.9%	12,677
Vestpro Electronics SA(Romania)	52.00%	221	52.0%	221
Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş. (Turkey)	Less than 1%	2,145	Less than 1%	2,416
Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş. (Turkey)	2.2%	1,369	0.0%	-
Vestel Beyaz Eşya Sanayi ve Ticaret AŞ (Turkey)	10.0%	4,578	10.0%	4,578
Teralogic Inc USA (USA)	1.5%	1,025	1.5%	1,025
Tursoft A.Ş. (Turkey)	7.1%	24	7.1%	24
Vestel France S.A. (France)	99.9%	153	99.9%	153
Vestel Holland BV (Netherlands)	100.0%	135	0.0%	-
Vestel Record Limited (Russia)	74.0%	763	0.0%	-
Vestel USA Inc. (USA)	100.0%	172	0.0%	-
Cabot Communications Ltd (UK)	87.5%	492	0.0%	-
Veseg Video Handelsgesellschaft GmbH (Germany)	51.0%	125	51.0%	125
Vestel Iberia S.L. (Spain)	91.1%	161	95.0%	26
Vestel Müşteri İletişim A.Ş. (Turkey)	99.9%	2,466	99.9%	2,466
Zorlu End. Enerji A.Ş. (Turkey)	1.0%	2	1.0%	2
Sanalnet İnternet Pazarlama ve Ticaret A.Ş. (Turkey)	80.0%	8	80.0%	8
Noktakom İnternet Reklamcılık ve Geliştirme A.Ş. (Turkey)	0.0%	-	20.0%	8
Vestel Italy S.R.L. (Italy)	51.0%	50	51.0%	50
Vinpa Pazarlama Ticaret A.Ş. (Turkey)	5.0%	1	100.0%	1
		<u>30,799</u>		<u>28,012</u>

Investments are shown net of called up share capital unpaid. At 31 December 2002 the Company had commitments to invest TL 356.8 billion and GBP 87,500 by way of a share capital increase in Vestel Record Ltd. (Russia) and Cabot Communications Ltd. (UK) respectively.

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 purpose of manufacturing refrigerators and air conditioning units. The Company's

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production capacity for refrigerators and room air conditioning units was 700,000 units and 150,000 units per year respectively.

Teralogic Inc USA was established in May 1996 for the purpose of providing components for digital televisions.

Both Vestpro Electronics SA and Vescolor Tüp ve Komponent Sanayi ve Ticaret Anonim Şirketi have been inactive in 2002 and 2001.

Teralogic Inc USA was established in May 1996 for the purpose of providing components for digital televisions.

Vestel Record Ltd. is a television production factory being built in Russia. The factory is expected to commence its production in July 2003 which will have a production capacity of 500,000 televisions per year.

Vestel France S.A. was established in November 1996 for the purpose of repair, import, distribute and market electrical household appliances in France which are purchased from Vestel Group.

Vestel Iberia S.L. was established in July 1998 for the purpose of repair, import, distribute and market electrical household appliances in Spain and Portugal which are purchased from Vestel Group.

Vestel Holland B.V. was established for the purpose of repair, import, distribute and market electrical household appliances in Netherlands which are purchased from Vestel Group. Vestel Holland has 8.9% of Vestel Iberia S.L shares.

Vestel Italy S.R.L. (Formerly named as Vesdit) was established in August 2001 for the purpose of repair, import, distribute and market electrical household appliances in Italy which are purchased from Vestel Group.

Veseg Video Handelsgesellschaft GmbH was established in 1995 for the purpose of repair, import, distribute and market electrical household appliances in Germany which are purchased from Vestel Group.

Cabot Communications Ltd. was acquired for the purpose of software development for household appliances.

Vestel Müşteri İletişim ve Bilgi Merkezi Pazarlama Ve Ticaret AŞ. was established in 2000 for customer services.

Sanalnet İnternet was established in 2000 as a producer of web page content.

Noktakom was established in 2000 as a monitor of web site advertising.

Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu AŞ 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 31 December 2001, in line with changes required by IAS 39.

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

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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.

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11 Property, plant and equipment

	Land and Buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Work advances given	Total
<u>COST</u>							
Balance at 31 December 2001	55,594	437,406	1,231	41,263	3,622	2,258	541,374
Additions	848	44,464	-	1,257	3,948	-	50,517
Disposal of subsidiary		(8,330)		(2,669)	-	-	(10,999)
Disposals		(5,518)	(247)	(811)	-	(2,093)	(8,669)
Balance at 31 December 2002	<u>56,442</u>	<u>468,022</u>	<u>984</u>	<u>39,040</u>	<u>7,570</u>	<u>165</u>	<u>572,223</u>
<u>ACCUMULATED DEPRECIATION</u>							
Balance at 31 December 2001	5,583	225,342	485	18,937			250,347
Depreciation charge	513	26,365	86	4,694			31,658
Disposal of subsidiary		(2,641)		(971)			(3,612)
Disposals	(8)	(2,973)	(30)	(372)			(3,383)
Balance at 31 December 2002	<u>6,088</u>	<u>246,093</u>	<u>541</u>	<u>22,288</u>			<u>275,010</u>
<u>NET BOOK VALUE</u>							
Balance at 31 December 2001							<u>291,027</u>
Balance at 31 December 2002							<u>297,213</u>

At 31 December 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 1,378 billion at 31 December 2002 (2001-TL 6,219 billion).

Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (2001-TL 58,877 billion) as collateral against bank loans and bank guarantees on letters of credit.

Depreciation of property, plant and equipment are allocated to items in the income statement as follows :

	2002	2001
Cost of sales	24,292	25,633
Sales and marketing expenses	4,776	5,213
General and administrative expenses	2,590	2,509
	<u>31,658</u>	<u>33,355</u>

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12 Intangible assets

	<u>Goodwill</u>	<u>Research and Development cost</u>	<u>Other Intangible assets</u>	<u>Total</u>
<u>COST</u>				
Balance at 31 December 2001	25,680	52,166	63,358	141,204
Additions	-	10,040	9,586	19,626
Disposal of subsidiary	-	-	(954)	(954)
Disposals	-	-	(3,735)	(3,735)
Balance at 31 December 2002	<u>25,680</u>	<u>62,206</u>	<u>68,255</u>	<u>156,141</u>
<u>ACCUMULATED DEPRECIATION</u>				
Balance at 31 December 2001	3,839	18,328	33,367	55,534
Amortisation charge	1,285	12,442	11,293	25,020
Disposal of subsidiary	-	-	(426)	(426)
Disposals	-	-	(694)	(694)
Balance at 31 December 2002	<u>5,124</u>	<u>30,770</u>	<u>43,540</u>	<u>79,434</u>
<u>NET BOOK VALUE</u>				
Balance at 31 December 2001				<u>85,670</u>
Balance at 31 December 2002				<u>76,707</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 25,883 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), Hybrid TV, Digital TV, TV-DVD, Large Digital TV and Large Flat Screen TV.

Amortisation of goodwill and other intangible assets are allocated to items in the income statement as follows :

	<u>2002</u>	<u>2001</u>
Cost of sales	11,620	8,315
Sales and marketing expenses	8,979	15,716
General and administrative expenses	4,421	-
	<u>25,020</u>	<u>24,031</u>

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13 Bank borrowings

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

	31.12.2002		31.12.2001	
	Balance foreign currency	Balance TL billion	Balance foreign currency	Balance TL billion
Foreign currency borrowings				
- US Dollars	218,190,637	356,633	125,014,676	235,470
- German Marks	-	-	15,843,263	13,440
- Euro	112,725,789	192,026	112,056,428	185,925
		<u>548,659</u>		<u>434,835</u>
Turkish Lira borrowings and accrued interest on bank borrowings		<u>9,142</u>		<u>20,980</u>
		557,801		455,815
Long term portion				
- US Dollars	(210,144,307)	(343,481)	(723,083)	(1,362)
- Euro	(75,000,000)	(127,761)	(59,879,093)	(99,352)
		<u>86,559</u>		<u>355,101</u>
Total short term bank borrowings		<u>86,559</u>		<u>355,101</u>

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 4.5% and 11.5% (2001-12% and 20%) and between 48% and 65% (2001- 48% and 110%) respectively.

Letters of guarantee and notes amounting to EURO 20,414,000 have been given as collateral for Turkish Eximbank and other credits (2001- US\$ 10,635,103, EURO 29,999,500 and TL 8,515 billion).

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14 Trade payables

	<u>31.12.2002</u>	<u>31.12.2001</u>
Trade payables	285,707	129,554
Letters of credit	279,972	188,094
Letters of credit discounted	134,371	165,832
Lease payables		
-Principal and interest	118	38,685
-Interest (-)	(8)	(6,840)
Notes payable	18,353	28,235
Allowance for unearned interest income	(293)	(3,802)
	<u>718,220</u>	<u>539,758</u>

As of 31 December 2002, trade payables include TL 1,404 (2001- nil) owing to Zorlu Holding A.Ş.

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

15 Other payables and accrued expenses

	<u>31.12.2002</u>	<u>31.12.2001</u>
Income tax and social security payables	5,439	9,016
Advances received	7,590	4,176
Warranty expense provision	27,389	17,071
Accrued expenses	20,502	18,188
Other payables	2,883	1,322
	<u>63,803</u>	<u>49,773</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 11.5%, 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.

Taxes on income attributable to income from continuing operations differed from the amounts computed by applying the aggregate income tax rate of 33% (2001: 33%) to pre-tax income from continuing operations as a result of the following:

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	31.12.2002	31.12.2001
Computed tax expense at statutory rate	43,009	57,145
<u>Increase / (Decrease) in income taxes resulting from:</u>		
Effect of permanent differences arising from:		
Investment incentives	(3,138)	(5,960)
Effect of restatement per IAS 29	(5,249)	(14,467)
Other	(2,155)	(1,304)
	32,467	35,414

Under the advance corporation tax payment regulations, advance payments during the year are deducted from the final tax liability computed on the current year's results. Accordingly, the tax charge shown in the income statement does not equal the final tax liability appearing on the balance sheet.

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

	2002	2001
Corporation and income tax charge on current period income	32,467	35,414
Prepaid corporation tax	(6,879)	(7,611)
Taxes payable	25,588	27,803

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.

The Company adopted a policy to create a deferred tax liability on restatements pursuant to IAS 29 and, accordingly, the financial statements have been revised by the following amounts (note 3(ii)(i)):

	2002	2001
Deferred tax liability, net	(16,864)	(15,846)
Deferred tax charge	(1,018)	(14,247)

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

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	<u>31.12.2002</u>		<u>31.12.2001</u>	
	Cumulative timing difference	Deferred Tax	Cumulative timing difference	Deferred Tax
<u>Deferred tax asset</u>				
Warranty expense provision	9,981	3,294	3,581	1,181
Retirement pay provision	4,477	1,477	1,030	340
Unearned interest expense on notes receivable	2,486	820	5,439	1,795
Capitalised interest on inventory written off	9,312	3,073	3,790	1,251
Capitalised interest on intangible assets written off	7,832	2,585	6,542	2,159
Net effect of adjustments related to leased assets	132	44	23,106	7,625
Doubtful receivable provision	2,566	847	1,891	624
Interest income on marketable securities	1,133	374	776	256
Expense accruals	10,322	3,406	3,550	1,171
Others	10,970	3,620	17,650	5,826
	<u>59,211</u>	<u>19,540</u>	<u>67,355</u>	<u>22,228</u>
<u>Deferred tax liability (current)</u>				
Restatement differences on:				
- Inventory	30,211	9,969	49,993	16,499
- Prepaid expenses	3,433	1,133	1,256	415
- Investments	17,622	1,938	15,392	1,691
- Property plant and equipment and intangibles	110,983	12,208	169,282	18,621
Income accruals	33,212	10,960	2,105	695
Unearned interest income on notes payable and cheques payable	441	146	54	17
Others	152	50	408	136
	<u>196,054</u>	<u>36,404</u>	<u>238,490</u>	<u>38,074</u>

For the years ended 31 December 2002 and 2001 taxes on income comprised:

	<u>31.12.2002</u>	<u>31.12.2001</u>
Current taxes	(32,467)	(35,414)
Net deferred tax asset/(liability)	(16,864)	(15,846)
Cancellation of prior year deferred tax	15,846	1,599
	<u>(33,485)</u>	<u>(49,661)</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.

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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 1,260 (2001-TL 978 historic cost) per person per year of employment, at the rate of pay applicable at the date of retirement or termination.

With effect from 1 January 2002 the ceiling for retirement pay has been increased to TL 1,364 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.

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

31 December 2001	<u>12,300</u>
Charge of the period	3,902
Disposal	(1,645)
Monetary Gain	(1,413)
31 December 2002	<u>13,144</u>

The number of personnel at 31 December 2002 was 3,780 (2001- 4,052).

Wages and salaries paid for the year ended 31 December 2002 amounted to TL 66,295 billion (2001-TL 60,863 billion).

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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 31 December 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 31 December 2002 and 2001 and 4,000,000,000 shares of par value TL 1,000 each in 2002.

The shareholders of the Company and their percentage shareholdings at 31 December 2002 and 2001 were:

	31.12.2002		31.12.2001	
	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%
Other shareholders	65,833	48.4%	65,833	41.4%
	<u>147,915</u>	<u>100.0%</u>	<u>159,100</u>	<u>100.0%</u>
Inflation adjustment to share capital	277,475		266,290	
	<u>425,390</u>		<u>425,390</u>	

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

19 General reserve

General reserves comprise legal reserves and retained earnings.

At 31 December 2002 the legal reserves amounted to TL 6,764 (2001-TL 3,045 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.

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20 DISCONTINUED OPERATION

On 31 December 2002 the Company disposed 96.6% of its share holding of 98.8% in Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş.; this Company is engaged to provide internet services to end users, arrange e-commerce and web sites through internet and supply electronic communication and on-line connection and is a separate business segment

The results of Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş. for the period until the date of disposal (31 December 2002) have been included in the consolidated income statement. The income statement and cash flows for the period to the date of disposal are as follows:

	<u>01.01-31.12.2002</u>
Sales	63,449
Operating cost	<u>(30,521)</u>
Operating profit	32,928
Finance cost	<u>(40,435)</u>
Loss before taxation	(7,507)
Taxation	
Current	-
Deferred	<u>(1,195)</u>
Loss after taxation	(8,702)
Monetary gain	<u>7,177</u>
Net loss for the year	<u>(1,525)</u>
	<u>31.12.2002</u>
Operating	(44,119)
Investing	(3,573)
Net cash (outflow)/inflow	<u>(47,692)</u>
Net assets disposed of	
Property, plant and equipment	7,387
Intangible assets	528
Trade and other receivables	83,222
Inventories	2,054
Cash	39
	<u>93,230</u>
Borrowings	(11,527)
Trade, other payables and shareholders' equity	(132,212)
Deferred income tax	2,817
	<u>(47,692)</u>
Consideration received	
Cash	24,385
Loss on disposal	<u>(23,307)</u>
The net cash inflow on disposal is	
Proceeds from sale	24,385
Less: Cash and cash equivalents in subsidiary disposed	(39)
Net cash inflow on sale	<u><u>24,346</u></u>

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21.1 Net sales

The composition of sales volume and amount by principal product groups for the year ended 31 December 2002 and 2001 can be summarised as follows:

	2002		2001	
	Sales amount	Sales volume	Sales amount	Sales volume
Television	1,629,303	6,355,798	1,467,008	4,615,776
-Domestic	107,608	269,019	93,888	196,994
-Export	1,521,695	6,086,779	1,373,120	4,418,782
Monitor	34,491	156,779	41,841	169,500
-Domestic	31,722	144,191	20,841	87,976
-Export	2,769	12,588	21,000	81,524
DVD / DVB	327,808	2,424,861	90,499	399,118
-Domestic	20,008	57,166	802	1,718
-Export	307,800	2,367,695	89,697	397,400
Other	330,267		507,058	
-Domestic	187,141	-	330,965	
-Export	143,126	-	176,093	
Total	2,321,869		2,106,406	

21.2 The breakdown of television exports by country for the periods ended 31 December 2002 and 2001 is as follows:

	2002		2001	
	Sales amount	Sales volume	Sales amount	Sales volume
Germany	342,758	1,371,031	383,238	1,148,000
United Kingdom	243,050	972,201	186,744	527,603
France	204,088	816,352	178,506	544,836
Denmark	19,181	76,725	11,260	35,350
Portugal	15,566	62,264	14,692	51,700
Netherlands	22,474	89,895	14,006	47,723
Spain	156,407	625,627	135,527	452,925
Italy	100,357	401,426	72,776	266,894
Others	417,814	1,671,258	376,371	1,343,751
	1,521,695	6,086,779	1,373,120	4,418,782

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21.3 The summary of contribution to gross profit and gross margin for the periods ended 31 December 2002 and 2001 is as follows:

	2002		2001	
		%		%
<i>Domestic</i>				
Televisions	46,271	43	61,075	65
Monitors	5,393	17	3,660	18
DVD / DVB	6,022	30	283	35
Others	89,828	48	162,830	49
Domestic total	147,514	38	227,848	51
<i>Export</i>				
Televisions	303,240	20	312,247	23
Monitors	277	10	2,218	11
DVD / DVB	83,106	27	29,376	33
Others	35,113	27	84,525	48
Export total	421,736	22	428,366	26
Total	569,250	25	656,214	31

Vestelnet, an internet service provider, is principally involved in the provision of internet services, e-commerce facilities and web sites. At 31 December 2001 Vestelnet had approximately 100,000 signed contracts.

21.4 The summary of segment assets and liabilities as of 31 December 2002 and 2001 are summarised as follows:

	Television and Monitor		DVD and DVB		Others	
	2002	2001	2002	2001	2002	2001
Trade receivables	540,719	445,174	49,695	20,707	80,899	51,764
Inventories	338,774	337,461	49,833	60,570	34,073	34,611
Property, plant and equipment, net	268,567	260,056	24,585	28,805	4,060	2,166
Intangible assets, net	51,908	59,642	18,874	22,006	5,924	4,022
Trade payables	589,520	453,396	52,806	59,374	75,894	26,988

Property, plant and equipment and inventories are located in Turkey.

At 31 December 2002 66% of trade receivables were from European countries (2001-69%), 30% from Turkish domestic market (2001- 28%) and the remaining 4% from the rest of the world (2001-3%).

At 31 December 2002 52% of trade payables were to European countries (2001-54%) and 23% to Turkish suppliers (2001- 22%) and the remaining 25% to the rest of the world (2001-24%).

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22 Financial (expenses)/income

At 31 December 2002 and 2001 financial expenses/income comprised:

	<u>2002</u>	<u>2001</u>
Foreign exchange loss on		
a) foreign currency loans	(134,473)	(289,112)
b) imports	(174,702)	(187,146)
Foreign exchange gain on foreign currency trade receivables and bank deposits	122,944	209,846
Interest expense on loans	(63,544)	(69,916)
Other interest and commission charges	(16,184)	(25,257)
Interest on finance leases and factoring	(19,983)	(14,641)
Interest income on marketable securities	111,166	65,807
Fair value gain on listed investment listed in stock exchange	197	1,205
Discounting of post dated notes receivable and payable to present value at year end	(1,941)	(3,245)
	<u>(176,520)</u>	<u>(312,459)</u>

23 Other income/(expense), net

The analysis of other income/(expense) was as follows:

	<u>2002</u>	<u>2001</u>
Scrap and other sales	6,562	15,719
Export commission and freight related income	5,100	11,679
Profit on sale of fixed assets	1,140	304
Miscellaneous	1,378	6,560
	<u>14,180</u>	<u>34,262</u>

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24 Supplementary cash flow information

	2002	2001
Corporation and income tax paid	35,414	37,126
Interest and commission paid	85,706	98,205
	121,120	135,331

25 Commitments and contingencies

- (a) At 31 December 2002 the Company had contingent liabilities of TL 89,723 billion (2001- TL 70,481 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\$ 100,115,783 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 58,877) as collateral against bank loans and bank guarantees on letters of credit.

26 Post balance sheet event

A decision has been taken by the management of the Group on 3 January 2003 to merge Vestel Bilisim Teknolojileri Ticaret A.Ş.(consolidated subsidiary) and other Vestel related parties namely Vescolor Tüp ve Komponent Sanayi ve Ticaret A.Ş., Vinpa Pazarlama Ticaret A.Ş., Sanalnet internet Pazarlama ve Ticaret A.Ş., Vestel Müşteri İletişim ve Bilgi Merkezi Paz. A.Ş. under Vestel Komunikasyon Sanayi ve Ticaret A.Ş. (consolidated subsidiary) by 21 March 2003.

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27 Monetary loss of Vestel Elektronik for the years ending 31 December 2002 and 2001

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

	<u>31.12.2002</u>	<u>31.12.2001</u>
Opening Working Capital (Working 1)	<u>(1,143)</u>	<u>(55,114)</u>
Cash movements during the year		
Fixed assets expenditure	(53,901)	(102,288)
Investments	(2,787)	(2,617)
Long-term receivables and deposits	29,259	7,160
Deferred tax asset, net	1,018	14,247
Increase in long term debt	367,199	82,892
IAS 39 effect of prior year	--	(167)
Loss on sale of investment	23,307	--
Transfer from minority interest	1,772	--
Net assets disposed on sale of subsidiary	(47,692)	--
Disposal of retained earnings on sale of subsidiary	7,796	--
Sales	2,321,869	2,106,406
Purchases (Working 3)	(1,706,745)	(1,466,453)
General administration (net off depreciation and reserve for employee termination benefits)	(76,892)	(71,731)
Selling expenses (net off depreciation)	(136,015)	(110,370)
Warranty expenses	(20,457)	(13,169)
Financing expenses	(176,520)	(312,459)
Other income	14,180	34,262
Taxation charge	(32,467)	(35,414)
Minority Interest	(12)	(8)
Net Cash Inflow	<u>512,912</u>	<u>130,291</u>
Closing Working Capital per above	511,769	75,177
Closing Working Capital (working 2)	455,789	(1,143)
Monetary Loss	<u><u>(55,980)</u></u>	<u><u>(76,320)</u></u>

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<u>Working 1: Opening Working Capital</u>	<u>31.12.2002</u>	<u>31.12.2001</u>
Cash and deposits with banks	126,448	168,242
Marketable securities	105,793	99,866
Trade receivables	517,645	355,898
Other current assets	221,411	189,320
	<u>971,297</u>	<u>813,326</u>
Short-term bank borrowings	(355,101)	(300,063)
Trade payables	(539,758)	(488,995)
Other payables and accrued liabilities	(49,778)	(68,657)
Taxation on income	<u>(27,803)</u>	<u>(10,725)</u>
	(972,440)	(868,440)
Working capital (deficit)	<u>(1,143)</u>	<u>(55,114)</u>
<u>Working 2: Closing Working Capital</u>		
Cash and deposits with banks	369,104	126,448
Marketable securities	36,594	105,793
Trade receivables	671,313	517,645
Other current assets	272,948	221,411
	<u>1,349,959</u>	<u>971,297</u>
Short-term bank borrowings	(86,559)	(355,101)
Trade payables	(718,220)	(539,758)
Other payables and accrued liabilities	(63,803)	(49,778)
Taxation on income	<u>(25,588)</u>	<u>(27,803)</u>
	(894,170)	(972,440)
Working capital (deficit)	<u>455,789</u>	<u>(1,143)</u>
<u>Working 3: Purchases</u>		
Closing inventories	422,680	432,642
Cost of sales (net off depreciation)	1,716,707	1,418,213
Opening inventories	(432,642)	(384,402)
	<u>1,706,745</u>	<u>1,466,453</u>