

**VESTEL ELEKTRONİK SANAYİ VE TİCARET
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
INFLATION ADJUSTED
CONSOLIDATED FINANCIAL STATEMENTS
AT 30 JUNE 2003 AND 31 DECEMBER 2002
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 sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (a Turkish corporation) and its subsidiaries at 30 June 2003 and the related consolidated income statement, shareholders' equity movement and cash flow for the six month 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. 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 30 June 2003 and the consolidated results of their operations and cash flows for the six month period then ended, in accordance with International Financial Reporting Standards.

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

Nazım Hikmet
Partner

Istanbul
22 September 2003

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003
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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 was 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 has been its current name. In 1990 18% of the Company's shares were issued to the public at the İstanbul Stock Exchange. The Company has been operating under 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 30 June 2003 the Company's production capacity for colour televisions and monitors was 7,500,000 (2002 - 7,000,000) and nil (2002 - 1,000,000) units per year respectively .

As a result of a fire that took place at Vestel Elektronik Sanayi A.Ş. factory on 13 June 2003; the monitor production lines and related equipment were damaged. The management of the Company did not replace monitor production lines and related equipment because of their decision to discontinue the production of monitors (see note 8).

As of 30 June 2003, the 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 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 since 31 December 1999 held nearly all of their shares.

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:

Consolidated Company	Location	Field of activity	Shareholding (%)	
			30.06.2003	31.12.2002
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	İstanbul	Domestic marketing	99.88%	99.88%
Vestel Bilişim Teknolojileri Ticareti A.Ş.	İstanbul	Information	-	99.74%
Vestel Komünikasyon Sanayi ve Ticareti A.Ş.	İzmir	Manufacturing	99,18%	98.72%
Vestel Dış Ticaret A.Ş.	Manisa	Foreign trade marketing	99.66%	99.66%

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.

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As of 7 March 2003, the management of the Group merged Vestel Bilisim Teknolojileri Ticareti 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).

2 Basis of presentation of the financial statements

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The financial statements have been prepared on an historical cost convention except for the measurement at fair value of investment property.

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 financial statements have been prepared from statutory financial statements of the Company presented in Turkish Lira (TL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of local currency, deferred taxation, employee termination benefits, fixed assets and borrowing costs, investment property, receivables, interest expense accruals on bank loans.

Measurement Currency, Reporting Currency

Measurement currency of the Company is TL. The restatement for the changes in the general purchasing power of TL as of 30 June 2003 is based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of 30 June 2003, the three year cumulative rate has been 308% based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors are given below:

Dates	30.06.2003	31.12.2002	31.12.2001	31.12.2000
Index	7,222.2	6,478.8	4,951.7	2,626.0
Conversion factor	1	1.115	1.459	2.750

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

- the financial statements of the prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at 30 June 2003.
- monetary assets and liabilities reported in the balance sheet at 30 June 2003 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested and cash income from sale of investments and property, transferred to share capital from the date they were contributed.

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- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.
- the gain or loss on the net monetary position as the result of the effect of the general inflation is the difference resulting from the restatement of non-monetary assets, shareholders' equity and income statement items. The gain or loss on the net monetary position is included in net income. The gain and loss on the net monetary position has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and income statement items.
- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

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

3 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

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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, notes payable and post dated cheques at the balance sheet date, at the rate of 57% (2002- 64%) per annum, which is the statutory rate determined by the Central Bank of Turkey, to set an allowance for unearned interest on notes and post dated cheques.

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 2003, 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 2003, 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 2003. Depreciation and amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows :

	Years
Buildings	50
Machinery, equipment, installations and moulds	12.5
Furniture, fixtures and office equipment	5 to 12.5
Motor vehicles	5 to 12.5
Intangible assets	5

Deferred income taxes – The charge for current tax is based on the results for the year/the period as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or subsequently enacted by the balance sheet date (note 16).

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable (statutory) profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the

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extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

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.

Income and expenses - Revenues are recognized on the accrual basis at the time of deliveries or acceptances are made, at the invoices values. Expenses are recognized as incurred. Net sales reflect gross sales, less sales discounts and returns, all restated in equivalent purchasing power at 30 June 2003.

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.

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 period-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.

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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.

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 and Cash Equivalents - Cash and cash equivalents include all short-term, highly liquid investments that are readily convertible to known amounts of cash and near to maturity that they present an insignificant risk of changes in value because of changes in interest rates.

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 CASH AND CASH EQUIVALENTS

	30.06.2003	31.12.2002
Cash at bank and in hand	461,780	411,456
Marketable securities	-	40,793
	<u>461,780</u>	<u>452,249</u>

The cost of marketable securities together with accrued interest were equal to their market value. Marketable securities were held on a short term basis.

As of 31 December 2002 Turkish Lira marketable securities bear annual interest of 40% and 70% for TL denominated securities and 12.4% for foreign currency denominated securities.

5 TRADE RECEIVABLES, NET

	30.06.2003	31.12.2002
Trade receivables	591,239	663,851
Notes receivable	140,822	91,633
Unearned interest on notes receivable	(23,460)	(3,929)
Allowance for doubtful receivables	(7,238)	(3,876)
Others	563	663
	<u>701,926</u>	<u>748,342</u>

The movement in the allowance for doubtful receivables were as follows:

	30.06.2003	31.12.2002
Beginning balance	3,876	2,304
Charge for the period, net	4,506	1,723
Monetary effect	(1,144)	(151)
Ending balance	<u>7,238</u>	<u>3,876</u>

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Trade receivables include TL 211,102 billion, TL 212,461 billion owed by related parties at 30 June 2003 and 31 December 2002 respectively:

	30.06.2003	31.12.2002
Veseg GmbH	61,095	36,348
Vestel Italy SRL	27,457	11,447
Vestel Holland B.V.	57,749	82,798
Vestel Iberia S.L.	23,912	20,374
Deksar Multimedya ve Telekom. A.Ş.	17,548	25,825
Vestel France S.A.	17,290	21,093
Vestel Beyaz Eşya San. Ve Tic. A.Ş.	-	66
Vestel USA Inc.	-	13,009
Vestel Record Ltd	5,333	-
Vestel Benelux B.V.	474	-
Zorlu Holding	-	949
Korteks Mensucat San. Ve Tic. A.Ş.	83	168
Deniz Finansal Kiralama	3	275
Other group companies	158	109
	211,102	212,461

6 DUE FROM GROUP COMPANIES

Balances with subsidiaries and affiliated companies were:

	30.06.2003	31.12.2002
<u>Due from related parties</u>		
Vestelnet Elektronik İletişim AŞ	62,328	92,763
Vestel USA Inc.	-	12
Deksar Multimedya ve Telekom AŞ	11,536	21,141
Vestel Holland BV	3,081	3,508
Veseg GmbH	498	595
Cabot Communications Ltd.	2,039	2,033
Vestel Iberia SL	-	19
Vestel Beyaz Eşya Sanayi AŞ	16,723	48,268
	96,205	168,339

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7 INVENTORIES, NET

	30.06.2003	31.12.2002
Raw materials	133,803	156,692
Work in process	13,448	23,106
Finished goods	78,741	118,272
Merchandise	34,471	30,189
Spares and supplies	2,035	6,015
Goods in transit	101,960	136,906
	364,458	471,180

8 OTHER CURRENT ASSETS

	30.06.2003	31.12.2002
Prepaid expenses	5,648	14,936
Income accruals	69,893	107,636
VAT receivable	13,707	2,478
Work advances	6,520	7,863
Due from personnel	293	274
Personnel advances	125	59
Receivable from insurance companies for fire damage	13,490	-
Other sundry receivables	1,459	2,682
	111,135	135,928

Receivable from insurance companies is related to compensation to be received by Vestel Elektronik Sanayi A.Ş. from the insurance companies for damages in inventories, property and monitor production lines and related equipment as a result of a fire that took place at the factory on 13 June 2003; the losses calculated on IAS 29 (inflation adjusted) basis amounted to TL 20,504. As of the report date TL 13,490 was recovered from the insurance companies regarding these losses.

9 LONG TERM TRADE RECEIVABLES AND DEPOSITS

	30.06.2003	31.12.2002
Prepaid expenses	1,377	8,307
Deposits and guarantees given	32	23
	1,409	8,330

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10 INVESTEMENTS, NET

	Location	Percentage	30.06.2003	Percentage	31.12.2002
Vescolor Tüp ve Komponent Sanayi AŞ	Turkey	-	-	100.0%	4,718
Deksar Multimedya Telekom AŞ	Turkey	99.9%	14,132	99.9%	14,132
Vestpro Electronics SA	Romania	52.0%	246	52.0%	246
Zorlu Enerji Elektrik Üretimi AŞ	Turkey	Less than 1%	2,693	Less than 1%	2,391
Vestelnet Elektronik İletişim AŞ	Turkey	2.2%	1,526	2.2%	1,526
Vestel Beyaz Eşya Sanayi AŞ	Turkey	10.0%	5,741	10.0%	5,103
Teralogic Inc USA	USA	1.5%	1,143	1.5%	1,143
Tursoft AŞ	Turkey	7.1%	27	7.1%	27
Vestel France SA	France	99.9%	171	99.9%	171
Vestel Holland BV	Netherlands	100.0%	150	100.0%	150
Vestel Record Limited,	Russia	85.0%	2,797	74.0%	851
Vestel USA Inc.	USA	100.0%	192	100.0%	192
Cabot Communications Ltd	UK	87.5%	630	87.5%	548
Veseg Video Handelsgesellschaft GmbH	Germany	51.0%	139	51.0%	139
Vestel Iberia SL	Spain	91.1%	179	91.1%	179
Vestel Müşteri İletişim AŞ	Turkey	-	-	99.9%	2,749
Zorlu Endüstriyel Enerji AŞ	Turkey	1.0%	2	1.0%	2
Sanalnet İnternet Pazarlama ve Ticaret AŞ	Turkey	-	-	80.0%	9
Vestel Italy SRL	Italy	51.0%	56	51.0%	56
Vestel Benelux BV	Netherlands	51.0%	46	0.0%	-
Vinpa Pazarlama Ticaret AŞ	Turkey	-	-	5.0%	1
			29,870		
					34,333

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.

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

Vestpro Electronics SA has been inactive in 2003 and 2002.

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.

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.

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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 Ibera 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.

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 30 June 2003, 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.

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

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11 PROPERTY, PLANT AND EQUIPMENT, NET

	Land and Buildings	Machinery and equipment	Motor vehicles	Furniture and Fixtures	Construction in progress	Advances given	Total
<u>Restated Cost</u>							
31 December 2001	61,973	487,595	1,372	45,998	4,038	2,517	603,493
Additions	945	49,566	-	1,401	4,401	-	56,313
Disposal of subsidiary	-	(9,286)	-	(2,975)	-	-	(12,261)
Disposals	-	(6,151)	(275)	(904)	-	(2,333)	(9,663)
31 December 2002	62,918	521,724	1,097	43,520	8,439	184	637,882
Additions	878	18,133	328	1,290	22,622	1,153	44,404
Merger of related parties under Vestel Komunikasyon AŞ	-	785	79	2,726	-	-	3,590
Disposals	(3,061)	(27,574)	(135)	(3,844)	(11,634)	-	(46,248)
30 June 2003	60,735	513,068	1,369	43,692	19,427	1,337	639,628
<u>Restated Accumulated Depreciation</u>							
31 December 2001	6,224	251,200	541	21,110	-	-	279,075
Depreciation charge	572	29,390	96	5,230	-	-	35,288
Disposal of subsidiary	-	(2,944)	-	(1,082)	-	-	(4,026)
Disposals	(9)	(3,314)	(33)	(415)	-	-	(3,771)
31 December 2002	6,787	274,332	604	24,843	-	-	306,566
Depreciation charge	307	15,365	59	2,618	-	-	18,349
Merger of related parties under Vestel Komunikasyon AŞ	-	185	61	2,064	-	-	2,310
Disposals	(1,271)	(13,958)	(91)	(480)	-	-	(15,800)
30 June 2003	5,823	275,924	633	29,045	-	-	311,425
<u>Net Book Value as of</u>							
31 December 2002	56,131	247,392	493	18,677	8,439	184	331,316
30 June 2003	54,912	237,144	736	14,647	19,427	1,337	328,203

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At 30 June 2003, construction-in-progress balance represented investment made by the Company during 2002 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 30 June 2003 (2002 - TL 1,536 billion).

Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (2002 - TL 50,163 billion) as collateral against bank loans and bank guarantees on letters of credit.

12 INTANGIBLE ASSETS, NET

	Goodwill	Research and Development cost	Other Intangible assets	Total
<u>Restated Cost</u>				
Balance at 31 December 2001	28,627	58,152	70,628	157,407
Additions	-	11,192	10,686	21,878
Disposal of subsidiary	-	-	(1,063)	(1,063)
Disposals	-	-	(4,164)	(4,164)
Balance at 31 December 2002	28,627	69,344	76,087	174,058
Additions	-	47	2,096	2,143
Disposals	-	(7,834)	(3,344)	(11,178)
Balance at 30 June 2003	28,627	61,557	74,839	165,023
<u>Restated Accumulated Amortisation</u>				
Balance at 31 December 2001	4,280	20,431	37,196	61,907
Amortisation charge	1,432	13,870	12,589	27,891
Disposal of subsidiary	-	-	(475)	(475)
Disposals	-	-	(774)	(774)
Balance at 31 December 2002	5,712	34,301	48,536	88,549
Amortisation charge	716	6,156	6,305	13,177
Disposals	-	(1,703)	(2,530)	(4,233)
Balance at 30 June 2003	6,428	38,754	52,311	97,493
<u>Net Book Value as of</u>				
31 December 2002	22,915	35,043	27,551	85,509

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30 June 2003	22,199	22,803	22,528	67,530
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Goodwill arose on the acquisition of Vestel Dayanıklı Tüketim Malları Pazarlama (Marketing), Vestel Bilişim (Information), Vestel Komunikasyon (Vestelkom) and Vestel Dış Ticaret (Vestel Foreign Trade Company) in 1999. The Company paid TL 28,852 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.

13 BANK BORROWINGS

	30.06.2003		31.12.2002	
	Balance Foreign currency	Balance TL billion	Balance Foreign currency	Balance TL billion
<u>Foreign currency borrowings</u>				
- US Dollars	210,280,105	298,959	218,190,637	397,554
- Euro	104,400,000	169,504	112,725,789	214,060
Turkish Lira borrowings and accrued interest on bank borrowings		9,490		10,191
		477,953		621,805
Long term portion				
- US Dollars	(200,212,259)	(284,645)	(210,144,307)	(382,893)
- Euro	(75,000,000)	(121,770)	(75,000,000)	(142,421)
Total current borrowings		71,538		96,491

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 3.5% and 11.5% (2002 - 4.5% and 11.5%) and between 30% and 40% (2002- 48% and 65%) respectively.

Letters of guarantee and notes amounting to TL 50,984 have been given as collateral for Turkish Eximbank and other credits (2002- TL 38,765).

Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (2002 - TL 50,163 billion) as collateral against bank loans and bank guarantees on letters of credit.

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14 TRADE PAYABLES, NET

	30.06.2003	31.12.2002
Trade payables	276,180	318,490
Letters of credit	225,818	312,097
Letters of credit discounted	167,421	149,789
Finance lease payables		
-Total lease installments	1	132
-Finance charges(-)	-	(9)
Notes payable	14,624	20,459
Allowance for unearned interest income	(602)	(327)
	683,442	800,631

As of 30 June 2003, trade payables include TL 601 (2002- TL 1,565) 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

	30.06.2003	31.12.2002
Income tax and social security payables	5,714	6,063
Advances received	4,747	8,461
Warranty expense provision	29,994	30,532
Accrued expenses	8,020	22,854
Other payables	572	3,215
	49,047	71,125

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16 TAXATION ON INCOME

The Corporation Tax rate on the profits for the calendar year 2003 will be %30 (2002: 33%). Taxable profits are calculated by addition of tax disallowed expenses to and deduction of tax exempt income from the profit disclosed in the statutory income.

The requirement to obtain an Investment Incentive Certificate in order to deduct certain allowances (named investment allowances) from taxable profits has been abolished; the date of this change in the regulations is 24 April 2003; companies are allowed to deduct 40 % of the value of fixed assets purchased after 24 April 2003 (investment allowances) from their taxable profits. Investment allowances related to fixed assets purchased or to be purchased under Investment Incentive Certificates granted or applied for before 24 April 2003, namely investment allowances may be based on up to 100% of the investment value in fixed assets, but these are subject to tax at 19.8% on 2002. According to the decision of the cabinet of 2003/5590 in accordance with the authorization granted by the Law the rate of withholding tax on dividends paid in cash has been set as 10 % with effect from 01 January 2004 (applicable to the profits for 2003 to be distributed in year 2004).

Profits added to share capital (bonus shares) will not be considered as a distribution of profit and will not be subject to withholding tax.

Dividends received from another company are exempt from Corporation tax. Dividends payable to another company are exempt from withholding tax.

The rate of advance (prepaid) Corporation Tax payable on quarterly profits has been increased from %25 to %30 as from 30 June 2003. As from 01 January 2004 the balance of the corporation tax after deduction of the taxes prepaid quarterly will be paid in one instalment by 30 April, the last date for the submission of the annual declaration for corporation tax. This regulation will be applicable to the Corporation Tax declaration to be given for calendar year 2003.

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

The Turkish Tax Procedural Law does not include a procedure for formally agreeing tax assessments. Tax returns must be filed within 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.

The Company's corporation and income tax liability is:

	30.06.2003	31.12.2002
Corporation tax payable	7,585	36,192
Prepaid Corporation tax	(3,320)	(7,668)
Taxes payable	4,265	28,524

Taxes on income comprised:

	01.01-30.06 2003	01.01-30.06 2002
Corporation tax and income tax charge on current period income	(7,585)	(10,662)
Deferred tax (income) / charge	(16,558)	(31,208)
Cancellation of prior year deferred tax	18,798	17,662

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(5,345) (24,208)

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 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 2003 and 31 December 2002 using the expected future tax rates were as follows:

	30.06.2003		31.12.2002	
	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax
Warranty expense provision	19,144	5,743	11,126	3,672
Retirement pay provision	8,962	2,689	4,991	1,646
Unearned interest on notes receivable	23,160	6,948	2,771	914
Capitalised interest on inventory written off	6,355	1,907	10,380	3,426
Capitalised interest on intangible assets written off	4,244	1,273	8,731	2,882
Net effect of adjustments related to leased assets	-	-	147	49
Provision for doubtful receivables	4,062	1,219	2,860	944
Interest income on marketable securities	1,978	593	1,263	417
Accrued expenses	10,120	3,036	11,506	3,797
Other	15,893	4,768	12,229	4,035
		28,176		21,782
Temporary differences arising from restating:				
-Inventories	7,463	2,239	33,678	11,113
-Prepaid expenses	3,636	1,091	3,827	1,263
-Investments	19,405	1,979	19,644	2,160
-Fixed Assets (Including leased fixed assets)	154,447	15,754	123,718	13,607
Income accruals	77,457	23,237	37,023	12,218
Unearned interest on notes payable	602	181	492	163
Other	843	253	169	56
		44,734		40,580

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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 1,323 million (2002- TL 1,260 million 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 July 2003 the ceiling for retirement pay has been increased to TL 1,390 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:

	30.06.2003	31.12.2002
Opening Balance	14,652	13,711
Charge for the period	1,751	4,350
Disposals	(1,013)	(1,834)
Monetary effect	(1,595)	(1,575)
Closing balance	13,795	14,652
Average number of personnel	4,122	3,452
Number of personnel at period end	4,791	3,780
Personnel Cost	38,640	73,902

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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 2003. 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 2003 and 31 December 2002.

The shareholders of the Company and their percentage shareholdings were as follows:

	30.06.2003		31.12.2002	
	Shareholding Amonut	%	Shareholding Amonut	%
Collar Holding BV	82,082	51.6%	82,082	51.6%
Other shareholders	77,018	48.4%	77,018	48.4%
Inflation adjustment of share capital	159,100		159,100	
	315,101		315,101	
Restated share capital equivalent to purchasing power of Turkish Lira	474,201	100.0%	474,201	100.0%

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 30 June 2003 the legal reserves amounted to TL 12,375 (2002 - TL 6,764 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 COMMITMENTS AND CONTINGENCIES

- (a) At 30 June 2003 the Company had contingent liabilities of TL 63,996 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\$ 159,356,593 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 (2002 - TL 50,163 billion) as collateral against bank loans and bank guarantees on letters of credit.
- (e) Under the Investment Certificates obtained, the Company has to increase its share capital in cash by TL 16,000 until 31 March 2004 and TL 63,956 until 27 February 2005.