

**VESTEL ELEKTRONİK SANAYİ VE TİCARET  
ANONİM ŞİRKETİ AND  
ITS SUBSIDIARIES  
INFLATION ADJUSTED  
CONSOLIDATED  
FINANCIAL STATEMENTS AT  
31 DECEMBER 2003 AND 2002  
TOGETHER WITH AUDITORS REPORT**

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

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 2003 and 2002 and the related consolidated statements of income, changes in equity 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.

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.

In our opinion, the consolidated 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 2003 and 2002 and the consolidated results of their operations and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

ARKAN & ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş.  
Member Firm of Grant Thornton International

Nazım Hikmet  
Partner

İstanbul  
4 April 2004

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED BALANCE SHEETS**  
**AT 31 DECEMBER 2003 AND 2002**

(Currency: billions of Turkish Lira in equivalent purchasing power at 31 December 2003)

	Note	31.12.2003	31.12.2002
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	496,677	462,262
Trade receivables	5	793,359	764,910
Due from group companies	6	44,590	172,066
Inventories	7	540,974	481,612
Other current assets	8	191,942	138,938
<b>Total current assets</b>		<b>2,067,542</b>	<b>2,019,788</b>
<b>NON CURRENT ASSETS</b>			
Trade receivables and deposits		21,327	8,515
Investments, net	9	4,165	35,093
Property, plant and equipment, net	10	601,006	338,652
Intangible assets, net	11	127,694	87,402
Deferred tax asset	15	43,266	22,264
<b>Total non current assets</b>		<b>797,458</b>	<b>491,926</b>
<b>TOTAL ASSETS</b>		<b>2,865,000</b>	<b>2,511,714</b>
<b>CURRENT LIABILITIES</b>			
Bank Borrowings	12	88,972	98,627
Trade payables	13	1,131,886	818,357
Other payables and accrued expenses	14	100,702	72,699
Taxation on income	15	8,567	29,156
<b>Total current liabilities</b>		<b>1,330,127</b>	<b>1,018,839</b>
<b>NON CURRENT LIABILITIES</b>			
Bank Borrowings	12	470,734	536,944
Trade payables	13	5,453	-
Reserve for retirement pay	16	17,208	14,977
Deferred tax liability	15	124,239	41,480
<b>Total non current liabilities</b>		<b>617,634</b>	<b>593,401</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	23		
<b>CAPITAL AND RESERVES</b>			
Share capital	17	484,700	484,700
Minority Interest		54,712	832
General reserve	18	308,795	367,394
Net income for the year		69,032	46,548
<b>Total equity</b>		<b>917,239</b>	<b>899,474</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,865,000</b>	<b>2,511,714</b>

The accompanying notes are an integral part of these statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**  
(Currency: billions of Turkish Lira in equivalent purchasing power at 31 December 2003)

	Note	01.01.- 31.12.2003	01.01.- 31.12.2002
Net Sales	20.1	3,130,162	2,645,593
Cost of Sales		(2,565,492)	(1,996,976)
<b>GROSS PROFIT</b>	20.3	<b>564,670</b>	<b>648,617</b>
Selling Expenses		(241,535)	(170,637)
General and Administrative Expenses		(93,245)	(94,639)
Warranty Expenses		(22,455)	(23,309)
Other Income / (Expense), net	21	17,850	16,157
Loss on disposal of discontinued operations	19	--	(26,557)
<b>INCOME FROM OPERATIONS</b>		<b>225,285</b>	<b>349,632</b>
Financial Expenses, net	22	(94,825)	(201,131)
<b>INCOME BEFORE TAXATION</b>		<b>130,460</b>	<b>148,501</b>
TAXATION CHARGE			
Current		(39,989)	(36,994)
Deferred		11,766	(1,160)
Taxation on income	15	(28,223)	(38,154)
<b>INCOME BEFORE MINORITY INTEREST</b>		<b>102,237</b>	<b>110,347</b>
Minority Interest		(769)	(14)
<b>INCOME BEFORE MONETARY LOSS</b>		<b>101,468</b>	<b>110,333</b>
Monetary Loss	24	(34,066)	(63,785)
Translation gain		1,630	--
<b>NET INCOME FOR THE YEAR</b>		<b>69,032</b>	<b>46,548</b>
Weighted average number ('000s) of shares with face value of TL 1,000 each		159,100,000	159,100,000
Basic and fully diluted earnings per share (in full TL)		434	293
Dividends per share (in full TL)		--	--
Earnings before interest, tax, depreciation and amortisation (EBITDA) (in billions of Turkish Lira)		299,305	414,213

The accompanying notes are an integral part of these statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES**  
**CONSOLIDATED CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**  
**(Currency: billions of Turkish Lira in equivalent purchasing power at 31 December 2003)**

	<b>01.01.- 31.12.2003</b>	<b>01.01.- 31.12.2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	69,032	46,548
Adjustment to reconcile net income to net cash provided from operating activities:		
Depreciation and amortisation	74,020	64,581
Provision for retirement pay	2,231	962
Deferred taxation, net	(11,766)	1,160
Discounting of notes receivable and payable, net	12,251	1,817
Previous years losses of subsidiaries included in consolidation first time as of 01.01.2003	(24,431)	-
Merger of related parties under Vestel Komunikasyon A.Ş.	(7,193)	-
Transfer of minority interest	-	2,019
Disposal of retained earnings on sale of subsidiary	-	8,882
Loss on sale of investment	-	26,557
Others	-	1,608
Changes in operating assets and liabilities		
Trade receivables	(44,088)	(176,910)
Due from related parties	127,476	(112,237)
Inventories	(59,362)	11,351
Prepayments and other current assets	(53,004)	51,908
Other non-current assets	(12,812)	33,338
Trade payables	316,917	203,344
Due to related parties	-	(6)
Other payables and accrued liabilities	28,003	15,986
Other non-current liabilities	5,453	(3,793)
Taxation on income	(20,589)	(2,524)
<b>Net cash provided by (used in) operating activities</b>	<b>402,138</b>	<b>174,591</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Current bank borrowings	(9,655)	(305,983)
Non-current bank borrowings	(66,210)	422,188
Proceeds from sale of subsidiary	-	(50,270)
Minority interest	53,880	(2,007)
<b>Net cash (used for) provided from financing activities</b>	<b>(21,985)</b>	<b>63,928</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment and intangible assets	(376,666)	(61,416)
Consideration received on disposal of subsidiary	-	27,785
Decrease/(Increase) in investments	30,928	(3,176)
Proceeds from sale of subsidiary	-	(4,071)
Disposal of marketable securities	41,696	78,847
<b>Net cash (used for)/ provided investing activities</b>	<b>(304,042)</b>	<b>37,969</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>76,111</b>	<b>276,488</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>420,566</b>	<b>144,078</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>496,677</b>	<b>420,566</b>

The accompanying notes are an integral part of these statements.

**VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**  
(Currency: billions of Turkish Lira in equivalent purchasing power at 31 December 2003)

	Share Capital	General Reserve	Minority Interest	Net income for the year	Total Shareholders' Equity
<b>Balance at 1 January 2002</b>	<b>484,700</b>	<b>302,737</b>	<b>2,840</b>	<b>53,756</b>	<b>844,033</b>
Distribution of income					
- Transfer to reserves		53,756		(53,756)	--
Movement during the year due to change in number of subsidiaries consolidated			(2,008)		(2,008)
Transfer of minority		2,019			2,019
Transfer of net gain/(loss) on discontinued operations		8,882		(1,716)	7,166
Net income for the year on continuing operations				48,264	48,264
<b>Balance at 1 January 2003</b>	<b>484,700</b>	<b>367,394</b>	<b>832</b>	<b>46,548</b>	<b>899,474</b>
Distribution of income					
- Transfer to reserves		46,548		(46,548)	--
Movement during the year due to change in number of subsidiaries consolidated			53,880		53,880
Merger of related parties under Vestel Komunikasyon A.Ş.		(7,193)			(7,193)
Net transfer of loss on consolidated subsidiaries as of 1.1.2003		(24,431)			(24,431)
Deferred tax liability (note 2)		(73,523)			(73,523)
Net income for the year				69,032	69,032
<b>Balance at 31 December 2003</b>	<b>484,700</b>	<b>308,795</b>	<b>54,712</b>	<b>69,032</b>	<b>917,239</b>

The accompanying notes are an integral part of these statements.

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 A.Ş. under the Turkish Commercial Code and was registered in İstanbul, Turkey. The name was changed to Star Elektronik Sanayi ve Ticaret A.Ş. during the same year. In April 1984 Polly Peck Group acquired the Company and changed its name to Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi which has been its current name. In 1990 18% of the Company's shares were issued to the public at the İstanbul Stock Exchange. The Company has been operating under 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 31 December 2003 the Company's production capacity for colour televisions and monitors was 8,300,000 (2002 - 7,000,000) and nil (2002 - 1,000,000) units per year respectively.

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 ( % )	
			31.12.2003	31.12.2002
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	Marketing	99.9%	99.9%
Vestel Bilişim Teknolojileri Ticareti A.Ş.	Turkey	Information	-	99.7%
Vestel Kommunikation Sanayi ve Ticareti A.Ş.	Turkey	Manufacturing	99.2%	98.7%
Vestel Dış Ticaret A.Ş.	Turkey	Marketing	99.7%	99.7%
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. *	Turkey	Manufacturing	35.0%	-
Deksar Multimedya *	İstanbul	Information	99.9%	-
Vestel Holland BV *	Netherlands	Marketing	99.7%	-
Veseg Video Handelsgesellschaft GmbH *	Germany	Marketing	50.8%	-
Vestel Italy SRL *	Italy	Marketing	50.8%	-
Cabot Communications Ltd. *	England	Software	82.5%	-
Vestel France SA *	France	Marketing	99.5%	-
Vestel Iberia SL *	Spain	Marketing	99.7%	-
Vestel Trade CIS *	Russia	Manufacturing	100.0%	-
Vestel Benelux BV *	Netherlands	Marketing	50.8%	-
Vestel UK *	England	Marketing	99.7%	-

The Company has always exercised effective control over the management of each of these companies. However the companies which are nominated by \* have been consolidated first time in 2003.

\* The companies included in the consolidation for the first time in 2003 have been consolidated as from 01 January 2003 except Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. which has been consolidated as of 31 December 2003. The net effect of these consolidations TL 24,431 billion has been deducted from the general reserves.

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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).

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 21).

## 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.

As from 2003 the Company started to calculate deferred tax on unearned interest income which has affected the total balance of deferred tax liability. The charge of TL 73,523 billion to the general reserve account represented the portion of this deferred tax charge relating to prior years.

### 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 31 December 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 31 December 2003, the three year cumulative rate has been 181% (2002: 227%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors are given below:

Year	31.12.2003	31.12.2002	31.12.2001	31.12.2000
Index	7,382.1	6,478.8	4,951.7	2,626.0
Conversion factor	1.000	1.139	1.491	2.811

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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 31 December 2003.
- monetary assets and liabilities reported in the balance sheet at 31 December 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.
- 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 A.Ş. (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.

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**(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, notes payable and post dated cheques at the balance sheet date, at the rate of 48% (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 31 December 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 31 December 2003, unless the market value is known, in which case they are restated at market value. Certain subsidiaries which have been consolidated first time in 2003 were recorded at restated cost at 31 December 2002 (see notes 1 and 9).

**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.

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**Property, plant and equipment and related depreciation and amortisation** – Property, plant and equipment is carried at cost, restated in equivalent purchasing power at 31 December 2003. Depreciation and amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows :

	Years
Buildings	25 to 50
Machinery, equipment, installations and moulds	10 to 15
Furniture, fixtures and office equipment	5 to 12.5
Motor vehicles	5 to 12.5

**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.

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 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.

**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 31 December 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.

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**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.

**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.

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**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.

#### 4 CASH AND CASH EQUIVALENTS

	31.12.2003	31.12.2002
Cash at bank and in hand	495,927	420,566
Reverse repurchase agreements	750	-
Marketable securities	-	41,696
	496,677	462,262
Less: Marketable securities with maturity over three months	-	(41,696)
<b>Cash and cash equivalents at cash flow statement</b>	<b>496,677</b>	<b>420,566</b>

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.

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## 5 TRADE RECEIVABLES

	31.12.2003	31.12.2002
Trade receivables	645,983	678,549
Notes receivable	165,839	93,662
Less: unearned interest on notes receivable	(15,639)	(4,016)
Less: allowance for doubtful receivables	(4,111)	(3,962)
Others	1,287	677
	793,359	764,910

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

	31.12.2003	31.12.2002
Begining balance	3,962	2,355
Charge for the period	2,077	3,153
Proceeds from doubtful receivables	(1,443)	(1,278)
Monetary gain	(485)	(268)
Ending balance	4,111	3,962

Trade receivables include the following balances from related parties:

	31.12.2003	31.12.2002
<u>Trade receivables</u>		
Vestel Beyaz Eşya San. Ve Tic. A.Ş.	-	67
Deksar Multimedya ve Telekom. A.Ş.	-	26,397
Zorlu Linen Dok ve Emp Konf A.Ş.	-	28
Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A:Ş.	13	11
Zorlu Petrogas Petrol, Gaz A.Ş.	30	-
Vestel Savunma Sanayi A.Ş.	48	-
Denizbank A.Ş.	18	-
Vestel Elektrikli Gereçler A.Ş.	69	-
Korteks Mensucat San. Ve Tic. A.Ş.	-	172
Vestel France S.A.	-	21,560
Vestel Holland B.V.	-	84,631
Vestel USA Inc.	2	13,297
Veseg GmbH	-	37,153
Vestel Italy SRL	-	11,701
Deniz Finansal Kiralama	-	281
Vestel Iberia S.L.	-	20,825
Zorlu Holding A.Ş.	-	970
Vinpa Pazarlama Ticaret A.Ş.	-	40
Bel Air Industries S.A. / France	-	18
Other group companies	23	14
	203	217,165

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## 6 DUE FROM GROUP COMPANIES

Balances with subsidiaries and affiliated companies were:

	31.12.2003	31.12.2002
Vestelnet Elektronik İletişim ve Bil. A.Ş.	44,559	94,817
Vestel USA Inc.	21	13
Deksar Multimedya ve Telekom. A.Ş.	-	21,609
Vestel Holland B.V.	-	3,586
Veseg GmbH	-	608
Cabot Communications Ltd.	-	2,078
Vestel Iberia SL	-	19
Vestel Beyaz Eşya A.Ş.	-	49,336
Vestel Savunma Sanayi A.Ş.	10	-
	44,590	172,066

## 7 INVENTORIES

	31.12.2003	31.12.2002
Raw materials	205,340	160,161
Work in process	31,212	23,618
Finished goods	48,838	120,891
Merchandise	135,601	30,858
Spares and supplies	3,009	6,148
Goods in transit	116,974	139,936
	540,974	481,612

## 8 OTHER CURRENT ASSETS

	31.12.2003	31.12.2002
Prepaid expenses	20,834	18,007
Income accruals	132,380	110,021
VAT receivable	30,791	2,533
Work advances	7,085	8,037
Due from personnel	837	280
Personnel advances	15	60
	191,942	138,938

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**9 INVESTMENTS, net**

Entity	Share percentage		Participation Amount	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Vestpro Electronics SA	52.0%	52.0%	252	252
Zorlu Enerji Elektrik Üretimi A.Ş.	Less than 1%	Less than 1%	2,581	2,444
Vestelnet Elektronik İletişim A.Ş.	2.2%	2.20%	1,554	1,554
Teralogic Inc USA	1.5%	1.5%	1,160	1,160
Tursoft A.Ş.	7.1%	7.1%	25	25
Vestel USA Inc.	100.0%	100.00%	196	196
Zorlu Endüstriyel Enerji A.Ş.	1.0%	1.0%	2	2
İzmir Teknoloji Geliştirme A.Ş.	5.0%	-	3	-
<u>Less: Porvision for impairment in value</u>				
Vestpro Electronics SA			(252)	-
Teralogic Inc USA			(1,160)	-
Vestel USA Inc.			(196)	-
			4,165	5,633
<u>Consolidated subsidiaries ( 01.01.- 31.12.2003)</u>				
Deksar Multimedya Telekom A.Ş.	-	99.9%	-	14,448
Vestel France SA	-	99.9%	-	175
Vestel Holland BV	-	100.0%	-	155
Vestel CIS	-	74.0%	-	870
Cabot Communications Ltd	-	82.5%	-	562
Veseg Video Handelsgesellschaft GmbH	-	51.0%	-	143
Vestel Iberia SL	-	91.1%	-	184
Vestel Italy SRL	-	51.0%	-	58
			-	16,595
<u>Companies merged under Vestel Komunikasyon A.Ş. as of 07.03.2003</u>				
Vescolor Tüp ve Komponent Sanayi A.Ş.	-	100.0%	-	4,823
Vinpa Pazarlama Ticaret A.Ş.	-	5.0%	-	2
Sanalnet İnternet Pazarlama ve Ticaret A.Ş.	-	80.0%	-	10
Vestel Müşteri İletişim A.Ş.	-	99.9%	-	2,812
			-	7,647
Vestel Beyaz Eşya Sanayi A.Ş. (consolidated as of 31.12.2003)	-	10.0%	-	5,218
			4,165	35,093

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The following companies have been consolidated in the accompanying financial statements as of and for the year ended 31 December 2003;

Deksar Multimedia Telekom A.Ş. (incorporated in Turkey) was established in December 1998 as an Internet service provider via satellite.

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

Vestel CIS (Formerly named as Vestel Record Ltd.) is a television production factory built in Russia. It has started its production activity in 2003.

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

Veseg Video Handelsgesellschaft GmbH was established in 1995 for the purpose of repair, import, distribute and market electrical household appliances in Germany.

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

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.

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.

The following company has been consolidated in the accompanying financial statements as of 31 December 2003;

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (incorporated in Turkey), was established in November 1997 for the purpose of manufacturing refrigerators and air conditioning units. As of 31 December 2002 the Company's investment in Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. stood at 10% shareholding and it was recorded at restated cost. On 31 December 2003 the Company increased its shareholding in Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. to 35% and it has been consolidated in the accompanying financial statements.

Teralogic Inc USA was established in May 1996 for the purpose of providing components for digital televisions. This company has been inactive in 2003.

Vestpro Electronics SA has been inactive in 2003 and 2002.

Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş. 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 2003, in line with changes required by IAS 39.

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

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## 10 PROPERTY, PLANT AND EQUIPMENT, net

	Land and Buildings	Machinery and equipment	Motor vehicles	Furniture and Fixtures	Construction in progress and advances given	Total
<b><u>Restated Cost</u></b>						
Balance at 31 December 2001	63,345	498,391	1,403	47,016	6,700	616,855
Additions	840	48,404	-	1,432	4,498	55,174
Disposal of subsidiary		(9,491)		(3,041)		(12,532)
Transfers	126	2,259			(2,385)	-
Disposals		(6,286)	(282)	(924)		(7,492)
Balance at 31 December 2002	64,311	533,277	1,121	44,483	8,813	652,005
Additions	8,170	41,630	985	5,370	9,594	65,749
Merger of related parties under Vestel Komunikasyon A.Ş.	-	802	81	2,786	-	3,669
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	49,532	249,179	555	6,516	10,751	316,533
Foreign exchange differences	(241)	(1,787)	(19)	(18)	(18)	(2,083)
Transfers	615	14,507			(15,122)	-
Disposals	(3,252)	(29,846)	(174)	(4,217)		(37,489)
Balance at 31 December 2003	119,135	807,762	2,549	54,920	14,018	998,384
						-
<b><u>Restated Accumulated Depreciation</u></b>						
Balance at 31 December 2001	6,361	256,760	553	21,577		285,251
Depreciation charge	585	30,041	98	5,348		36,072
Disposal of subsidiary	-	(3,009)	-	(1,106)		(4,115)
Disposals	(9)	(3,388)	(34)	(424)		(3,855)
Balance at 31 December 2002	6,937	280,404	617	25,395	-	313,353
Depreciation charge	890	35,719	300	6,027		42,936
Merger of related parties under Vestel Komunikasyon A.Ş.	-	189	62	2,110		2,361
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	5,421	48,459	272	2,188		56,340
Foreign exchange differences	(52)	(296)	6	(29)		(371)
Disposals	(1,322)	(15,122)	(128)	(669)		(17,241)
Balance at 31 December 2003	11,874	349,353	1,129	35,022	-	397,378
<b><u>Net Book Value as of</u></b>						
31 December 2002	57,374	252,873	504	19,088	8,813	338,652
31 December 2003	107,261	458,409	1,420	19,898	14,018	601,006

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The Company's policy is to trace all material and significant fixed asset additions under construction in progress and transfer to the related fixed asset accounts when the construction process is completed. Construction-in-progress balance represented investment made in Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. to increase its refrigerator and room air conditioning units production capacity, new investment in washing machine segment and in Vestel Elektronik Sanayi ve Ticaret A.Ş. new investment in high end television units during 2003.

The net book value of fixed assets held under finance leases (which mainly comprise machinery and equipment) amounted to TL 31,818 billion at 31 December 2003 (2002 - TL 1,570 billion).

Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (2002: TL 51,255 billion) as collateral against bank loans and bank guarantees on letters of credit.

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## 11 INTANGIBLE ASSETS, net

	Goodwill	Research and Development cost	Other Intangible assets	Total
<b><u>Restated Cost</u></b>				
Balance at 31 December 2001	29,260	59,439	72,192	160,891
Additions	-	11,440	10,923	22,363
Disposal of subsidiary	-	-	(1,087)	(1,087)
Disposals	-	-	(4,256)	(4,256)
Balance at 31 December 2002	29,260	70,879	77,772	177,911
Additions	31,771	10,335	5,166	47,272
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	-	-	38,380	38,380
Exchange differences	-	-	(6)	(6)
Disposals	-	(55,442)	(4,629)	(60,071)
Balance at 31 December 2003	61,031	25,772	116,683	203,486
<b><u>Restated Accumulated amortisation</u></b>				
Balance at 31 December 2001	4,374	20,883	38,019	63,276
Amortisation charge	1,464	14,177	12,868	28,509
Disposal of subsidiary	-	-	(485)	(485)
Disposals	-	-	(791)	(791)
Balance at 31 December 2002	5,838	35,060	49,611	90,509
Amortisation charge	3,052	14,176	13,856	31,084
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	-	-	6,759	6,759
Exchange differences	-	-	(3)	(3)
Disposals	-	(49,236)	(3,321)	(52,557)
Balance at 31 December 2003	8,890	-	66,902	75,792
<b><u>Net Book Value as of</u></b>				
31 December 2002	23,422	35,819	28,161	87,402
31 December 2003	52,141	25,772	49,781	127,694

Disposals in research and development cost account represented elimination of development costs which were fully amortised.

Goodwill brought forward from 31 December 2001 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 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.

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As of 31 December 2003, the Company acquired additional 25% of the voting shares of Vestel Beyaz Eşya A.Ş. (see notes 1 and 9). The Company paid TL 52,384.2 billion in cash for the fair value of the identifiable net assets and as a result a goodwill amount of TL 31,771 billion arose from this acquisition.

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

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.

## 12 BANK BORROWINGS

	Foreign currency balance		TL equivalent	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
<b>Current</b>				
Foreign currency bank borrowings				
-USD ('000)	5,952	8,047	8,308	14,986
-EURO ('000)	40,573	37,726	70,787	73,225
Turkish lira borrowings and accrued interest on bank borrowings			9,877	10,416
			88,972	98,627
<b>Non-current</b>				
Foreign currency bank borrowings				
-USD ('000)	210,549	210,144	293,892	391,370
-EURO ('000)	101,337	75,000	176,842	145,574
			470,734	536,944

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 2% and 7.5% (2002 - 4.5% and 11.5%) and between 25% and 40% (2002- 48% and 65%) respectively.

Summary maturity schedule of bank borrowings were as follows:

	31.12.2003	31.12.2002
Due in one year	88,972	98,627
Due between two to five years	444,080	536,944
Over five years	26,654	-
	559,706	635,571

Letters of guarantee and notes amounting to TL 28,614 (EURO 14,623,549 and USD 2,217,012) have been given as collateral for Turkish Eximbank and other credits (2002- EURO 20,414,000).

Property, plant and equipment have been mortgaged to the extent of TL 45,000 billion (2002: TL 51,255 billion) as collateral against bank loans and bank guarantees on letters of credit.

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### 13 TRADE PAYABLES

	31.12.2003	31.12.2002
<b><u>Current</u></b>		
Trade payables	810,605	325,541
Finance lease liabilities	4,473	134
Less : Future finance charges on finance leases	(1,104)	(9)
Letters of credit	101,509	319,007
Letters of credit discounted	158,382	153,106
Bills of exchange drawn or accepted	-	-
Notes payable	60,744	20,912
Less: allowance for unearned interest income	(3,388)	(334)
Other	665	-
	<b>1,131,886</b>	<b>818,357</b>
<b><u>Non-Current</u></b>		
Finance lease liabilities (between two to five years)	5,863	-
Less : Future finance charges on finance leases	(471)	-
Other payables	61	-
	<b>5,453</b>	<b>-</b>

Trade payables include the following balances owing to related parties;

	31.12.2003	31.12.2002
<b><u>Trade payables</u></b>		
Zorlu Holding A.Ş.	1,344	1,600
Vestelnet Elektronik İletişim A.Ş.	128	-
Other related parties	44	-
	<b>1,516</b>	<b>1,600</b>

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

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#### 14 OTHER PAYABLES AND ACCRUED EXPENSES

	31.12.2003	31.12.2002
Income tax and social security premiums payable	7,934	6,197
Advances received	28,567	8,648
Warranty expense provision	33,902	31,208
Accrued expenses	26,941	23,360
Other	3,358	3,286
	100,702	72,699

#### 15 TAXATION ON INCOME

The Corporation Tax rate on the profits for the calendar year 2003 is % 30 (2002: 33%). However according to Law 5035 published on 02 January 2004 the Corporation Tax rate for the taxable profits of 2004 only has been determined as 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 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 declared by 15 April and paid in one installment by 30 April. This regulation will be applicable to the Corporation Tax declaration to be given for calendar year 2003. Previously the balance of Corporation Tax was paid in three installments (30 April, 31 July and 30 October).

The part of profits distributed in dividend to individuals and non-resident companies are subject to withholding tax as follows:

- Up to 24 April 2003, the rate was 5.5% and 16.5% respectively for public and non public companies.
- 24 April 2003 – 31 December 2003, the rate was 11%.
- After 01 January 2004 (applicable to profits of year 2003 distributed in year 2004) the rate has become 10%.

However the following are exempt from withholding tax:

- Dividends out of profits obtained up to 31 December 1998.
- Dividends out of profits exempted from Corporation Tax obtained up to 31 December 2002.
- Investment allowances relating to fixed assets purchased before 24 April 2003 which allowances bore tax at 19.8%.
- No withholding tax has been payable on undistributed profits, profits added to share capital (bonus shares) and dividends paid to other resident companies.

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, may be based on up to 100% of the investment value in fixed assets, but these are subject to tax at 19.8%. For expenditure on fixed assets incurred after 24 April 2003 in respect of the Investment Incentive

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Certificates obtained before 24 April 2003 a company may opt for investment allowance of 40% (instead of up to 100%) thus avoiding the tax of 19.8% provided an application to this effect is submitted to the Tax Office by 15 May 2003. The date of this option has subsequently been extended to 10 April 2004 the latest date on which Corporation Tax Declaration for the first quarter of year 2004 is to be made.

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 three and half months of the year-end and may be subject to investigation, together with their underlying accounting records, by the tax authorities at any stage during the following five years.

The Law nr. 5024 published on 30.12.2003 has introduced changes and additions to the taxation of companies with effect from 01 January 2004, as follows:

- Taxable profits as from 01 January 2004 will be based on financial statements adjusted for the effects of inflation; such adjustments for inflation will be made in respect of each quarterly tax period during the year.
- The adjustments for inflation will be based on the increase in Wholesale Price Indices published by the Turkish Institute of Statistics.
- The adjustment for inflation has to be made if cumulative inflation rate for previous 36 months exceeds 100% and the inflation rate for previous 12 months exceed 10%. If the 100% and the 10% condition do not apply simultaneously there will be no requirement to adjust for inflation. The Council of Ministers may reduce the ceiling from 100% to 35% or increase the 12 monthly limit from 10% to 25%.
- The financial statements at 31 December 2003 must be adjusted for inflation through the following formula:
  - Total of adjusted assets
  - Less:- total of adjusted liabilities (-)
    - adjusted share capital (-)
    - adjusted share premium account

“Difference”
- The “difference” will be termed “accumulated profit/loss” and will form part of shareholders’ equity.
- The accumulated profit ascertained as above will not be subject to any tax. If the difference results in an accumulated loss, this loss will not be deductible from future profits. The losses deductible from profits of 2004 and future years will only be the losses for 2003 and previous years as disclosed in the Corporation tax declarations for 2003 and previous years on historical basis.
- The adjustments to share capital and to other accounts forming part of shareholders’ equity may be added to share capital by way of bonus shares. Issue of such bonus shares will not considered as distribution of profit.
- Corporation Tax calculation for year 2003 will be based on the regulations valid up to 31 December 2003.
- The following will be discontinued as from 01 January 2004.
  - fiscally allowed revaluation of fixed assets
  - valuation of stocks on a LIFO basis
  - cost increase reserve for fixed assets

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- the part of financing costs disallowed for tax purposes
- depreciation of up to 20% which is left to the option of the taxpayer. Instead depreciation rates will be ascertained by the tax administration on basis of economic life time.

Taxes on income attributable to income from continuing operations differed from the amounts computed by applying the aggregate income tax rate of 30% (2002: 33%) to pre-tax income from continuing operations as a result of the following:

	31.12.2003	31.12.2002
Computed tax expense at statutory rate	39,138	49,005
<u>Increase / (Decrease) in income taxes resulting from:</u>		
Effect of permanent differences arising from:		
Investment incentives	(1,925)	(3,576)
Effect of restatement per IAS 29	(861)	(5,981)
Other	3,637	(2,455)
	<u>39,989</u>	<u>36,993</u>

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:

	31.12.2003	31.12.2002
Corporation and income taxes	39,989	36,994
Prepaid taxes	(10,890)	(7,838)
Deferred tax liability (non current)	(20,532)	-
<u>Taxes payable (current)</u>	<u>8,567</u>	<u>29,156</u>

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

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):

	31.12.2003	31.12.2002
Deferred tax Liability, net	(60,440)	(19,217)
Deferred tax charge	11,766	(1,160)

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The composition of cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at 31 December 2003 and 2002 using the expected future tax rates were as follows:

	31.12.2003		31.12.2002	
	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax
<b><u>Deferred Tax Asset</u></b>				
Warranty expense provision	25,867	8,536	11,373	3,753
Retirement pay provision	13,894	4,585	5,101	1,683
Unearned interest on notes receivable	7,990	2,637	2,833	934
Capitalised finance charges on inventory written off	8,812	2,908	10,610	3,501
Capitalised finance charges On intangible assets written off	6,532	2,156	8,924	2,945
Adjustment related to leased assets	8,520	2,812	150	50
Provision for doubtful receivables	1,170	386	2,924	965
Interest income on marketable securities	41	14	1,291	426
Expense accruals	9,807	3,236	11,773	3,881
Investment incentive allowances	91,714	12,106	-	-
Other	11,788	3,890	12,499	4,126
		43,266		22,264
<b><u>Deferred Tax Liability</u></b>				
Temporary differences arising from restating:				
-Inventories	8,053	2,657	34,423	11,359
-Prepaid expenses	7,618	2,514	3,912	1,291
-Investments	22,483	2,473	20,079	2,209
-Fixed Assets (Including leased fixed assets)	205,151	22,567	126,457	13,910
Income accruals	282,094	93,091	37,843	12,488
Unearned interest on notes payable	2,767	913	502	166
Other	74	24	173	57
		124,239		41,480

For the years ended 31 December 2003 and 2002 taxes on income comprised:

	31.12.2003	31.12.2002
Corporation and income taxes - current	(19,457)	(36,994)
Deferred tax charge – non current	(20,532)	-
Net deferred tax asset / (liability)	(80,973)	(19,216)
Deferred tax charge on income accruals relating to prior years (note 2)	73,523	-
Cancellation of prior year deferred tax	19,216	18,056
<b>Income tax charge</b>	<b>(28,223)</b>	<b>(38,154)</b>

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## 16 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 1,389.9 million (2002: TL 1,260.1 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 January 2004 the ceiling for retirement pay has been increased to TL 1,485 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:

	31.12.2003	31.12.2002
Opening Balance	14,977	14,015
Charge for the period	5,490	4,446
Disposals	(1,426)	(1,874)
Monetary gain	(1,833)	(1,610)
<b>Closing balance</b>	<b>17,208</b>	<b>14,977</b>

The number of personnel at 31 December 2003 was 7,552 including 1,942 Vestel Beyaz Eşya employees.

Wages and salaries paid for the year ended 31 December 2003 amounted to TL 82,120 billion (2002-TL 75,538 billion).

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## 17 SHARE CAPITAL

The authorised share capital of the Company comprised 220,000,0000 shares of par value TL 1,000 each at 31 December 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 31 December 2003 and 2002.

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

	Shareholding %		Shareholding amount	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Collar Holding BV	51.6%	51.6%	82,082	82,082
Other shareholders	48.4%	48.4%	65,833	65,833
	100.0%	100.0%	147,915	147,915
Inflation adjustment of share capital			336,785	336,785
Restated share capital equivalent to purchasing power of Turkish Lira			484,700	484,700

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

## 18 GENERAL RESERVE

General reserves comprise legal reserves and retained earnings.

At 31 December 2003 the legal reserves amounted to TL 12,541 (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.

## 19 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.

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## 20.1 NET SALES

The composition of sales volume and amount by principal product groups can be summarised as follows:

	2003		2002	
	Sales Amount	Sales volume	Sales amount	Sales volume
Television	<b>2,211,829</b>	<b>7,669,291</b>	<b>1,856,467</b>	<b>6,355,798</b>
- Domestic	194,142	525,315	122,611	269,019
- Export	405,343	1,709,177	1,733,856	6,086,779
- Foreign marketing companies	1,612,344	5,434,799		
Monitor	<b>13,088</b>	<b>80,805</b>	<b>39,300</b>	<b>156,779</b>
- Domestic	13,088	80,805	36,145	144,191
- Export	-	-	3,155	12,588
- Foreign marketing companies	-	-	-	-
DVD / DVB	<b>564,521</b>	<b>4,728,605</b>	<b>373,513</b>	<b>2,424,861</b>
- Domestic	65,186	381,198	22,798	57,166
- Export	108,783	974,894	350,715	2,367,695
- Foreign marketing companies	390,552	3,372,513		
Other	<b>340,724</b>		<b>376,313</b>	
- Domestic	208,103		213,233	
- Export	86,005		163,080	
- Foreign marketing companies	46,616			
	<b><u>3,130,162</u></b>		<b><u>2,645,593</u></b>	

## 20.2 The breakdown of television exports by country is as follows:

	2003		2002	
	Sales Amount	Sales volume	Sales Amount	Sales volume
Germany	437,691	1,458,232	390,547	1,371,031
United Kingdom	298,674	989,324	276,937	972,201
France	225,302	755,017	232,543	816,352
Denmark	15,346	52,345	21,855	76,725
Portugal	12,221	41,439	17,736	62,264
Netherlands	66,076	221,429	25,607	89,895
Spain	279,211	946,744	178,214	625,627
Italy	213,287	727,518	114,349	401,426
Russia	99,837	336,535	-	-
Others	370,042	1,615,393	476,068	1,671,258
	<b><u>2,017,687</u></b>	<b><u>7,143,976</u></b>	<b><u>1,733,856</u></b>	<b><u>6,086,779</u></b>

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**20.3** The summary of contribution to gross profit and gross margin is as follows:

	2003		2002	
		%		%
<i>Domestic</i>				
Televisions	66,008	34	52,722	43
Monitors	1,963	15	6,145	17
DVD / DVB	18,904	29	6,862	30
Others	37,458	18	102,352	48
<b>Domestic total</b>	<b>124,333</b>	<b>26</b>	<b>168,081</b>	<b>38</b>
<i>Export</i>				
Televisions	339,225	17	345,519	20
Monitors	-		316	10
DVD / DVB	79,893	16	94,693	27
Others	21,219	16	40,008	27
<b>Export total</b>	<b>440,337</b>	<b>17</b>	<b>480,536</b>	<b>22</b>
<b>Total</b>	<b>564,670</b>	<b>18</b>	<b>648,617</b>	<b>25</b>

**20.4** The summary of segment assets and liabilities are summarised as follows:

	Television and Monitor		DVD and DVB		Refrigerator and Room air conditioning units		Others	
	2003	2002	2003	2002	2003	2002	2003	2002
	<b>Trade receivables</b>	555,299	616,108	127,731	56,624	93,575		16,754
<b>Inventories</b>	364,179	386,007	96,666	56,781	61,589		18,540	38,824
<b>Property, plant And equipment, net</b>	368,874	306,012	57,878	28,013	167,870		6,384	4,626
<b>Intangible assets, net</b>	82,528	59,147	32,920	21,505	6,621		5,625	6,750
<b>Trade payables</b>	796,687	671,714	166,899	60,168	134,349		33,951	86,475

92 % of property, plant and equipment and 80 % of inventories are located in Turkey. The remaining balances are located at overseas subsidiaries in Europe and less than 4% are located in Russia.

At 31 December 2003 72% of trade receivables were from European countries (2002-66%), 23% from Turkish domestic market (2002- 30%) and the remaining 5% from the rest of the world (2002-4%).

At 31 December 2003 50% of trade payables were to European countries (2002-52%) and 25% to Turkish suppliers (2002- 23%) and the remaining 25% to the rest of the world (2002- 25%).

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**21 OTHER INCOME / (EXPENSE), net**

	01.01- 31.12.2003	01.01- 31.12.2002
Scrap and other sales	10,382	7,477
Export commission and freight related income	7,414	5,811
Insurance claims refund	3,273	-
Miscellaneous income	4,078	1,570
Profit on sale of fixed assets	1,908	1,299
Loss on sale of fixed assets	(1,547)	-
Loss as a result of a fire that took place at television factory	(7,159)	-
Miscellaneous expense	(499)	-
	17,850	16,157

At 13 June 2003 a fire took place at the television and monitor plant. Net loss calculated per IAS 29 (inflation adjusted) on damages in inventories, property and monitor production lines and related equipment after the compensation received from insurance companies amounted to TL 7,159 billion.

**22 FINANCIAL EXPENSE, net**

	01.01- 31.12.2003	01.01- 31.12.2002
Net foreign exchange gains / (losses) on imports, exports foreign currency borrowings and other receivables	(97,039)	(212,195)
<u>Interest expense</u>		
-Bank loans	(65,398)	(72,404)
-Letters of credit	(9,145)	(17,023)
-Finance leases	(333)	(1,417)
-Factoring	(27,524)	(22,769)
<u>Interest income</u>		
-Demand deposits	161,244	126,665
<u>Fair value gains / (losses)</u>		
-Listed investments in stock exchange	710	224
-Investment property	1,998	-
-Forward contracts: fair value hedges	(49,761)	-
Bank commissions and other financing expenses	(9,577)	(2,212)
	(94,825)	(201,131)

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### 23 COMMITMENTS AND CONTINGENCIES

- (a) At 31 December 2003 the Company had contingent liabilities of TL 46,897 billion (2002- TL 102,194 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\$ 248,840,375 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 51,255 billion) as collateral against bank loans and bank guarantees on letters of credit.

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**24 Monetary loss of Vestel Elektronik for the years ending 31 December 2003 and 2002**

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.

	31.12.2003	31.12.2002
<b>Opening Working Capital (Working 1)</b>	<b>519,337</b>	<b>(1,302)</b>
Cash movements during the year		
Fixed assets expenditure	(376,666)	(61,416)
Investments	30,928	(3,176)
Long-term receivables and deposits	(12,812)	33,338
Deferred tax asset, net	(11,766)	1,160
Increase in long term debt	(60,757)	418,395
Loss on sale of investment	--	26,557
Transfer to / from minority interest	53,111	2,019
Net assets disposed on sale of subsidiary	--	(54,341)
Addition of general reserves	(31,624)	--
Disposal of retained earnings on sale of subsidiary	--	8,883
Sales	3,130,162	2,645,593
Purchases (Working 3)	(2,579,811)	(1,943,546)
General administration (net off depreciation and reserve for employee termination benefits)	(87,478)	(87,613)
Selling expenses (net off depreciation)	(216,094)	(154,978)
Warranty expenses	(22,455)	(23,309)
Financing expenses	(93,195)	(201,131)
Other income	17,850	16,157
Taxation charge	(28,223)	(38,154)
Minority Interest		(14)
<b>Net Cash Inflow</b>	<b>(288,830)</b>	<b>584,424</b>
Closing Working Capital per above	230,507	583,122
Closing Working Capital (working 2)	196,441	519,337
<b>Monetary Loss</b>	<b>(34,066)</b>	<b>(63,785)</b>

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<b>Working 1: Opening Working Capital</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
Cash and deposits with banks	383,415	144,078
Marketable securities	78,847	120,543
Trade receivables	764,910	589,817
Other current assets	311,004	252,281
	<b>1,538,176</b>	<b>1,106,719</b>
Short-term bank borrowings	(98,627)	(404,611)
Trade payables	(818,357)	(615,013)
Other payables and accrued liabilities	(72,699)	(56,718)
Taxation on income	(29,156)	(31,679)
	<b>(1,018,839)</b>	<b>(1,108,021)</b>
<b>Working capital surplus / (deficit)</b>	<b>519,337</b>	<b>(1,302)</b>
<b>Working 2: Closing Working Capital</b>		
Cash and deposits with banks	454,981	383,415
Marketable securities	41,696	78,847
Trade receivables	793,359	764,910
Other current assets	236,532	311,004
	<b>1,526,568</b>	<b>1,538,176</b>
Short-term bank borrowings	(88,972)	(98,627)
Trade payables	(1,131,886)	(818,357)
Other payables and accrued liabilities	(100,702)	(72,699)
Taxation on income	(8,567)	(29,156)
	<b>(1,330,127)</b>	<b>(1,018,839)</b>
<b>Working capital surplus</b>	<b>196,441</b>	<b>519,337</b>
<b>Working 3: Purchases</b>		
Closing inventories	540,974	481,612
Cost of sales (net off depreciation)	2,520,449	1,954,897
Opening inventories	(481,612)	(492,963)
	<b>2,579,811</b>	<b>1,943,546</b>

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