

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
GROUP OF COMPANIES
INFLATION ADJUSTED
FINANCIAL STATEMENTS AT
31 DECEMBER 2004
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 sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (a Turkish corporation) and its subsidiaries at 31 December 2004 and the related consolidated statement of income, movement in shareholders' equity and cash flow for the year 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 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 2004 and the consolidated results of their operations and cash flows for the year 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

Aykut Halit
Partner

İstanbul
21 March 2005

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2004, 2003 AND 2002

(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

	Note	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
CURRENT ASSETS					
Cash and cash equivalents	5	595.990	565.418	526.240	444.072
Trade receivables	6	1.004.098	903.162	870.775	748.154
Due from group companies	22	38.530	50.761	195.880	28.709
Inventories	7	873.911	615.846	548.268	651.152
Other assets	8	173.294	218.509	158.167	129.122
Total current assets		2.685.823	2.353.696	2.299.330	2.001.209
NON CURRENT ASSETS					
Trade and other receivables		9.972	24.279	9.693	7.429
Investments	9	4.654	4.741	39.950	3.468
Property, plant and equipment, net	10	822.667	684.187	385.522	612.970
Intangible assets, net	11	132.342	145.367	99.499	98.608
Deferred tax asset	15	33.395	49.254	25.345	24.884
Total non-current assets		1.003.030	907.828	560.009	747.359
TOTAL ASSETS		3.688.853	3.261.524	2.859.339	2.748.568
CURRENT LIABILITIES					
Borrowings	12	149.976	105.121	112.420	111.747
Trade payables	13	1.562.878	1.284.707	931.477	1.164.502
Taxation on income	15	13.837	9.753	33.191	10.310
Other liabilities	14	152.891	114.639	82.759	113.918
Total current liabilities		1.879.582	1.514.220	1.159.847	1.400.477
NON CURRENT LIABILITIES					
Borrowings	12	486.906	542.023	611.258	362.794
Trade payables		-	70	-	-
Reserve for retirement pay	16	24.873	19.590	17.050	18.533
Deferred tax liability	15	167.396	141.434	47.221	124.727
Total non-current liabilities		679.175	703.117	675.529	506.054
EQUITY AND RESERVES					
Ordinary shares	17	551.784	551.784	551.784	411.135
Minority interest		105.909	62.284	947	78.913
General reserve	18	389.244	351.533	418.242	290.027
Net income for the period		83.159	78.586	52.990	61.962
Total equity and reserves		1.130.096	1.044.187	1.023.963	842.037
COMMITMENTS AND CONTINGENCIES					
	19				
TOTAL LIABILITIES AND EQUITY		3.688.853	3.261.524	2.859.339	2.748.568

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

		US \$ ('000)			
	Note	2004	2003	2002	2004
Net sales	27	4.404.715	3.563.384	3.011.750	3.281.957
Cost of Sales		(3.686.806)	(2.920.562)	(2.273.362)	(2.747.043)
GROSS PROFIT		717.909	642.822	738.388	534.914
Selling expenses		(304.364)	(274.964)	(194.254)	(226.782)
General and administrative expenses		(132.086)	(106.150)	(107.737)	(98.417)
Warranty expenses		(29.009)	(25.563)	(26.535)	(21.615)
Other income / (expense), net	25	4.997	20.320	18.393	3.723
Loss on disposal of discontinued operations		--	--	(30.233)	--
INCOME FROM OPERATIONS		257.447	256.465	398.022	191.823
Financing income / (expense), net	26	(70.838)	(107.949)	(228.968)	(52.781)
INCOME BEFORE TAXATION		186.609	148.516	169.054	139.042
TAXATION CHARGE					
Current		(39.252)	(45.524)	(42.114)	(29.247)
Deferred		(2.322)	13.394	(1.321)	(1.730)
Taxation on income	15	(41.574)	(32.130)	(43.435)	(30.977)
INCOME BEFORE MONETARY LOSS		145.035	116.386	125.619	108.065
Minority interest		(43.980)	(875)	(16)	(32.770)
Monetary loss	28	(18.791)	(38.781)	(72.613)	(14.001)
Translation gain		895	1.856	--	667
NET INCOME FOR THE YEAR		83.159	78.586	52.990	61.961
Earnings before interest, tax, depreciation and amortisation (EBITDA) (in thousands of New Turkish Lira)		362.026	340.730	471.540	269.745
Basic and fully diluted earnings per share (in full TL)	4	523	494	333	389

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

	Share Capital	General Reserve	Minority interest	Net income for the year	Total Shareholders' Equity
Balance at 1 January 2002	551.784	344.637	3.233	61.196	960.850
Distribution of income					
- Transfer to reserves	--	61.196	--	(61.196)	--
Movement during the year due to change in number of subsidiaries consolidated	--	--	(2.286)	--	(2.286)
Transfer from minority	--	2.298	--	--	2.298
Transfer of net gain/(loss) on discontinued operations	--	10.111	--	(1.953)	8.158
Net income for the period	--	--	--	54.943	54.943
Balance at 1 January 2003	551.784	418.242	947	52.990	1.023.963
Distribution of income					
- Transfer to reserves	--	52.990	--	(52.990)	--
Movement during the year due to change in number of subsidiaries consolidated	--	--	61.337	--	61.337
Merger of related parties under Vestel Kominikasyon A.Ş.	--	(8.189)	--	--	(8.189)
Net transfer of loss on consolidated subsidiaries as of 01.01.2003	--	(27.811)	--	--	(27.811)
Deferred tax liabilities (Note 2)	--	(83.699)	--	--	(83.699)
Consolidated subsidiary as of 1.1.2004	--	--	--	--	--
Net income for the period	--	--	--	78.586	78.586
Balance at 1 January 2004	551.784	351.533	62.284	78.586	1.044.187
Distribution of income					
- Transfer to reserves	--	78.586	--	(78.586)	--
Exchange differences	--	(1.485)	(408)	--	(1.893)
Transfer from minority	--	116	(116)	--	--
Consolidated subsidiaries in 2004	--	(9)	169	--	160
Deferred tax liabilities (Note 2)	--	(39.497)	--	--	(39.497)
Net income for the period	--	--	43.980	83.159	127.139
Balance at 31 December 2004	551.784	389.244	105.909	83.159	1.130.096
US \$ ('000)					
Balance at 31 December 2004	411.135	290.026	78.913	61.962	842.037

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

	US \$ ('000)				
Note	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	01.01- 31.12.2004	
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income for the period	83.159	78.586	52.989	61.961	
Adjustment to reconcile net income to net cash provided from operating activities:					
Depreciation and Amortisation	21	104.579	84.265	73.519	77.922
Provision for retirement pay		5.283	2.540	1.095	3.936
Deferred taxation		2.322	(36.768)	1.321	1.730
Unearned interest on notes receivable and payable, net		(7.840)	13.947	2.068	(5.842)
Disposal and consolidation effect of subsidiaries		(9)	(36.001)	10.111	(7)
Loss on sale of investment		--	--	30.233	--
Transfer of minority interest		--	--	2.298	--
Translation differences		(1.485)	--	--	(1.106)
Corporation and income tax		39.252	45.524	42.114	29.247
Others		3.987	--	1.834	2.971
Operating profit before changes in working capital		229.248	152.093	217.582	170.812
Changes in net working capital	21	18.839	355.973	(7.474)	14.037
Cash generated from operations		248.087	508.066	210.108	184.849
Taxes paid		(35.168)	(45.588)	(44.987)	(26.204)
Net cash provided by / (used in) operating activities		212.919	462.478	165.121	158.645
CASH FLOWS FROM FINANCING ACTIVITIES					
Changes in current borrowings, net		44.855	(7.299)	(348.332)	33.422
Changes in non-current borrowings, net		(55.117)	(69.235)	480.620	(41.068)
Proceeds from sale of subsidiary		--	--	(57.227)	--
Changes in minority interest		43.625	61.337	(2.285)	32.505
Net cash (used for) provided from financing activities		33.363	(15.197)	72.776	24.859
CASH FLOWS FROM INVESTING ACTIVITIES					
Changes in investments		87	35.209	(3.616)	65
Changes in tangible and intangible assets	21	(230.034)	(428.798)	(42.919)	(171.399)
Disposal of marketable securities		--	47.467	89.760	--
Changes in other investing activities	21	14.237	(14.516)	33.634	10.609
Net cash provided by / (used in) investing activities		(215.710)	(360.638)	76.859	(160.725)
NET INCREASE IN CASH AND CASH EQUIVALENTS		30.572	86.643	314.756	22.779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		565.418	478.775	164.019	421.293
CASH AND CASH EQUIVALENTS AT END OF YEAR		595.990	565.418	478.775	444.072

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
FOR THE YEAR ENDED 31 DECEMBER 2004, 2003 AND 2002

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

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 registered office address of the Company is located at Ambarlı, Petrol Ofisi Dolum Tesisleri Yolu, Zorlu Plaza, Avcılar / İstanbul- Turkey

Nature of Activities of the Company

The Group is organised into three production divisions given below;

A. Television production:

Vestel Elektronik Sanayi ve Ticaret A.Ş. (Vestel Elektronik)

The Company is mainly engaged in the production of colour televisions. The Company's production facilities are located in Manisa Organised industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for colour televisions was 12.500.000 (2003: 8.300.000 and 2002: 7.000.000) units per year respectively .

Vestel-CIS Limited (Vestel Trade)

Vestel Trade was originally named as Vestel-Record Limited and was registered on 15 November 2002 (in Vladimir Region, Russia). The Company is mainly engaged in the production of colour televisions and commenced its production in the second half of 2003.

B. Refrigerator and air conditioning units and washing machines

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (Vestel White)

Vestel White started working actively in 1999 and is engaged in the production of refrigerators, room air conditioning units, washing machines and the trade of brown and white durable consumer goods. Vestel White's production facilities are located in Manisa Organised industrial site (Aegean Region, Turkey) . As of the balance sheet date, production capacity for refrigerators, room air conditioning units and washing machines was 2.000.000, 350.000 and 1.150.000 (2003: 1.200.000, 350.000 and 700.000) (2002: 700.000, 150.000 and 58.000) units per year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

C. Digital Devices

Vestel Komünikasyon Sanayi ve Ticaret A.Ş. (Vestel Kom)

Vestel Kom's production facilities are primarily located in İzmir Aegean free zone industrial site and in Manisa Organised Industrial Site. As of the balance sheet date, production capacity for digital devices was 7.000.000 (2003: 6.000.000 and 2002: 2.600.000) units per year.

For the purpose of the consolidated financial statements, the Company and its consolidated subsidiaries are referred to as "the Group".

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 (%)		
			31.12.2004	31.12.2003	31.12.2002
Vestel Dayanıklı Tüketim					
Malları Pazarlama A.Ş.	Turkey	Marketing	99,9%	99,9%	99,9%
Vestel Bilişim Teknolojileri					
Sanayi Ticareti A.Ş.	Turkey	Information	--	--	99,7%
Vestel Komünikasyon					
Sanayi ve Ticareti A.Ş.	Turkey	Manufacturing	99,20%	99,20%	99,20%
Vestel Dış Ticaret A.Ş.	Turkey	Marketing	99,7%	99,7%	99,7%
Vestel Beyaz Eşya					
Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	35,0%	35,0%	--
Vestel Savunma Sanayi A.Ş.	Turkey	Software	29,9%	--	--
Deksar Multimedya *	Turkey	Information	99,9%	99,9%	--
Vestel Holland BV *	Holland	Marketing	99,7%	99,7%	--
Veseg Video					
Handelsgesellschaft GmbH *	Germany	Marketing	50,8%	50,8%	--
Vestel Italy SRL *	Italy	Marketing	50,8%	50,8%	--
Cabot Communications Ltd.*	England	Software	82,5%	82,5%	--
Vestel France SA *	France	Marketing	99,5%	99,5%	--
Vestel Iberia SL *	Spain	Marketing	99,7%	99,7%	--
Vestel Trade CIS *	Russia	Manufacturing	100,0%	100,0%	--
Vestel Benelux BV	Holland	Marketing	50,8%	50,8%	--
Vestel UK	England	Marketing	99,7%	99,7%	--
Cabot İzmir Donanım					
Sanayi ve Ticaret A.Ş.	Turkey	Software	85,6%	--	--

The Company has always exercised effective control over the management of each of these companies. However the companies which are nominated by asterix (*) above have been consolidated first time as of 31 December 2003.

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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

* 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 YTL 27.811 has been deducted from the general reserves.

As of 7 March 2003, 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. were merged 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 26).

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 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"). Its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The financial statements of overseas subsidiaries are converted into New Turkish Lira (YTL) by closing rate method. The consolidated financial statements have been prepared from statutory financial statements of the Company and its subsidiaries and presented in New Turkish Lira (YTL) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise 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 YTL 83.699 to the general reserve account represented the portion of this deferred tax charge relating to prior years.

Reclassifications

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

The Company has made reclassifications in the balance sheets as of 31 December 2004 to be consistent with the current period presentation.

- a) Current finance lease liabilities, in current trade payables amounting to YTL 3.835 (2002 : YTL 143) was reclassified to current borrowings (note 12 and 13).
- b) Non-Current finance lease liabilities in non-current trade payables amounting to YTL 6.138 was reclassified to non-current borrowings (note 12 and 13).

Measurement Currency, Reporting Currency

Measurement currency of the Company is YTL. The restatement for the changes in the general purchasing power of YTL as of 31 December 2004 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 (but not limited to) that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of 31 December 2004 , the three year cumulative rate has been 70% (2003: 181% and 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	31.12.2004	31.12.2003	31.12.2002	31.12.2001	31.12.2000
Index	8.403,8	7.382,1	6.478,8	4.951,7	2.626,0
Conversion factor	1	1,138	1,297	1,697	3,200

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 2004.
- monetary assets and liabilities reported in the balance sheet at 31 December 2004 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.
- 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/amortisation).

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

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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GROUP ACCOUNTING

Subsidiary undertakings - The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of their fair values of the assets and liabilities recognised.

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 related equity and reserves accounts.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

FOREIGN CURRENCY TRANSLATIONS

Convenience translation of financial statements - For the convenience of the reader, the accompanying financial statements 31 December 2004 have been translated from Turkish Lira to US \$ with the Central Bank buying exchange rate at period-ends. Such convenience translations are not intended to comply with the provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates" or Financial Accounting Standards Board No 52 "Foreign Currency Translations" for the translation of financial statements in a highly inflationary economy. Prior to the translation, the Turkish Lira amounts have been re-measured in compliance with International Financial Reporting Standard 29, "Financial Reporting in Hyperinflationary Economies" as explained above.

Foreign currency transactions and translation - Transactions in foreign currencies during the periods have been translated into YTL at the exchange rates prevailing at 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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004, 2003 AND 2002

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

Foreign entities - Foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences between the closing balances and opening balances due to the difference in inflation and devaluation are included in currency translation adjustment in equity.

The foreign exchange rates used by the Company are as follows:

	31.12.2004	31.12.2003	31.12.2002
USD	1.342.100	1.395.835	1.634.501
EURO	1.826.800	1.745.072	1.703.477

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (except investment property) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, restated in equivalent purchasing power at 31 December 2004 less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Property, plant and equipment in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight line basis over the following years stated below:

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	Years
Land	Nil
Land Improvements	10 to 20
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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

LEASES

Finance Leases - Assets held under finance leases are recognised as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the Company is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Operating Leases - Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified operating leases. Lease payments on operating lease are recognised as an expense on a straight-line basis over the lease term.

Capitalised leased assets are depreciated in accordance with the depreciation policy noted above.

INTANGIBLE ASSETS

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Vestel Dayanıklı Tüketim Malları ve Pazarlama A.Ş., Vestel Dış Ticaret A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş. and Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. at the date of acquisition. Goodwill is stated at cost, restated in equivalent purchasing power at 31 December 2004 less any subsequent accumulated depreciation and subsequent accumulated impairment in value.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

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 on straight line basis over 5 years.

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The carrying values of capitalised research and development expenditure are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Computer software development cost – Generally, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs are recognised as assets and amortised using the straight line basis over their useful lives, not exceeding a period of 5 years.

Patent and trademarks – Patents and trademarks are measured at purchase cost and amortised using the straight line basis over their useful lives, not exceeding a period of 5 years.

Other intangible assets – Expenditure on leasehold improvements and computer software licences and amortised using the straight line basis over their useful lives, not exceeding a period of 5 years.

Impairment of intangible assets – Where an indication of impairment exists, the carrying amount of any intangible asset including goodwill is assessed and written down immediately to its recoverable amount.

INVESTMENTS

All investments are initially recognised at cost, restated at the equivalent purchasing power of Turkish lira at 31 December 2004, being the fair value of the consideration given and including acquisition charges associated with the investment. Certain subsidiaries which have been consolidated first time in 2003 were recorded at restated cost at 31 December 2002 (see notes 1 and 9).

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market to the average of the closing bid prices of the last five days preceding on the balance sheet date.

INVENTORIES

Inventories are stated at the lower of cost, restated at the equivalent purchasing power at 31 December 2004, and net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads (based on normal operating capacity) that have been incurred in bringing the inventories to their present location and condition but excludes borrowing cost. Cost is calculated by using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

TRADE RECEIVABLES

Trade receivables are carried at original amount less an estimate made for doubtful receivables. The management believes that the estimated amount will be adequate to absorb possible future losses on

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existing receivables that may become uncollectible due to current economic conditions and inherent risks in the receivables. Bad debts are written off when identified.

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 22).

ALLOWANCE FOR UNEARNED INTEREST ON NOTES

Unearned interest is calculated on all the notes receivable, notes payable and post dated cheques at the balance sheet date, at the rate of 21% (2003: 25% and 2002: 64%) to set an allowance for unearned interest on post dated notes.

BANK BORROWINGS

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

RECOGNITION AND DERECOGNITION OF FINANCIAL STATEMENTS

The Company recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset. The Company derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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 not very likely. Accordingly, contingent losses are recognized 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 realized.

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USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS 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.

INCOME TAXES

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax. Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognised in net profit or loss in the period in which they are incurred .

PROVISIONS

Employee benefits - Under Turkish labour law, the Company and its Turkish subsidiaries are 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 in accordance with social insurance regulations 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.

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.

Other provisions - Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance

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contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is shown net of value added and sales taxes, discounts and returns, all restated in equivalent purchasing power at 31 December 2004.

Other revenues earned by the Company is recognised on the following bases:

Royalty and rental income – on an accrual basis.

Interest income – on an effective yield basis.

Dividend income – When the Company’s right to receive payment is established.

CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, deposits with banks and other financial institutions, other money market placements and funds lent under securities resale agreements with the original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. The amounts paid under the reverse purchase agreements are included in the cash and cash equivalents.

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. EARNINGS PER SHARE

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Net profit attributable to shareholders (YTL thousand)	83.159	78.586	52.989	61.962
Weighted average number of ordinary shares in issue('000)	159.100.000	159.100.000	159.100.000	159.100.000
Basic and diluted earnings per share (TL per share)	523	494	333	389
Dividend per share	-	-	-	-

5. CASH AND CASH EQUIVALENTS

	31.12.2004	31.12.2003	31.12.2002	31.12.2004
Cash at bank and in hand	595.990	565.418	526.240	444.072
Less: Marketable securities with maturity over three months	-	-	(47.465)	-
Cash and cash equivalents at cash flow statement	595.990	565.418	478.775	444.072

At 31 December 2002, the cost of marketable securities together with accrued interest were equal to their market value. Marketable securities bear annual interest at the rates of 40% and 70% for YTL denominated securities and 12.4% for foreign currency denominated securities. These securities were held on a short term basis.

6. TRADE RECEIVABLES

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Trade receivables				
-Third parties	709.502	735.156	525.243	528.651
-Group companies	1.609	232	247.219	1.198
Notes receivable	309.653	188.792	106.625	230.723
Less: unearned interest on notes receivable	(9.346)	(17.803)	(4.572)	(6.964)
Less: allowance for doubtful receivables	(8.549)	(4.680)	(4.510)	(6.370)
Others	1.229	1.465	770	916
	1.004.098	903.162	870.775	748.154

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The movement of doubtful receivables were as follows:

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Beginning balance	4.680	4.510	2.681	3.487
Charge for the period, net	5.226	2.364	3.589	3.894
Proceeds from doubtful receivables	(809)	(1.643)	(1.455)	(603)
Monetary gain	(548)	(551)	(305)	(408)
Ending balance	8.549	4.680	4.510	6.370

7. INVENTORIES

Raw materials	295.941	233.760	182.328	220.506
Work in process	37.967	35.532	26.887	28.289
Finished goods and merchandises	264.864	209.966	172.751	197.350
Spares and supplies	3.854	3.425	6.999	2.872
Goods in transit	271.285	133.163	159.303	202.135
	873.911	615.846	548.268	651.152

8. OTHER ASSETS

Prepaid expenses	30.363	23.717	20.499	22.624
Income accruals	96.528	150.702	125.248	71.923
VAT receivable	36.542	35.053	2.884	27.227
Work advances	5.826	8.066	9.149	4.341
Due from personnel	822	953	319	612
Project expenses	1.544	-	-	1.150
Other	1.669	18	68	1.245
	173.294	218.509	158.167	129.122

9. INVESTMENTS

a) Unconsolidated subsidiaries	19	-	34.048	14
b) Other investments	4.635	4.741	5.902	3.454
	4.654	4.741	39.950	3.468

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9. a) Unconsolidated subsidiaries

Entity	Country of Business	Share percentage			Restated Amount			US \$ ('000)
		31.12.2004	31.12.2003	31.12.2002	31.12.2004	31.12.2003	31.12.2002	31.12.2004
Vestpro Electronics SA	Romania	52%	52%	52%	287	287	287	214
Vestel USA Inc.	USA	100%	100%	100%	223	223	223	166
Vestel Elektronika SA	Romania	100%	-	-	19	--	--	14
<u>Less: Allowance for diminution in value</u>								
Vestpro Electronics SA	Romania	-	-	-	(287)	(287)	--	(214)
Vestel USA Inc.	USA	-	-	-	(223)	(223)	--	(166)
<u>Consolidated subsidiary as of 31.12.2003</u>								
Vestel Beyaz Eşya Sanayi A.Ş.	Turkey	-	-	10,00%	-	-	5.940	--
<u>Consolidated subsidiaries from 01.01.2003</u>								
Deksar Multimedya Telekom A.Ş.	Turkey	-	-	100%	--	--	16.448	--
Vestel France SA	France	-	-	100%	--	--	199	--
Vestel Holland BV	Holland	-	-	100%	--	--	176	--
Vestel CIS	Russia	-	-	74%	--	--	990	--
Cabot Communications Ltd	England	-	-	83%	--	--	640	--
Veseg GmbH	Germany	-	-	51%	--	--	163	--
Vestel Iberia SL	Spain	-	-	91%	--	--	209	--
Vestel Italy SRL	Italy	-	-	51%	--	--	66	--
<u>Companies merged under Vestel Komunikasyon A.Ş. as of 07.03.2003</u>								
Vescolor Tüp ve Komponent A.Ş.	Turkey	-	-	100%	--	--	5.491	--
Vinpa Pazarlama Ticaret A.Ş.	Turkey	-	-	5%	--	--	2	--
Sanalnet İnternet Pazarlama A.Ş.	Turkey	-	-	80%	--	--	11	--
Vestel Müşteri İletişim A.Ş.	Turkey	-	-	100%	--	--	3.203	--
					19	--	34.048	14

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The following Companies in which the Company has a controlling interest or significant influence are not consolidated.

-Vestpro Electronics SA and Vestel USA have been inactive since 2002.

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

- Deksar Multimedya Telekom A.Ş. was established in 1998 for the purpose of providing internet service via satellite.
- Vestel Holland B.V. was established in 1995 for the purpose of wholesale trade in consumer electronics and has acted as a trade agent on behalf of Vestel Elektronik. Vestel Holland has 8.9% of Vestel Ibera S.L. shares.
- Vestel Trade CIS Limited (Formerly named as Vestel Record Ltd) commenced production in the second half of 2003 which comprised production and distribution of electronic products (mainly TV-sets) in Russia.
- Vestel France S.A. was established in 1996 to import, distribute, sell and repair electrical household appliances in France.
- Veseg Video Handelsgesellschaft GmbH was established in 1995 to import, distribute and market and repair electrical household appliances in Germany.
- Cabot Communications Limited was established in 1999 for the purpose of digital television software development and sales in the UK.
- Vestel Iberia, S.L. was established in 1998 to import, distribute, sell and repair to electrical household appliances in Spain and Portugal.
- Vestel Italy S.R.L. (Formerly named as Vesdit) was established in 2001 to import, distribute and market and repair electrical household appliances in Italy.
- Vestel Benelux B.V.(The Company) was established in 2003 to distribute, sell and repair products in the Benelux (Belgium, The Netherlands and Luxemburg).
- Vestel UK Ltd. was incorporated in 2003 and commenced operations in April 2004 to market and promote Vestel Group's products in the United Kingdom.

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

As of 7 March 2003, 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. were merged under Vestel Komunikasyon Sanayi ve Ticaret A.Ş. (consolidated subsidiary).

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9. b) Other investments

Entity	Country of Business	Share percentage			Restated Amount			US \$ ('000)
		31.12.2004	31.12.2003	31.12.2002	31.12.2004	31.12.2003	31.12.2002	31.12.2004
Zorlu Enerji Elektrik Üretimi A.Ş.	Turkey	Less than 1%	Less than 1%	Less than 1%	2.830	2.945	2.788	2.109
Vestelnet Elektronik İletişim A.Ş.	Turkey	2%	2%	2%	1.766	1.766	1.766	1.316
Teralogic Inc	USA	--	2%	2%	--	1.321	1.321	--
Tursoft A.Ş.	Turkey	7%	7%	7%	25	25	25	19
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	1%	3	2	2	2
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	0%	11	3	--	8
<u>Less: Allowance for diminution in value</u>								
Teralogic Inc USA					--	(1.321)	--	--
					4.635	4.741	5.902	3.454

-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 2004 as required by IAS 39.

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

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
<u>Restated Cost</u>						
Balance at 31 December 2001	72.112	567.369	1.597	53.523	7.627	702.228
Additions	956	55.103	-	1.630	5.121	62.810
Merger of related parties under Vestel Komunikasyon A.Ş.	-	-	-	-	-	-
Disposal of subsidiary	-	(10.805)	-	(3.462)	-	(14.267)
Transfers	143	2.572	-	-	(2.715)	-
Disposals	-	(7.156)	(321)	(1.052)	-	(8.529)
Balance at 31 December 2002	73.211	607.083	1.276	50.639	10.033	742.242
Additions	9.301	47.392	1.121	6.113	10.922	74.849
Merger of related parties under Vestel Komunikasyon A.Ş.	-	913	92	3.172	-	4.177
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	56.387	283.666	632	7.418	12.239	360.342
Translation differences	(274)	(2.034)	(22)	(20)	(20)	(2.370)
Transfers	700	16.515	-	-	(17.215)	-
Disposals	(3.702)	(33.977)	(198)	(4.801)	-	(42.678)
Balance at 31 December 2003	135.623	919.558	2.901	62.521	15.959	1.136.562
Additions	13.170	129.600	665	6.809	96.801	247.045
Translation differences	(368)	(1.890)	(46)	(246)	(8)	(2.558)
Consolidation of Cabot İzmir Yazılım A.Ş.	-	-	-	427	-	427
Consolidation of Vestel Savunma A.Ş.	-	161	-	-	2	163
Transfers	14.489	28.714	-	515	(43.718)	-
Disposals	(905)	(48.564)	(811)	(598)	-	(50.878)
Balance at 31 December 2004	162.009	1.027.579	2.709	69.428	69.036	1.330.761

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	Land and Buildings	Machinery and equipment	Motor vehicles	Furniture and Fixtures	Construction in progress and advances given	Total
<u>Restated Accumulated Depreciation</u>						
Balance at 31 December 2001	7.241	292.296	630	24.561	-	324.728
Depreciation charge	666	34.199	112	6.088	-	41.065
Disposal of subsidiary	-	(3.425)	-	(1.259)	-	(4.684)
Disposals	(10)	(3.857)	(39)	(483)	-	(4.389)
Balance at 31 December 2002	7.897	319.213	703	28.907	-	356.720
Depreciation charge	1.013	40.663	342	6.861	-	48.879
Merger of related parties under Vestel Komunikasyon A.Ş.	-	215	71	2.402	-	2.688
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	6.171	55.166	310	2.491	-	64.138
Translation differences	(59)	(337)	(7)	(33)	-	(436)
Disposals	(1.505)	(17.215)	(132)	(762)	-	(19.614)
Balance at 31 December 2003	13.517	397.705	1.287	39.866	-	452.375
Depreciation charge	4.061	71.448	299	6.474	-	82.282
Translation differences	(53)	(324)	(8)	(72)	-	(457)
Consolidation of Cabot İzmir Yazılım A.Ş.	-	-	-	97	-	97
Consolidation of Vestel Savunma A.Ş.	-	15	-	-	-	15
Transfers	(3)	5	-	(2)	-	-
Disposals	(65)	(25.276)	(594)	(283)	-	(26.218)
Balance at 31 December 2004	17.457	443.573	984	46.080	-	508.094
<u>Net Book Value as of</u>						
31 December 2002	65.314	287.870	573	21.732	10.033	385.522
31 December 2003	122.106	521.853	1.614	22.655	15.959	684.187
31 December 2004	144.552	584.006	1.725	23.348	69.036	822.667
US \$ ('000)						
31 December 2004	107.706	435.143	1.285	17.397	51.439	612.970

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Property, plant and equipment have been mortgaged to the extent of YTL 45.000 (2003:YTL 51.228 and 2002: 58.349) as collateral against bank loans and bank guarantees on letters of credit.

Leased assets included in the table above comprise plant and machinery amounting to YTL 39.594 (2003:YTL 36.269) net of accumulated depreciation. Leased assets are pledged as security for the related finance lease obligations.

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 production capacity and new investment in washing machine segment. Increase in machinery and equipment has taken place mainly in Vestel Elektronik Sanayi ve Ticaret A.Ş. (Turkey) and Vestel Trade CIS (Russia) which are related to production of high end television units during 2003.

11. INTANGIBLE ASSETS, net

	Goodwill	Research and Development cost	Other Intangible assets	Total
<u>Restated Cost</u>				
Balance at 31 December 2001	33.310	67.665	82.184	183.159
Additions	-	13.023	12.435	25.458
Disposal of subsidiary	-	-	(1.237)	(1.237)
Disposals	-	-	(4.845)	(4.845)
Balance at 31 December 2002	33.310	80.688	88.537	202.535
Additions	36.168	11.765	5.881	53.814
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	-	-	43.692	43.692
Translation differences	-	-	(7)	(7)
Disposals	-	(63.115)	(5.270)	(68.385)
Balance at 31 December 2003	69.478	29.338	132.833	231.649
Additions	-	8.248	2.111	10.359
Translation differences	-	-	(795)	(795)
Consolidation of Cabot İzmir Yazılım A.Ş.	-	-	55	55
Consolidation of Vestel Savunma Sanayi A.Ş.	-	-	69	69
Disposals	-	(716)	(19)	(735)
Balance at 31 December 2004	69.478	36.870	134.254	240.602

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	Goodwill	Research and Development cost	Other Intangible assets	Total
<u>Restated Accumulated amortisation</u>		-		
Balance at 31 December 2001	4.979	23.773	43.281	72.033
Additions	1.667	16.139	14.649	32.455
Disposal of subsidiary	-	-	(552)	(552)
Disposals	-	-	(900)	(900)
Balance at 31 December 2002	6.646	39.912	56.478	103.036
Amortisation charge	3.474	16.138	15.774	35.386
Consolidated overseas and domestic subsidiaries as from 01.01.2003 and Vestel Beyaz Eşya A.Ş. as of 31.12.2003	-	-	7.694	7.694
Exchange differences	-	-	(3)	(3)
Disposals	-	(56.050)	(3.781)	(59.831)
Balance at 31 December 2003	10.120	-	76.162	86.282
Amortisation charge	3.474	5.564	13.259	22.297
Exchange differences	-	-	(41)	(41)
Consolidation of Vestel Savunma Sanayi A.Ş.			11	11
Consolidation of Cabot İzmir Yazılım A.Ş.			5	5
Disposals	-	(261)	(33)	(294)
Balance at 31 December 2004	13.594	5.303	89.363	108.260
<u>Net Book Value as of</u>				
31 December 2002	26.664	40.776	32.059	99.499
31 December 2003	59.358	29.338	56.671	145.367
31 December 2004	55.884	31.567	44.891	132.342
31 December 2004 US \$ ('000)	41.639	23.521	33.448	98.608

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In mid 2001, the Company established the Digital Research and Development Department within Aegean Free Zone – İzmir to contribute to the expansion of the product range in line with technological developments, the Department continues development of digital satellite receivers with common Interface and Personal Video Recording (PVR) capabilities, digital terrestrial receivers, DVD A/V receivers and recordable DVD players in Vestel Komünikasyon A.Ş. and Vestel Elektronik A.Ş. Research and Development Department in Manisa continues development of Integrated Digital TV(DTV), Hybrid TV, Digital TV, TV-DVD, Large Digital TV and Large Flat Screen TV.

Development costs principally comprises internally generated expenditure on R&D development costs on the above projects where it is reasonably anticipated that costs will be recovered through future commercial activity.

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 YTL 28,852 (historic cost) 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.

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 YTL 52,384.2 (historic cost) in cash for the fair value of the identifiable net assets and as a result a goodwill amount of YTL 34.356 arose from this acquisition.

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

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

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12. BORROWINGS

	Current		Non - Current	
	Foreign Currency	YTL Equivalent	Foreign Currency	YTL Equivalent
31.12.2004				
Turkish lira borrowings		1.694		
Foreign currency borrowings and accrued interest				
-USD ('000)	13.204	17.721	216.351	290.365
-EURO ('000)	68.835	125.749	103.722	189.480
Finance lease liabilities, net				
-USD ('000)	1.440	1.933	3.064	4.113
-EURO ('000)	1.576	2.879	1.614	2.948
		149.976		486.906
31.12.2003				
Turkish lira bank borrowings and accrued interest on bank borrowings		11.244		
Foreign currency bank borrowings				
-USD ('000)	5.952	9.458	210.549	334.567
-EURO ('000)	40.573	80.584	101.337	201.318
Finance lease liabilities, net				
-USD ('000)	161	256	-	-
-EURO ('000)	1.801	3.579	3.088	6.138
		105.121		542.023
31.12.2002				
Turkish lira borrowings and accrued interest on bank borrowings		11.858		
Foreign currency bank borrowings				
-USD ('000)	8.047	17.060	210.144	445.537
-EURO ('000)	37.726	83.359	75.000	165.721
Finance lease liabilities, net				
-USD ('000)	67	143	-	-
-EURO ('000)	-	-	-	-
		112.420		611.258

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31.12.2004	US \$ ('000)	US \$ ('000)
	Current	Non-current
Turkish lira borrowings	1.262	
Foreign currency bank borrowings		
-USD ('000)	13.204	216.351
-EURO ('000)	93.696	141.182
Finance lease liabilities, net		
-USD ('000)	1.440	3.064
-EURO ('000)	2.145	2.197
	111.747	362.796

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 2.8% and 12% (2003: - 2% and 7,5% and 2002: 4,5%and 11,5%) and 0% and 15% (2003- 25% and 40% and 2002- 48% and 65%) respectively.

Summary maturity schedule of bank borrowings were as follows:

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000)
				31.12.2002
Due in one year	149.976	105.121	112.420	111.747
Due between two to five years	482.689	511.680	611.258	359.655
Over five years	4.217	30.343	-	3.141
	636.882	647.144	723.678	474.543

Letters of guarantee and notes amounting to YTL 33.633 EURO 18.411.066 have been given as collateral for Turkish Eximbank and other credits (2003: YTL 32.574 (EURO 14.623.549 and USD 2.217.012)and (2002: YTL 45.107 (EURO 20.414.000)).

Property, plant and equipment have been mortgaged to the extent of YTL 45.000 (2003: YTL 51.228 and 2002: YTL 58.349) as collateral against bank loans and bank guarantees on letters of credit.

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13. TRADE PAYABLES

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Trade payables				
- Third parties	1.124.845	921.069	368.775	838.123
- Group companies (note 21)	2.715	1.726	1.821	2.023
Letters of credit	152.470	115.558	363.158	113.606
Letters of credit discounted	200.116	180.302	174.296	149.107
Notes payable	84.806	69.151	23.806	63.189
Less: Allowance for unearned interest income	(3.240)	(3.857)	(379)	(2.414)
Other	1.166	758	-	868
	1.562.878	1.284.707	931.477	1.164.502

14. OTHER LIABILITIES

Income tax and social security payables	14.133	9.032	7.055	10.531
Advances received	19.931	32.521	9.845	14.851
Warranty expense provision	34.908	38.594	35.527	26.010
Accrued expenses	17.916	30.670	26.593	13.349
Forward expense accruals	63.708	-	-	47.469
Other	2.295	3.822	3.739	1.710
	152.891	114.639	82.759	113.920

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15. TAXATION ON INCOME

The Corporation Tax rate on the profits for the calendar year 2003 was 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%. The rate for 2005 will be 30% 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 instalment by 30 April. This regulation is applicable to the Corporation Tax declaration to be given for calendar year 2003 and subsequent years. Previously the balance of Corporation Tax was paid in three instalments (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, at 5.5% and 16.5% respectively for public and non public companies.
- 24 April 2003 – 31 December 2003 at 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 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.

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

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The Company's prepaid income and Corporation taxes are netted off against the current income tax provision on the balance sheet as stated below:

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Corporation and income taxes	39.252	45.524	42.114	29.247
Less : Prepaid taxes	(25.415)	(12.397)	(8.923)	(18.937)
Deferred tax liability (non current)	--	(23.374)	--	-
Taxes payable	13.837	9.753	33.191	10.310

Provision for taxes per income statement is given below:

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
Corporation tax and income tax charge on current period income	(39.252)	(22.150)	(42.114)	(29.247)
Deferred tax (income) / charge	--	(23.374)	--	--
Net deferred tax assets/(liability)	(134.001)	(92.180)	(21.875)	(99.844)
Deferred tax charge on income accruals relating to prior years (note 2)	39.499	83.699	--	29.431
Cancellation of prior year deferred tax	92.180	21.875	20.554	68.683
Income tax charge	(41.574)	(32.130)	(43.435)	(30.977)

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 31 December 2004 and 31 December 2003 using the expected future tax rates were as follows:

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	31.12.2004		31.12.2003		31.12.2002		US \$ ('000) 31.12.2004	
	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax
<u>Deferred Tax Asset</u>								
Warranty expense provision	27.893	8.368	29.447	9.717	12.947	4.272	20.783	6.235
Retirement pay provision	17.944	5.383	15.817	5.220	5.807	1.916	13.370	4.011
Unearned interest on notes receivable	9.346	2.804	9.096	3.002	3.225	1.063	6.964	2.089
Capitalised finance charges written off on inventory and fixed assets	14.894	4.476	17.468	5.765	22.238	7.338	11.098	3.335
Finance lease liabilities	5.730	1.719	9.699	3.201	171	57	4.269	1.281
Provision for doubtful receivables	6.874	2.062	1.332	439	3.329	1.099	5.122	1.536
Interest income on marketable securities	--	--	47	16	1.470	485	--	--
Expense accruals	8.225	2.468	11.164	3.684	13.402	4.418	6.128	1.839
Investment incentive allowances	51.145	5.217	104.407	13.781	--	--	38.108	3.889
Other	2.992	898	13.419	4.429	14.229	4.697	2.229	669
		33.395		49.254		25.345		24.884
<u>Deferred Tax Liability</u>								
Temporary differences arising from restating:								
-Inventories	298	89	9.168	3.025	39.187	12.931	222	66
-Prepaid expenses	2.130	639	8.672	2.862	4.453	1.470	1.587	476
-Investments	--	--	25.595	2.815	22.858	2.515	--	--
-Fixed Assets(Including leased fixed assets)	253.585	76.076	233.544	25.690	143.959	15.835	188.946	56.684
Income accruals	287.965	88.692	321.136	105.975	43.081	14.216	214.563	66.086
Unearned interest on notes payable	3.240	972	3.150	1.039	571	189	2.414	724
Other	3.093	928	84	28	197	65	2.305	691
		167.396		141.434		47.221		124.727

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16. EMPLOYEE TERMINATION BENEFITS

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company, and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such payments are calculated on the basis of 30 days' pay limited to a maximum of YTL 1,5477 (2003: YTL 1,3899 – (historic) 2002: YTL 1,2601 – (historic)) per year of employment at the rate of pay applicable at the date of retirement.

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

With effect from 1 January 2005 the ceiling for retirement pay has been increased to YTL 1,6489.

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:

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Opening Balance	19.590	17.050	15.955	14.597
Charge for the period	9.451	6.250	5.061	7.042
Disposals	(1.786)	(1.623)	(2.133)	(1.331)
Monetary effect	(2.382)	(2.087)	(1.833)	(1.775)
Closing balance	24.873	19.590	17.050	18.533

The number of personnel at year end were as follows:

Workers	9.617	6.385	3095
Employees	1.643	1.144	674
Directors	26	23	11
	11.286	7.552	3.780

Wages and salaries paid were as follows:

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
Personnel cost	142.911	93.486	85.993	106.483

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17. SHARE CAPITAL

The authorised share capital of the Company comprised 220.000.0000 shares of par value YTL 0,001 each at 31 December 2004. The issued and paid up share capital of the Company comprised 159.100.000,000 shares of par value YTL 0,001 each at 31 December 2004 and 31 December 2003.

As of 31 December 2004, 2003 and 2002, the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding		US \$ ('000)	
	%	Amount	%	Amount
Collar Holding BV	52%	82.082	52%	61.159
Other shareholders	48%	77.018	48%	57.386
Share capital (Nominal)	100%	159.100	100%	118.545
Inflation adjustment of share capital		392.684		292.590
Restated share capital equivalent to purchasing power of New Turkish Lira		551.784		411.135

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

18. GENERAL RESERVES

General reserves comprise legal reserves and retained earnings.

Under the Turkish Commercial Code, the Company is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid up share capital.

Second legal reserve, apportioned at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

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. COMMITMENTS AND CONTINGENCIES

(a) At 31 December 2004 the Company had contingent liabilities of YTL 88.875 (2003: YTL 13.561) 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\$ 636.787.315 as of the balance sheet date.

(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 YTL 45.000 (2003: YTL 51.228 and 2002: YTL 58.349) as collateral against bank loans and bank guarantees on letters of credit.

(e) The payment of VAT on certain export sales may be postponed and later cancelled by the tax office subject to clearance of certain routine formalities in due course. Responsibility of the Company continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future.

21. SUPPLEMENTARY CASH FLOW INFORMATION

Depreciation and Amortisation:

These are included in the following captions;

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
Cost of Sales	82.639	61.396	46.583	61.574
Selling expenses and General and administrative expenses	21.940	22.869	26.936	16.348
	104.579	84.265	73.519	77.922

Changes in net working capital:

<u>Changes in operating assets and liabilities:</u>				
Trade receivables	(96.348)	(50.190)	(201.395)	(71.789)
Inventories	(258.065)	(67.578)	12.922	(192.284)
Due from related parties	12.231	145.119	(127.771)	9.113
Prepayments and other current assets	45.215	(60.342)	59.092	33.690
Trade payables	277.554	357.085	231.487	206.806
Due to related parties	--	--	(7)	--
Other payables and current liabilities	38.252	31.879	18.198	28.502
	18.839	355.973	(7.474)	14.038

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Changes in investing activities:

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
<u>Changes in tangible and intangible assets:</u>				
Purchases of property, plant and equipment	(244.944)	(72.915)	(62.810)	(182.508)
Purchases of intangible fixed assets	(9.605)	(53.810)	(25.458)	(7.157)
Consideration received on disposal of subsidiary	--	--	31.631	--
Proceeds from sale of subsidiary	--	--	(4.634)	--
Merger of companies under Vestel	--	(1.489)	--	--
Acquisition of subsidiaries	(586)	(332.202)	--	(437)
Disposal of fixed assets on discontinued operation	--	--	10.267	--
Disposal of property, plant and equipment	24.660	23.064	4.140	18.374
Disposal of intangible fixed assets	441	8.554	3.945	329
	(230.034)	(428.798)	(42.919)	(171.399)

Changes in other investing activities:

Changes in other non-current assets and liabilities:

Trade receivables	14.307	(14.586)	37.952	10.660
Trade payables	(70)	70	(4.318)	(52)
	14.237	(14.516)	33.634	10.608

22. RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements shareholders are referred to as related parties. Related parties also include individuals that are principle owners, management and members of the Company's Board of Directors and their families. In the course of conducting its business, the Company conducted various business transactions with related parties on commercial terms.

The most significant of these transactions carried out with related parties:

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2004	Due from related parties		Due to related parties	
	Trade receivables	Other assets	Trade payables	Other liabilities
Related party				
Vestelnet Elektronik İletişim A.Ş.	-	38.416	6	-
Zorlu Holding A.Ş.	-	-	2.587	-
Korteks Mensucat Sanayi A.Ş.	75	-	115	-
Vestel USA Inc.	383	14	-	-
Zorlu Linen Dokuma A.Ş.	905	-	-	-
Other related parties	246	100	7	-
	1.609	38.530	2.715	
<hr/>				
2003				
Vestel USA	2	24	-	-
Vestelnet Elektronik İletişim ve Bil. A.Ş.	-	50.726	146	-
Vestel Savunma Sanayi A.Ş.	55	11	-	-
Vestel Elektrikli Gereçler A.Ş.	79	-	-	-
Zorlu Petrogas Petrol, Gaz A.Ş.	34	-	-	-
Zorlu Enerji Elektrik				
Üretimi Otoprodüktör Grubu A:Ş.	15	-	-	-
Zorlu Holding A.Ş.	-	-	1.530	-
Other related parties	47	-	50	-
	232	50.761	1.726	
<hr/>				
2002				
Vestelnet Elektronik İletişim ve Bil. A.Ş.	-	107.940	-	-
Zorlu Holding A.Ş.	1.104	-	1.821	-
Vestel Beyaz Eşya A.Ş.	76	56.164	-	-
Deksar Multimedia A.Ş.	30.050	24.600	-	-
Vestel France SA	24.544	-	-	-
Vestel Holland BV	96.344	4.082	-	-
Vestel USA Inc.	15.137	15	-	-
Veseg GmbH	42.295	692	-	-
Vestel Italy	13.320	-	-	-
Vestel Iberia SL	23.707	22	-	-
Cabot Communications Ltd.	-	2.365	-	-
Other related parties	642	-	-	-
	247.219	195.880	1.821	-

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Company name US \$ ('000) 2004	Due from related parties		Due to related parties	
	Trade receivables	Other assets	Trade receivables	Other assets
Vestelnet Elektronik İletişim A.Ş.	-	28.624	4	-
Zorlu Holding A.Ş.	-	-	1.928	-
Korteks Mensucat Sanayi A.Ş.	56	-	86	-
Vestel USA Inc.	285	10	-	-
Zorlu Linen Dokuma A.Ş.	674	-	-	-
Other related parties	183	75	5	-
	1.198	28.709	2.023	

23. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise bank loans, overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk and credit risk. The board/management reviews and agrees policies for managing each of these risks and they are summarized below.

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.

24. 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 judgment and appropriate valuation methodologies. The following

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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 realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the Company's financial instruments:

Financial Assets

Monetary assets for which fair value approximates carrying value:

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

-The carrying value of the trade receivables net of provisions for uncollectible are considered to approximate their fair values.

Financial Liabilities

Monetary liabilities for which fair value approximates carrying value:

-The fair values 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.

25. OTHER INCOME / (EXPENSE), net

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
Scrap and other sales	11.519	11.819	8.512	8.583
Export commission and freight related income	6.244	8.440	6.615	4.652
Insurance claims refund	657	3.726	--	490
Profit on sale of fixed assets	1.538	2.172	1.479	1.146
Miscellaneous income	4.428	4.642	1.787	3.299
Loss on sale of fixed assets	(17.645)	(1.761)	--	(13.147)
Loss as a result of the fire at the television factory	--	(8.150)	--	--
Miscellaneous expense	(1.744)	(568)	--	(1.300)
	4.997	20.320	18.393	3.723

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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 YTL 8.150.

26. FINANCIAL INCOME / (EXPENSE), net

	01.01- 31.12.2004	01.01- 31.12.2003	01.01- 31.12.2002	US \$ ('000) 01.01- 31.12.2004
<u>Foreign exchange gains / (losses)</u>				
-On imports, borrowings exports and other receivables	(31.739)	(110.469)	(241.563)	(23.649)
<u>Interest expense</u>				
-Bank loans	(59.608)	(74.449)	(82.425)	(44.414)
-Letters of credit	(16.127)	(10.411)	(19.379)	(12.016)
-Finance leases	(1.110)	(379)	(1.613)	(827)
-Factoring	(2.419)	(31.333)	(25.920)	(1.802)
Interest income from demand deposits	114.197	183.561	144.196	85.088
<u>Fair value gains / (losses)</u>				
-Listed investments in stock exchange		808	255	--
-Investment property	-	2.275	-	--
-Forward contracts: fair value hedges	(60.004)	(56.648)	-	(44.709)
Bank commissions and other financial expenses	(14.028)	(10.904)	(2.519)	(10.452)
	(70.838)	(107.949)	(228.968)	(52.781)

27. SEGMENT INFORMATION

The Group is currently organised into three major production divisions. The basis on which the Company reports its primary segment information is as follows:

Television and monitor :Produced by Vestel Elektronik Sanayi ve Ticaret A.S. (Manisa/Turkey).
:Produced by Vestel Trade-CIS (Vladimir Region/Russia)

Electronic devices :Produced by Vestel Komunikasyon Sanayi ve Ticaret A.S. (Izmir & Manisa/Turkey).

White Goods :Produced by Vestel Beyaz Esya Sanayi ve Ticaret A.S.(Manisa/Turkey).

Segment information about these businesses is presented below:

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

	01.01- 31.12.2004		01.01- 31.12.2003		01.01- 31.12.2002		US \$ ('000) 01.01- 31.12.2004	
	Sales Amount	Sales volume	Sales amount	Sales volume	Sales amount	Sales volume	Sales Amount	Sales volume
Television	2.886.931	10.144.162	2.517.951	7.669.291	2.113.407	6.355.798	2.151.055	10.144.162
- Domestic	319.022	879.050	221.012	525.315	139.581	269.019	237.704	879.050
- Export	604.270	1.905.020	461.443	1.709.177	1.973.826	6.086.779	450.242	1.905.020
- Foreign marketing companies	1.963.639	7.360.092	1.835.496	5.434.799	--	--	1.463.109	7.360.092
Monitor	11.204	74.829	14.899	80.805	44.740	156.779	8.348	74.829
- Domestic	11.178	74.779	14.899	80.805	41.148	144.191	8.329	74.779
- Export	26	50	--	--	3.592	12.588	19	50
- Foreign marketing companies	--	--	--	--	--	--	--	--
Electronic devices	648.239	8.131.372	642.652	4.728.605	425.208	2.424.861	483.004	8.131.372
- Domestic	103.093	687.778	74.208	381.198	25.953	57.166	76.815	687.778
- Export	109.933	1.182.406	123.839	974.894	399.255	2.367.695	81.911	1.182.406
- Foreign marketing companies	435.213	6.261.188	444.605	3.372.513	--	--	324.278	6.261.188
White goods and others	858.341		387.882		428.394		639.551	
- Domestic	488.207	--	236.905	--	242.745	--	363.764	--
- Export	183.676	--	97.908	--	185.650	--	136.857	--
- Foreign marketing companies	186.458	--	53.069	--	--	--	138.929	--
	4.404.715		3.563.384		3.011.750		3.281.957	

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27.2 The breakdown of television exports by country is as follows:

	01.01- 31.12.2004		01.01-31.12.2003		01.01- 31.12.2002		US \$ ('000) 01.01- 31.12.2004	
	Sales Amount	Sales volume	Sales amount	Sales volume	Sales amount	Sales volume	Sales amount	Sales Volume
Germany	618.164	2.101.778	498.268	1.458.232	444.600	1.371.031	460.595	2.101.778
United Kingdom	347.017	1.172.586	340.011	989.324	315.266	972.201	258.563	1.172.586
France	248.989	857.220	256.484	755.017	264.727	816.353	185.522	857.220
Denmark	30.098	105.614	17.470	52.345	24.880	76.725	22.426	105.614
Portugal	43.819	151.815	13.912	41.439	20.191	62.264	32.650	151.815
Netherlands	91.925	314.500	75.221	221.429	29.151	89.895	68.493	314.500
Spain	301.636	1.051.701	317.854	946.744	202.879	625.627	224.749	1.051.701
Italy	250.348	878.473	242.806	727.518	130.175	401.426	186.535	878.473
Russia	181.518	628.886	113.655	336.535	--	--	135.249	628.886
Others	454.395	2.002.539	421.257	1.615.393	541.957	1.671.258	338.570	2.002.539
	2.567.909	9.265.112	2.296.938	7.143.976	1.973.826	6.086.780	1.913.352	9.265.112

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

	01.01- 31.12.2004		01.01-31.12.2003		01.01-31.12.2002		US \$ ('000) 01.01- 31.12.2004	
	Gross profit		Gross profit		Gross profit		Gross profit	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>Domestic</i>								
Televisions	77.563	24	75.144	34	60.019	43	57.792	24
Monitors	1.256	11	2.235	15	6.995	17	936	11
Electronic devices	20.773	20	21.520	29	7.812	30	15.478	20
White goods and others	86.421	18	42.642	18	116.518	48	64.392	18
Domestic total	186.013	20	141.541	26	191.344	38	138.598	20
<i>Export</i>								
Televisions	370.020	14	386.175	17	393.340	20	275.702	14
Monitors	--	--	--	--	360	10	--	--
Electronic devices	82.314	15	90.950	16	107.799	27	61.332	15
White goods and others	79.562	21	24.156	16	45.544	27	59.282	21
Export total	531.896	15	501.281	17	547.043	22	396.316	15
Total	717.909	16	642.822	18	738.387	25	534.914	16

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27.4. The summary of segment assets and liabilities are summarised as follows:

Television and Monitor	2004	2003	2002	US \$ ('000) 2004
Trade receivables	770.112	632.154	701.379	573.811
Inventories	603.384	414.582	439.431	449.582
Property, plant And equipment, net	512.968	419.927	348.365	382.213
Intangible assets, net	81.853	93.950	67.333	60.988
Trade payables	1.138.633	906.950	764.539	848.396
Electronic devices				
Trade receivables	59.525	145.409	64.460	44.352
Inventories	157.525	110.045	64.640	117.372
Property, plant And equipment, net	74.405	65.888	31.891	55.439
Intangible assets, net	38.202	37.476	24.482	28.464
Trade payables	206.664	189.998	68.495	153.985
White goods				
Trade receivables	150.205	106.526	--	111.918
Inventories	85.350	70.113	--	63.595
Property, plant And equipment, net	232.744	191.104	--	173.418
Intangible assets, net	3.024	7.537	--	2.253
Trade payables	181.717	149.109	--	135.398
Other goods and services				
Trade receivables	24.256	19.073	104.936	18.073
Inventories	27.652	21.106	44.197	20.603
Property, plant And equipment, net	2.550	7.268	5.266	1.900
Intangible assets, net	9.263	6.404	7.684	6.902
Trade payables	35.864	38.650	98.443	26.722

At 31 December 2004, 92 % (2003: 92%) of property, plant and equipment and 78 % (2003: 80%) of inventories are located in Turkey. The rest balances are located at overseas subsidiaries in Europe of which less than 4% (2003: less than 4%) are located in Russia.

At 31 December 2004, 67% of trade receivables were from European countries (2003: 72% and 2002: 66%), 30% from Turkish domestic market (2003: 23% and 2002: 30%) and the remaining 3% from the rest of the world (2003: 5% and 2002: 4%).

At 31 December 2004, 51% of trade payables were to European countries ((2003: 50% and 2002: 52%) and 26% to Turkish suppliers (2003: 25% and 2002: 23%) and the remaining 23% to the rest of the world (2003: 25% and 2002: 25%).

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28. MONETARY LOSS

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.

	31.12.2004	31.12.2003	31.12.2002	US \$ ('000) 31.12.2004
Opening Working Capital (Working 1)	223.630	591.215	(1.482)	166.627
Cash movements during the year				
Fixed assets expenditure	(228.184)	(428.798)	(69.916)	(170.020)
Investments	87	35.209	(3.616)	65
Long-term receivables and deposits	14.307	(14.586)	37.952	10.660
Increase in long term debt	(55.117)	(69.235)	476.302	(41.068)
Loss on sale of investment	--	--	30.233	--
non- cur rec	(70)	70	--	(52)
Transfer to / from minority interest	43.625	61.337	2.298	32.505
Net assets disposed on sale of subsidiary	--	--	(61.862)	--
Additton of general reserves	(9)	(36.001)	--	(7)
Disposal of retained earnings on sale of subsidiary	--	--	10.112	--
Sales	4.404.715	3.563.384	3.011.749	3.281.957
Purchases (Working 3)	(3.862.232)	(2.938.282)	(2.213.857)	(2.877.752)
Operating expenses	(438.236)	(381.268)	(300.059)	(326.530)
Financing expenses	(70.838)	(107.949)	(228.968)	(52.781)
Other income	4.997	20.320	18.393	3.723
Taxation charge	(41.574)	(32.130)	(43.435)	(30.977)
Minority Interest	(43.980)	(875)	(16)	(32.770)
Net Cash Inflow	(272.509)	(328.804)	665.310	(203.047)
Closing Working Capital per above	(48.879)	262.411	663.828	(36.420)
Closing Working Capital (working 2)	(67.670)	223.630	591.215	(50.421)
Monetary Loss	(18.791)	(38.781)	(72.613)	(14.001)

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Working 1: Opening Working Capital	31.12.2004	31.12.2004	31.12.2001	US \$ ('000) 31.12.2004
Cash and deposits with banks	517.951	436.480	164.019	385.926
Marketable securities	47.467	89.760	137.226	35.368
Trade receivables	903.162	870.775	671.449	672.947
Other current assets	269.270	354.047	287.197	200.633
	1.737.850	1.751.062	1.259.891	1.294.874
Short-term bank borrowings	(105.121)	(112.420)	(460.610)	(78.326)
Trade payables	(1.284.707)	(931.477)	(700.132)	(957.236)
Other current liabilities	(114.639)	(82.759)	(64.568)	(85.418)
Taxation on income	(9.753)	(33.191)	(36.063)	(7.267)
	(1.514.220)	(1.159.847)	(1.261.373)	(1.128.247)
Working capital surplus / (deficit)	223.630	591.215	(1.482)	166.627
Working 2: Closing Working Capital				
Cash and deposits with banks	595.990	517.951	436.480	444.073
Marketable securities	--	47.467	89.760	--
Trade receivables	1.004.098	903.162	870.775	748.154
Other current assets	211.824	269.270	354.047	157.830
	1.811.912	1.737.850	1.751.062	1.350.057
Short-term bank borrowings	(149.976)	(105.121)	(112.420)	(111.747)
Trade payables	(1.562.878)	(1.284.707)	(931.477)	(1.164.502)
Other payables and accrued liabilities	(152.891)	(114.639)	(82.759)	(113.919)
Taxation on income	(13.837)	(9.753)	(33.191)	(10.310)
	(1.879.582)	(1.514.220)	(1.159.847)	(1.400.478)
Working capital surplus	(67.670)	223.630	591.215	(50.421)
Working 3: Purchases				
Closing inventories	873.911	615.846	548.268	651.152
Cost of sales	3.604.167	2.870.704	2.226.779	2.685.467
Opening inventories	(615.846)	(548.268)	(561.190)	(458.867)
	3.862.232	2.938.282	2.213.857	2.877.752

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 31.12.2004 unless otherwise indicated)

29. POST BALANCE SHEET EVENTS

a) On the basis of its board decision dated 22 November 2004 the Group company Vestel Savunma Sanayi A.Ş. has acquired 60% interest in Aydın Yazılım ve Elektronik Sanayi A.Ş. a Turkish company engaged in computer software development with emphasis on military projects. The acquisition took place on 16 March 2005 against consideration of US \$ 2.350.000 paid in cash on the same date.

b) On 04 January 2005 the Manisa Branch of Vestel Komünikasyon Sanayi A.Ş. engaged in production of digital devices was separated and was transferred in its entirety to a newly formed group company named Vestel Digital Üretim A.Ş. which was formed on the same date with share capital YTL 5.000.000. The shareholders of Vestel Digital Üretim A.Ş. consisted of Vestel Dayanıklı Tüketim Malları A.Ş. (96%) and two other group companies (1% each) and other individual shareholders (2%).