

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
GROUP OF COMPANIES
INFLATION ADJUSTED
FINANCIAL STATEMENTS AT
30 JUNE 2005
TOGETHER WITH AUDITORS' REPORT**

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

1. We have audited the accompanying consolidated balance sheet of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its subsidiaries at 30 June 2005 and the related consolidated statement of income, movement in shareholders' equity and cash flows for the six months period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi and its subsidiaries at 30 June 2005 and the consolidated results of their operations and cash flows for the six months period 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
10 August 2005

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED BALANCE SHEETS
AT 30 JUNE 2005 AND 31 DECEMBER 2004
(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005.)

	Note	30.06.2005	31.12.2004
CURRENT ASSETS			
Cash and cash equivalents	5	640.489	615.376
Trade receivables	6	1.072.879	1.036.759
Due from group companies	21	520	39.783
Inventories	7	937.708	902.337
Other assets	8	107.337	178.931
Total current assets		2.758.933	2.773.186
NON CURRENT ASSETS			
Trade and other receivables		7.850	10.296
Investments	9	5.357	4.805
Property, plant and equipment, net	10	917.032	849.426
Intangible assets, net	11	134.636	136.647
Other assets		34.443	--
Deferred tax asset	15	49.652	34.481
Total non-current assets		1.148.970	1.035.655
TOTAL ASSETS		3.907.903	3.808.841
CURRENT LIABILITIES			
Borrowings	12	162.344	154.854
Trade payables	13	1.664.950	1.613.714
Taxation on income	15	15.236	14.287
Other liabilities	14	149.219	157.864
Total current liabilities		1.991.749	1.940.719
NON CURRENT LIABILITIES			
Borrowings	12	547.984	502.744
Reserve for retirement pay	16	16.429	25.682
Deferred tax liability	15	112.906	172.841
Total non-current liabilities		677.319	701.267
EQUITY AND RESERVES			
Ordinary shares	17	569.732	569.732
Minority interest		134.914	109.354
General reserve	18	487.373	401.905
Net income for the period		46.816	85.864
Total equity and reserves		1.238.835	1.166.855
COMMITMENTS AND CONTINGENCIES	19		
TOTAL LIABILITIES AND EQUITY		3.907.903	3.808.841

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004
(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005)

	Note	01.01- 30.06.2005	01.01- 30.06.2004
Net sales		1.900.859	1.975.501
Cost of Sales		(1.636.358)	(1.457.215)
GROSS PROFIT		264.501	518.286
Selling expenses		(153.303)	(132.647)
General and administrative expenses		(62.229)	(73.406)
Warranty expenses		(9.590)	(7.352)
Other income / (expense), net		20.373	(3.209)
INCOME FROM OPERATIONS		59.752	301.672
Financing income / (expense), net		29.588	(179.090)
INCOME BEFORE TAXATION		89.340	122.582
TAXATION CHARGE			
Current		(44.214)	(17.948)
Deferred		32.708	14.908
Taxation on income	15	(11.506)	(3.040)
INCOME BEFORE MINORITY INTEREST		77.834	119.542
Minority interest		(22.519)	(40.658)
Monetary loss		(8.499)	(15.425)
NET INCOME FOR THE PERIOD		46.816	63.459
Basic and fully diluted earnings per share (in full TL)		294	399

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004

(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005.)

	Share Capital	General Reserve	Minority interest	Net income for the period	Total Shareholders' Equity
Balance at 1 January 2004	569.732	362.967	64.310	81.142	1.078.151
Distribution of income					
- Transfer to reserves	--	81.142	--	(81.142)	--
Exchange difference	--	1.721	479	--	2.200
Consolidated subsidiaries as of 1.1.2004	--	--	40.658	--	40.658
Transfer from minority	--	(9)	173	--	164
Net income for the period	--	--	--	63.459	63.459
Balance at 30 June 2004	569.732	445.821	105.620	63.459	1.184.632
Balance at 1 January 2005	569.732	401.905	109.354	85.864	1.166.855
Distribution of income					
- Transfer to reserves	--	85.864	--	(85.864)	--
Exchange difference	--	(396)	(101)	--	(497)
Transfer to minority	--	--	22.519	--	22.519
Minority effect of share capital increase in consolidated subsidiaries	--	--	3.142	--	3.142
Net income for the period	--	--	--	46.816	46.816
Balance at 30 June 2005	569.732	487.373	134.914	46.816	1.238.835

The accompanying notes are an integral part of these statements.

VESTEL ELEKTRONİK GROUP OF COMPANIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005 AND 2004
(Currency: Thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005.)

	Note	01.01- 30.06.2005	01.01- 30.06.2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		46.816	63.459
Adjustment to reconcile net income to net cash provided from operating activities:			
Depreciation and Amortization	20	55.531	54.250
Provision for retirement pay		(7.826)	2.146
Deferred taxation		(32.708)	(14.908)
Corporation tax charge		44.214	17.948
Provision for doubtful debts		(1.104)	3.082
Provision for expense accruals		14.766	16.753
Warranty provision		2.087	(2.234)
Foreign exchange loss on non-current borrowings		42.507	52.854
Disposal of equity investments		1.382	(9)
Operating profit before changes in working capital		165.665	193.341
Trade receivables		(35.016)	(126.542)
Inventories		(35.371)	(412.533)
Due from related parties		39.263	(786)
Prepayments and other current assets		71.594	101.073
Trade payables		51.236	486.857
Other payables and current liabilities		(69.717)	(42.066)
Cash generated from operations		187.654	199.344
Taxes paid		(43.267)	(26.662)
Net cash provided by operating activities		144.387	172.682
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in current borrowings, net		7.490	22.850
Changes in non-current borrowings, net		2.733	(72.043)
Changes in minority interest		25.560	40.831
Net cash provided from financing activities		35.783	(8.362)
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in investments		(1.934)	121
Changes in tangible and intangible assets		(144.956)	(127.265)
Changes in other investing activities		(31.997)	11.754
Net book value of fixed assets disposed		23.830	2.409
Net cash used in investing activities		(155.057)	(112.981)
NET INCREASE IN CASH AND CASH EQUIVALENTS		25.113	51.339
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		615.376	583.809
CASH AND CASH EQUIVALENTS AT END OF PERIOD		640.489	635.148

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 SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira ("YTL") in equivalent purchasing power at 30.06.2005 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 organized 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 color televisions. The Company's production facilities are located in Manisa Organized industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for color televisions was 14.000.000 (2004: 12.500.000) 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 color 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 Organized industrial site (Aegean Region, Turkey) . As of the balance sheet date, production capacity for refrigerators, room air conditioning units and washing machines was 2.800.000, 700.000 and 2.000.000 (2004: 2.000.000, 350.000 and 1.150.000) units per year.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 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. As of the balance sheet date, production capacity for digital devices was 8.600.000 (2004: 7.000.000) units per year.

Vestel Dijital Üretim Sanayi A.Ş. (Vestel Dijital)

Vestel Dijital is engaged in the production of, personal computers (PC) and internet access devices. Vestel Dijital’s production facilities are located in Manisa Organized Industrial Site. As of the balance sheet date, production capacity for digital devices was 1.400.000 units per year.

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

The Company has always exercised effective control over the management of each of the companies included in the group consolidation. The direct and indirect shareholding of Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi in their capital, are:

Consolidated Company	Location	Field of activity	Shareholding (%)	
			30.06.2005	31.12.2004
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	Marketing	99,9%	99,9%
Vestel Komünikasyon Sanayi ve Ticareti A.Ş.	Turkey	Manufacturing	99,20%	99,20%
Vestel Dış Ticaret A.Ş.	Turkey	Marketing	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%	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%
Vestel Dijital Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	98%	--
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	85,6%	85,6%

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

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.

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 30 June 2005 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 30 June 2005, the three year cumulative rate has been 44% (31 December 2004: 70%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors are given below:

Year	30.06.2005	31.12.2004	30.06.2004
Index	8,677.2	8,403.8	7,982.7
Conversion factor	1.000	1.033	1.087

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

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

- the financial statements of the prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at 30 June 2005.
- monetary assets and liabilities reported in the balance sheet at 30 June 2005 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/amortization).

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

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 recognized.

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 30 June 2005 have been translated from Turkish Lira to EURO 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 SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

Foreign entities - Foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organizationally 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:

	30.06.2005	31.12.2004	30.06.2004
US Dollar	1,3413	1,3421	1,4859
EURO	1,6167	1,8268	1,8069

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 30 June 2005 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 capitalized 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:

	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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

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 recognized in income.

LEASES

Finance Lease - Assets held under finance leases are recognized 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 Lease - 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 recognized as an expense on a straight-line basis over the lease term.

Capitalized 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 30 June 2005 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 unamortized goodwill is included in the determination of the profit or loss on disposal.

Research and development costs – Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets to the extent that the expenditure is expected to generate future economic benefits. Development costs that have been capitalized are amortized on straight line basis over 5 years. The carrying values of capitalized 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 programs are recognized 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 recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 30.06.2005 unless otherwise indicated.)

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs are recognized as assets and amortized 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 licenses and amortized 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 recognized at cost, restated at the equivalent purchasing power of Turkish lira at 30 June 2005, being the fair value of the consideration given and including acquisition charges associated with the investment.

For investments that are actively traded in organized 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 30 June 2005, 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 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 21).

ALLOWANCE FOR UNEARNED INTEREST ON NOTES

Unearned interest is calculated at the rate of 16% per year for Turkish Lira and 2,3% per year for foreign currency on receivables and payables at the balance sheet date.

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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.

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.

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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. Deferred income tax liabilities are recognized for all taxable temporary differences.

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 utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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 recognized in net profit or loss in the period in which they are incurred.

PROVISIONS

Employee benefits - Under Turkish labor 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 recognizes 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 recognized 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 contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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REVENUE RECOGNITION

Revenue is recognized 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 30 June 2005.

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

Rental income – on an accrual basis.

Interest income – on an effective yield basis.

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.

4. EARNINGS PER SHARE

	30.06.2005	30.06.2004
Net profit attributable to shareholders (YTL Thousand)	46.816	63.459
Weighted average number of ordinary shares in issue('000)	159.100.000	159.100.000
Basic and diluted earnings per share (TL per share)	294	399
Dividend per share	--	--

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5. CASH AND CASH EQUIVALENTS

	30.06.2005	31.12.2004
Cash at bank and in hand	637.695	615.376
Other	2.794	--
	640.489	615.376

The maturity of repurchase transactions was between July 2005 and January 2007 and the interest rate was 34% per year for foreign currency and 16% for New Turkish Lira per year (31 December 2004: the interest rate was 1,85% for foreign currency and 36,7% for New Turkish Lira per year.)

6. TRADE RECEIVABLES

Trade receivables		
- Third parties	798.577	732.580
- Group companies	2.975	1.661
Notes receivable		
- Third parties	287.850	319.725
- Group companies	5	--
Less: unearned interest on receivables	(9.899)	(9.650)
Less: allowance for doubtful receivables	(7.430)	(8.827)
Other	801	1.270
	1.072.879	1.036.759

The movement of doubtful receivables was as follows:

Beginning balance	8.827	4.832
Charge for the period, net	1.011	5.396
Proceeds from doubtful receivables	(293)	(835)
Monetary gain	(2.115)	(566)
Ending balance	7.430	8.827

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7. INVENTORIES

	30.06.2005	31.12.2004
Raw materials	329.057	305.567
Work in process	41.147	39.202
Finished goods and merchandises	406.004	273.479
Spares and supplies	4.235	3.979
Goods in transit	157.265	280.110
	937.708	902.337

8. OTHER ASSETS

Prepaid expenses	20.330	31.351
Income accruals	30.236	99.668
VAT receivable	43.098	37.731
Work advances	6.876	6.016
Due from personnel	1.052	849
Project expenses	2.172	1.594
Other	3.573	1.722
	107.337	178.931

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9. INVESTMENTS

Entity	Country	Share percentage		Restated Amount	
		30.06.2005	31.12.2004	30.06.2005	31.12.2004
Unconsolidated Entity					
Vestpro Electronics SA	Romania	52%	52%	298	298
Vestel USA Inc.	USA	100%	100%	230	230
Vestel Elektronica SA	Romania	100%	--	19	19
Vestel India	India	100%	--	10	--
Aydın Yazılım Elektronik A.Ş.	Turkey	60%	--	3.024	--
<u>Less: Allowance for diminution in value</u>					
Vestpro Electronics SA				(298)	(298)
Vestel USA Inc.				(230)	(230)
Other investments					
Zorlu Enerji Elektrik Üretimi A.Ş.	Turkey	Less than 1%	Less than 1%	2.277	2.923
Vestelnet Elektronik İletişim A.Ş.	Turkey	-	2%	--	1.836
Tursoft A.Ş.	Turkey	7%	7%	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	3	3
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	11	11
				5.357	4.805

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.

- 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 30 June 2005 as required by IAS 39.

Except for Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş., the shares of the Company's subsidiaries and affiliates are not quoted at the Istanbul Stock Exchange or any other recognized 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 2004	167.279	1.061.003	2.797	71.686	71.282	1.374.047
Additions	1.049	40.570	309	5.092	94.768	141.788
Translation differences	(851)	(256)	(68)	(184)	(5)	(1.364)
Transfers	8.714	42.414	21	490	(51.639)	--
Disposals	(399)	(33.766)	(16)	(1.793)	(327)	(36.301)
Balance at 31 June 2005	175.792	1.109.965	3.043	75.291	114.079	1.478.170
<u>Restated Accumulated Depreciation</u>						
Balance at 31 December 2004	18.025	458.001	1.016	47.579	--	524.621
Depreciation charge	2.199	44.488	235	2.936	--	49.858
Translation differences	(107)	(64)	(22)	(145)	--	(338)
Transfers	--	(7)	--	7	--	--
Disposals	(7)	(12.595)	(3)	(398)	--	(13.003)
Balance at 30 June 2005	20.110	489.823	1.226	49.979	--	561.138
<u>Net Book Value as of</u>						
31 December 2004	149.254	603.002	1.781	24.107	71.282	849.426
30 June 2005	155.682	620.142	1.817	25.312	114.079	917.032

Property, plant and equipment have been mortgaged to the extent of YTL 45.000 (2004:YTL 46.464 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 36.316 (2004:YTL 40.882) 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.

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11. INTANGIBLE ASSETS, net

	Goodwill	Research and Development cost	Other Intangible assets	Total
<u>Restated Cost</u>				
Balance at 31 December 2004	71.738	38.069	138.621	248.428
Additions	--	--	5.429	5.429
Translation differences	--	--	(189)	(189)
Disposals	--	--	(557)	(557)
Balance at 30 June 2005	71.738	38.069	143.304	253.111
<u>Restated accumulated amortization</u>				
Balance at 31 December 2004	14.036	5.475	92.270	111.781
Amortization charge	--	1.158	5.675	6.833
Exchange differences	--	--	(114)	(114)
Disposals	--	--	(25)	(25)
Balance at 30 June 2005	14.036	6.633	97.806	118.475
<u>Net Book Value as of</u>				
Balance at 31 December 2004	57.702	32.594	46.351	136.647
Balance at 30 June 2005	57.702	31.436	45.498	134.636

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.

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

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12. BORROWINGS

30.06.2005	Current		Non - Current	
	Foreign Currency	YTL Equivalent	Foreign Currency	YTL Equivalent
Turkish lira borrowings	--	3.542	--	--
Foreign currency bank borrowings				
-USD ('000)	20.345	27.288	257.996	346.049
-EURO ('000)	78.514	126.933	122.105	197.406
-GBP ('000)	12	29	--	--
Finance lease liabilities, net				
-USD ('000)	1.441	1.933	2.330	3.125
-EURO ('000)	1.620	2.619	868	1.404
		162.344		547.984
31.12.2004				
Turkish lira borrowings	--	1.749	--	--
Foreign currency bank borrowings				
-USD ('000)	13.204	18.297	216.351	299.810
-EURO ('000)	68.835	129.839	103.722	195.643
Finance lease liabilities, net				
-USD ('000)	1.440	1.996	3.064	4.247
-EURO ('000)	1.576	2.973	1.614	3.044
		154.854		502.744

The effective interest rates of foreign currency loans and Turkish Lira loans vary between 2,8 % and 11,4% (2004: - 2,8% and 12% and) and 0% (2004- 0% and 15%) respectively.

Summary maturity schedule of bank borrowings were as follows:

	30.06.2005	31.12.2004
Due in one year	162.344	154.854
Due between two to five years	238.789	498.389
Over five years	309.195	4.355
	710.328	657.598

Letters of guarantee and notes amounting to YTL 63.925 (USD 15.025.242 and EURO 27.075.000) have been given as collateral for Turkish Eximbank and other credits (2004: YTL 33.683 (EURO 18.411.066)).

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Property, plant and equipment have been mortgaged to the extent of YTL 45.000 (2004: YTL 46.464) as collateral against bank loans and bank guarantees on letters of credit.

13. TRADE PAYABLES

	30.06.2005	31.12.2004
Trade payables		
- Third parties	1.267.822	1.164.236
Letters of credit	154.836	157.429
Letters of credit discounted	92.589	206.625
Notes payable	139.011	87.564
Less: allowance for unearned interest income	(4.591)	(3.345)
Other	15.283	1.205
	1.664.950	1.613.714

14. OTHER LIABILITIES

Income tax and social security payables	15.287	14.593
Advances received	8.986	20.579
Warranty expense provision	38.130	36.043
Accrued expenses	14.766	18.499
Forward expense accruals	69.341	65.780
Other	2.709	2.370
	149.219	157.864

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15. TAXATION ON INCOME

The Corporation Tax rate on the profits for the calendar year 2003 was 30%. However according to Law 5035 published on 2 January 2004 the Corporation Tax rate for the taxable profits of 2004 only has been determined as 33%. Taxable profits are calculated by addition of tax disallowed expenses to and deduction of tax exempt income from the profit disclosed in the statutory income.

The tax legislation provides for a provisional tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, provisional taxes for the year 2004 was calculated and paid at the rate of 33%.

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

- Up to 24 April 2003, the rate was 5,5% and 16,5% respectively for public and non public companies.
- 24 April 2003 –31 December 2003 the rate was 11%.
- After 1 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 bare 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.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to 24 April 2003 the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax 19,8% was applied to the total amount of qualifying capital investments. With effect from 24 April 2003, the investment scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to 24 April 2003 were entitled to carry forward these and apply the 19,8% withholding tax to these amounts in the manner described above (note 16).

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

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

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The Law nr. 5024 published on 30 December 2003 has introduced changes and additions to the taxation of companies with effect from 1 January 2004, as follows:

- Taxable profits as from 1 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 exceeds 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 limits 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 be considered as distribution of profit.
- Corporation Tax calculation for year 2003 will be based on the regulations valid up to December 31, 2003.
- The following will be discontinued as from 1 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 is 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:

	30.06.2005	31.12.2004
Corporation and income taxes	44.334	40.529
Less : Prepaid taxes	(29.098)	(26.242)
Taxes payable	15.236	14.287

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

The composition of cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at 30 June 2005 and 31 December 2004 using the expected future tax rates were as follows:

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	30.06.2005		31.12.2004	
	Cumulative temporary difference	Deferred Tax	Cumulative temporary difference	Deferred Tax
<u>Deferred Tax Asset</u>				
Warranty expense provision	32.275	9.683	28.800	8.640
Retirement pay provision	14.230	4.269	18.528	5.558
Unearned interest on notes receivable	14.745	4.424	9.650	2.895
Capitalized finance charges written off on inventory and fixed assets	14.984	4.495	--	--
Finance lease liabilities	3.662	1.099	5.916	1.775
Provision for doubtful receivables	5.400	1.620	7.098	2.129
Interest income on marketable securities			--	--
Expense accruals	67.498	20.249	8.493	2.548
Investment incentive allowances	26.688	2.722	52.809	5.387
Other	3.636	1.091	3.089	927
		49.652		34.481
<u>Deferred Tax Liability</u>				
Temporary differences arising from restating:				
-Inventories, prepaid expenses and fixed assets	186.072	55.822	264.340	79.303
Income Accruals	182.590	54.777	297.332	91.577
Unearned interest on notes payable	5.739	1.722	3.345	1.004
Other	1.950	585	3.194	957
		112.906		172.841

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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 1,6489 (2004: YTL 1,5477 (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.

As of 30 June 2005, in the accompanying financial statements in accordance with revised IAS 19 (Employee Benefits) the Group reflected a liability for termination benefits based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted to present value at the balance sheet date by using average market yield, expected inflation rates and an appropriate discount rate. Revised IAS 19 has been applied for the first time in the financial statements for the period ended 30 June 2005. The effect of the change in this accounting policy has been accounted for prospectively in the current year income statement as the effect on opening retained earnings was not deemed to be material.

The Group has no other obligation for employee termination other than the retirement pay above.

	30.06.2005	31.12.2004
Opening Balance	25.682	20.227
Charge for the period	1.616	9.758
Change in accounting estimate	(8.633)	--
Disposals	(1.427)	(1.844)
Monetary effect	(809)	(2.459)
Closing balance	16.429	25.682

The number of personnel is given below:

	30.06.2005	30.06.2004
Hourly based	9.667	8.956
Salary based	1.931	1.383
	11.598	10.339

Wages and salaries paid were as follows:

	01.01- 30.06.2005	01.01- 30.06.2004
Wages and salaries	110.862	74.440

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17. SHARE CAPITAL

The authorized share capital of the Company comprised 220.000.0000 shares of par value YTL 0,001 each at 30 June 2005. The issued and paid up share capital of the Company comprised 159.100.000,000 shares of par value YTL 0,001 each at 30 June 2005 and 31 December 2004.

As of 30 June 2005 and 31 December 2004 the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding %	Amount
Collar Holding BV	52%	82.082
Other shareholders	48%	77.018
Share capital (Nominal)	100%	159.100
Inflation adjustment of share capital		410.632
Restated share capital equivalent to purchasing power of Turkish Lira		569.732

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.

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19. COMMITMENTS AND CONTINGENCIES

(a) At 30 June 2005 the Company had contingent liabilities of YTL 128.554 (2004: YTL 91.765) 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\$ 704.589.000 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 (2004: YTL 46.464) 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.

(f) The Group signed a loan agreement with Vakıflar Bankası for 114.4 million US dollars. Group companies and the majority shareholder of the Company were guarantors to the agreement. Additionally, a Group company has signed a loan agreement with the same financial institution for 20 million US dollars and the Company and Group companies were guarantors to this credit facility.

20. SUPPLEMENTARY CASH FLOW INFORMATION

Depreciation and Amortization:

These are included in the following captions;

	01.01- 30.06.2005	01.01- 30.06.2004
Cost of Sales	46.213	45.947
Selling expenses and	5.731	3.834
General and administrative expenses	3.587	4.469
	55.531	54.250

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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005 unless otherwise indicated)

CHANGES IN NET WORKING CAPITAL	01.01- 30.06.2005	01.01- 30.06.2004
<u>Changes in operating assets and liabilities:</u>		
Trade receivables	(35.123)	(125.287)
Inventories	(35.371)	(412.533)
Due from related parties	39.263	(786)
Prepayments and other current assets	71.594	101.073
Trade payables	51.236	486.858
Other payables and current liabilities	(51.041)	(29.747)
	40.558	19.578

CHANGES IN OTHER INVESTING ACTIVITIES

<u>Changes in other non-current assets and liabilities:</u>		
Trade receivables	2.446	15.317
Other assets	(34.443)	(1.986)
Trade payables	--	(1.577)
	(31.997)	11.754

21. 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.

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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005 unless otherwise indicated)

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

2005	Due from related parties		Due to related parties	
	Trade receivables	Other assets	Trade payables	Other liabilities
Korteks Mensucat Sanayi A.Ş.	125	--	398	--
Vestel USA Inc.	399	--	--	--
Zorlu Linen Dokuma A.Ş.	851	--	--	--
Deniz Destek Oto Kiralama A.Ş.	--	--	74	--
Other related parties	1.605	520	114	--
	2.980	520	586	--

2004	Due from related parties		Due to related parties	
	Trade receivables	Other assets	Trade payables	Other liabilities
Vestelnet Elektronik İletişim A.Ş.	--	39.666	6	--
Zorlu Holding A.Ş.	--	--	2.671	--
Korteks Mensucat Sanayi A.Ş.	77	--	119	--
Vestel USA Inc.	395	14	--	--
Zorlu Linen Dokuma A.Ş.	934	--	--	--
Other related parties	254	103	7	--
	1.660	39.783	2.803	--

22. 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.

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(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005 unless otherwise indicated)

Foreign exchange risk – The Company operates internationally and matches its foreign currency commitments primarily from its foreign currency trade receivables. Foreign currency position of the Group as of 30 June 2005 is shown below:

	USD (‘000)	EURO (‘000)	GBP (‘000)	TL Equivalent
Cash and cash equivalents	60.013	117.014	11	269.699
Trade receivables	199.922	197.348	412	588.209
Inventories	26.462	96.581	2.208	196.999
Other receivables	18.974	--	752	27.276
Current assets	305.371	410.943	3.383	1.082.183
Borrowings	21.785	80.134	12	158.802
Trade payables	627.022	330.708	199	1.376.164
Advance received	2.678	52	1	3.678
Current Liabilities	651.485	410.894	212	1.538.644
Borrowings	260.327	122.972	--	547.984
Non-current Liabilities	260.327	122.972	--	547.984
Net foreign currency exposure	(606.441)	(122.923)	3.171	(1.004.445)

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş. GROUP OF COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005 unless otherwise indicated)

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.

23. 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

(Currency shown in thousands of New Turkish Lira in equivalent purchasing power at 30.06.2005 unless otherwise indicated)

24. POST BALANCE SHEET EVENTS

a. Company signed an agreement for obtaining a non cash loan from a foreign financial institution amounting to EURO 25.000.000 in 1 July 2005. Interest rate is 1,75% and will be repaid in 30 November 2006.

b. Law Nr: 5024 related to inflation accounting for tax purposes calls for a cumulative inflation rate of over 100% for previous 36 months and over 10% for previous twelve months. As the 36 months inflation rate has fallen under 100% and 12 months inflation to 10%, No application for inflation accounting up to the reporting date.

25. TRANSLATED FINANCIAL STATEMENTS

For the convenience of the reader, the financial statements have been translated from Turkish Lira to EURO with the Central Bank buying exchange rate at period-end (Note 3).

VESTEL ELEKTRONİK GROUP OF COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
BALANCE SHEETS
AT 30 JUNE 2005 AND 31 DECEMBER 2004
(Currency : Thousands of EURO)

	30.06.2005	31.12.2004
CURRENT ASSETS		
Cash and cash equivalents	396.171	380.637
Trade receivables	663.623	641.281
Due from group companies	322	24.608
Inventories	580.014	558.135
Other assets	66.393	110.677
Total current assets	1.706.523	1.715.338
NON CURRENT ASSETS		
Trade receivables	4.856	6.369
Investments	3.313	2.972
Property, plant and equipment, net	567.224	525.407
Intangible assets, net	83.278	84.522
Other assets	21.304	-
Deferred tax asset	30.712	21.328
Total non-current assets	710.687	640.598
TOTAL ASSETS	2.417.210	2.355.936
CURRENT LIABILITIES		
Borrowings	100.417	95.784
Trade payables	1.029.845	998.153
Taxation on income	9.424	8.837
Other liabilities	92.299	97.646
Total current liabilities	1.231.985	1.200.420
NON CURRENT LIABILITIES		
Borrowings	338.952	310.969
Reserve for retirement pay	10.162	15.886
Deferred tax liability	69.837	106.910
Total non-current liabilities	418.951	433.765
EQUITY AND RESERVES		
Ordinary shares	352.404	352.404
Minority interest	83.450	67.640
General reserve	301.462	248.596
Net income for the period	28.958	53.111
Total equity and reserves	766.274	721.751
TOTAL LIABILITIES AND EQUITY	2.417.210	2.355.936

VESTEL ELEKTRONİK GROUP OF COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
INCOME STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005 AND 2004
(Currency : Thousands of EURO)

	01.01- 30.06.2005	01.01- 30.06.2004
Net sales	1.175.765	1.221.934
Cost of Sales	(1.012.159)	(901.352)
GROSS PROFIT	163.606	320.582
Selling expenses	(94.825)	(82.048)
General and administrative expenses	(38.491)	(45.405)
Warranty expenses	(5.932)	(4.548)
Other income / (expense), net	12.602	(1.985)
INCOME FROM OPERATIONS	36.960	186.596
Financing income / (expense), net	18.301	(110.775)
INCOME BEFORE TAXATION	55.261	75.821
TAXATION CHARGE		
Current	(27.348)	(11.102)
Deferred	20.231	9.221
Taxation on income	(7.117)	(1.881)
INCOME BEFORE MONETARY LOSS	48.144	73.940
Minority interest	(13.929)	(25.149)
Monetary loss	(5.257)	(9.542)
NET INCOME FOR THE PERIOD	28.958	39.249