

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
CONSOLIDATED
FINANCIAL STATEMENTS AT
30 JUNE 2006
TOGETHER WITH AUDITORS' REPORT**

INDEPENDENT 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 (the "Company") and its subsidiaries (together with the "Company" the "Group") at 30 June 2006 and the related consolidated statement of income, movement in equity and cash flows for six month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd., the 100% subsidiary of the Company in Russia were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents.

The assessment of the damage resulting from the fire has been started and according to the external auditor's report of Vestel CIS Ltd. the net book value of fixed assets and stocks damaged or destroyed and together with claim for loss of profit the total damage comes to YTL 59.248 thousand (note 8) which has been accounted for under "other current assets". As of the report date negotiations between the insurance company and Vestel CIS Ltd. have not yet been concluded. The management of Vestel CIS Ltd. believes that there will be no difference between their claim and the compensation to be received from the insurance company and therefore no provision has been set aside in this respect.

Furthermore the local tax authority in Russia has asked for a reimbursement of YTL 7.176 thousand representing the Value Added Tax ("VAT") deducted in the past with respect to fixed assets which have been destroyed by the fire. Negotiations with the tax office have been in progress. No provision has been set aside in respect of the VAT reimbursement in question.

4. In our opinion, except for the effects, if any, of the matters mentioned in paragraph three above the financial statements referred to above present fairly in all material respects the financial position of Vestel Elektronik Sanayi ve Ticaret Anonim Őirketi and its subsidiaries at 30 June 2006 and the consolidated results of their operations and cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

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

Aykut Halit
Partner

Istanbul
08.09.2006

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 30 JUNE 2006 AND 31 DECEMBER 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

ASSETS	Note	30.06.2006	31.12.2005
Current assets			
Cash and cash equivalents	5	394.011	581.086
Trade receivables	6	1.318.688	1.367.848
Due from group companies	22	1.230	225
Inventories	7	1.263.344	1.030.006
Other assets	8	255.153	196.166
Total current assets		3.232.426	3.175.331
Non-current assets			
Trade and other receivables		16.254	13.077
Investments	9	2.041	3.069
Property, plant and equipment, net	10	999.389	974.033
Intangible assets, net	11	272.836	138.476
Other assets	8	33.896	31.728
Deferred tax asset	15	29.198	55.031
Total non-current assets		1.353.614	1.215.414
Total assets		4.586.040	4.390.745

The accompanying notes are an integral part of these financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 30 JUNE 2006 AND 31 DECEMBER 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

LIABILITIES AND EQUITY	Note	30.06.2006	31.12.2005
Current liabilities			
Borrowings	12	431.449	171.933
Trade payables	13	2.246.136	2.064.592
Taxation on income	15	2.864	12.030
Other liabilities	14	155.936	183.906
Total current liabilities		2.836.385	2.432.461
Non-current liabilities			
Borrowings	12	494.175	525.598
Reserve for retirement pay	16	19.995	18.456
Deferred tax liability	15	55.083	115.753
Total non-current liabilities		569.253	659.807
Equity			
Share capital	17	576.862	576.862
Share premium		79.191	--
Minority interest		118.782	160.432
General reserves	18	493.379	477.837
Net income for the period		(87.812)	83.346
Total equity		1.180.402	1.298.477
Commitments and contingencies	19		
Total liabilities and equity		4.586.040	4.390.745

The accompanying notes are an integral part of these financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Note	01.01- 30.06.2006	01.01- 30.06.2005
Net sales		2.533.171	1.924.647
Cost of sales		(1.987.664)	(1.656.836)
Gross profit		545.507	267.811
Selling expenses		(179.689)	(155.222)
General and administrative expenses		(82.951)	(63.008)
Warranty expenses		(14.722)	(9.710)
Other income (expense), net		13.470	20.628
Income from operations		281.615	60.499
Financing income (expense), net	20	(394.315)	29.958
(Loss) income before taxation		(112.700)	90.457
Taxation charge			
Current	15	(5.420)	(44.767)
Deferred		34.717	33.117
Taxation on income		29.297	(11.650)
(Loss) income after tax		(83.403)	78.807
Minority interest		(4.409)	(22.801)
Monetary loss		--	(8.606)
Net (loss) Income for the period		(87.812)	47.400
Basic and fully diluted earnings per share (YK₺)		(0,05)	0,03

The accompanying notes are an integral part of these financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Share capital	Share premium	General reserves	Minority interest	Net income/ (loss) for the period	Total equity
Balance at 01.01.2005	576.862	--	406.935	110.723	86.939	1.181.459
Distribution of income						
- Transfer to reserves	--	--	86.939	--	(86.939)	--
Translation differences	--	--	(401)	(102)	--	(503)
Transfer from minority	--	--	--	22.801	--	22.801
New consolidated subsidiaries	--	--	--	3.181	--	3.181
Net income for the period	--	--	--	--	47.400	47.400
Balance at 30.06.2005	576.862	--	493.473	136.603	47.400	1.254.338
Balance at 01.01.2006	576.862		477.837	160.432	83.346	1.298.477
Distribution of income						
- Transfer to reserves	--	--	83.346	--	(83.346)	--
Translation differences	--	--	(35.816)	(2.357)	--	(38.173)
Public offering of Vestel White	--	79.191	(31.988)	(45.122)	--	2.081
New consolidated subsidiaries	--	--	--	1.420	--	1.420
Net loss for the period	--	--	--	4.409	(87.812)	(83.403)
Balance at 30.06.2006	576.862	79.191	493.379	118.782	(87.812)	1.180.402

The accompanying notes are an integral part of these financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 2005

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

	Note	01.01.- 30.06.2006	01.01.- 30.06.2005
Cash flow provided by operating activities			
Net income for the period		(87.812)	47.400
Adjustment to reconcile net income to net cash provided from operating activities:			
Depreciation and amortisation	21	67.160	56.226
Foreign exchange loss on non-current borrowings		146.005	43.039
Provision for retirement pay		2.601	(7.924)
Deferred taxation		(34.107)	(33.117)
Corporation tax charge		5.483	44.767
Provision for doubtful debts		2.417	(1.118)
Provision for expense accruals		25.142	14.951
Warranty provision		(1.152)	2.113
Other		--	1.399
Operating profit before changes in working capital		125.737	167.736
Changes in net working capital	21	(153.480)	22.264
Taxes paid		(14.682)	(43.808)
Net cash provided by (used in) operating activities		(42.425)	146.192
Cash flows from financing activities			
Changes in borrowings, net		81.617	10.352
Changes in minority interest		4.175	25.880
Net cash provided from financing activities		85.792	36.232
Cash flows from investing activities			
Acquisition of new investment	21	(1.619)	--
Changes in investments		1.028	(1.958)
Changes in tangible and intangible assets		(234.115)	(146.770)
Changes in other investing activities	21	(5.345)	(32.397)
Net book value of fixed assets disposed		9.609	24.128
Net cash used in investing activities		(230.442)	(156.997)
Net increase in cash and cash equivalents		(187.075)	25.427
Cash and cash equivalents at beginning of year		581.086	623.077
Cash and cash equivalents at end of period		394.011	648.504

The accompanying notes are an integral part of these financial statements.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

1. ORGANISATION AND NATURE OF ACTIVITIES

Vestel Elektronik Sanayi ve Ticaret Anonim Şirketi (the “Company” or “Vestel Elektronik”) 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

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

Nature of Activities of the Group

The Group is organized into three production divisions given below;

A. Television production:

Vestel Elektronik Sanayi ve Ticaret A.Ş.

The Company is mainly engaged in the production of colour televisions. The Company’s production facilities are located in Manisa industrial site (Aegean Region, Turkey). As of the balance sheet date, production capacity for color televisions was 14.300.000 (2005: 14.000.000) units per year respectively.

Vestel CIS Limited (“Vestel CIS”)

Vestel CIS 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 cookers. 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 2.500.000, 700.000 and 2.000.000 (2005: 2.800.000, 700.000 and 2.000.000) units per year.

Vestel CIS

During 2005, Vestel CIS commenced construction of white goods production facilities and started its production by the end of 2005.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 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 site. As of the balance sheet date, production capacity for digital devices was 8.600.000 (2005: 8.600.000) 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 industrial site. As of the balance sheet date, production capacity for digital devices was 3.700.000 (2005: 2.800.000) units per year.

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 in their capital, are:

Consolidated Company	Location	Field of activity	Shareholding (%)	
			30.06.2006	31.12.2005
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	72,6	35,0
Vestel Komünikasyon Sanayi ve Ticareti A.Ş.	Turkey	Manufacturing	99,3	99,3
Vestel CIS Limited	Russia	Manufacturing	100,0	100,0
Vestel Dijital Üretim Sananayi A.Ş.	Turkey	Manufacturing	55,0	98,0
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	Software	29,9	29,9
Cabot Communications Ltd.	England	Software	90,9	90,9
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	90,5	90,5
Veseg Video Handelsgesellschaft GmbH	Germany	Marketing	50,8	50,8
Vestel France SA	France	Marketing	99,5	99,5
Vestel Iberia SL	Spain	Marketing	99,7	99,7
Vestel Dış Ticaret A.Ş.	Turkey	Marketing	99,7	99,7
Vestel Benelux BV	Netherlands	Marketing	50,8	50,8
Vestel UK	England	Marketing	99,7	99,7
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	Marketing	99,8	99,8
Vestel Italy SRL	Italy	Marketing	50,8	50,8
Vestel Holland BV	Netherlands	Marketing	99,7	99,7
Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş.	Turkey	Software	18,0	18,0
Electronics Outlet SRL	Italy	Marketing	50,8	50,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Marketing	93,8	93,8
Vestel Trade Limited	Russia	Marketing	99,7	--
Birim Bilgi İşlem ve Müşavirlik Ticaret Ltd. Şti.	Turkey	Software	55,0	--

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (“IASB”).

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

In accordance with Law No. 5083 in respect of “the Currency of the Turkish Republic” published in the Legal Gazette dated 31 January 2004, numbered 25363, which came into force from 1 January 2005, a new local measurement and reporting currency unit has been introduced. Turkish Lira (TL) currency units formerly used have been converted to New Turkish Lira (YTL) at the rate of 1,000,000 TL= 1 YTL. Both notes and coins of the former (TL) as well as the new currency units (YTL) were in circulation during 2005.

The restatement for the changes in the general purchasing power of YTL as of 31 December 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 31 December 2005, the three year cumulative rate has been 36% (31 December 2004: 70% - 31 December 2003: 181%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics.

As of 1 January 2006, it has been decided to discontinue the adjustment of financial statements for inflation after taking into account that hyperinflation period has come to an end as indicated by existing objective criteria and, that other signs indicating the continuance of hyperinflation have largely disappeared the financial statement as of 30 June 2006 have therefore, not been subjected to any adjustment for inflation.

The effects of ending the adjustments for inflation on financial statements are summarised as follows:

The financial statements as of 30 June 2006 have not been subjected to any inflation adjustment whereas the financial statements for previous periods have been adjusted for inflation on basis of the measuring unit current at the last preceding balance sheet date namely 31 December 2005.

Together with the ending of the hyperinflationary period the balances adjusted for inflation as of the last preceding balance sheet date form the opening balances of the assets, liabilities and equity accounts as of 1 January 2006.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying financial statements are summarized 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

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.

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:

	30.06.2006	31.12.2005
US Dollar	1,6029	1,3418
EURO	2,0095	1,5875

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

Property, plant and equipment

Property, plant and equipment 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 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

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

(Currency shown in thousands of New Turkish Lira (“YTL”) in equivalent purchasing power at 31.12.2005 unless otherwise indicated.)

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., Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. and Birim Bilgi İşlem A.Ş. at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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 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 amortised 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.

Other intangible assets – Expenditure on leasehold improvements and computer software licenses and amortised using the straight line basis over their useful lives, varies between 5 to 10 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 31 December 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 31 December 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.

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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 22).

Allowance for unearned interest

Unearned interest is calculated at the rate of 18,9% (31 December 2005: 13,8%) per year for New Turkish Lira and 5.5 % (31 December 2005: 3.5%) per year for foreign currency on receivables and payables at the balance sheet date.

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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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 31 December 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.

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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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.

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in 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.

4. EARNINGS PER SHARE

	01.01.- 30.06.2006	01.01.- 30.06.2005
Net profit attributable to shareholders	(87.812)	47.400
Weighted average number of ordinary shares in issue (million)	159.100	159.100
Basic and diluted earnings per share (YKr per share)	(0,05)	0,03

5. CASH AND CASH EQUIVALENTS

	30.06.2006	30.06.2005
Cash at bank and in hand	383.224	570.557
Other	10.787	10.529
	394.011	581.086

The maturity of time deposits was between July 2006 and January 2007 and the interest rate was 3,6% per year for foreign currency and 16,7% for New Turkish Lira per year (31 December 2005: the interest rate was 2% for foreign currency and 14% for New Turkish Lira per year).

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6. TRADE RECEIVABLES

	30.06.2006	31.12.2005
Trade receivables		
- Third parties	1.173.480	1.090.297
- Related parties (note 22)	800	647
Notes receivable		
- Third parties	175.211	300.336
Less: unearned interest on receivables	(20.329)	(14.703)
Less: allowance for doubtful receivables	(10.940)	(8.982)
Other	466	253
	1.318.688	1.367.848

The movement of doubtful receivables is given below:

Beginning balance	8.982	8.938
Charge for the period, net	2.417	1.278
Proceeds from doubtful receivables	(459)	(833)
Monetary gain	--	(401)
Ending balance	10.940	8.982

7. INVENTORIES

Raw materials	398.121	320.985
Work in process	36.305	42.589
Finished goods and merchandise	645.274	413.853
Spares and supplies	5.246	4.175
Goods in transit	178.398	248.404
	1.263.344	1.030.006

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8. OTHER ASSETS

	30.06.2006	31.12.2005
Current		
Prepaid expenses	41.129	25.123
Income accruals	7.019	43.655
Receivable from insurance company (*)	59.248	41.341
VAT receivable	110.337	59.758
Work advances	6.677	4.222
Due from personnel	676	753
Project expenses	24.768	17.273
Other	5.299	4.041
	255.153	196.166
Non-current		
Prepaid expenses	33.727	31.583
Other	169	145
	33.896	31.728

(*) Vestel CIS Limited’ s property, plant and equipment used for television production, part of finished goods, components and raw materials were fully destroyed by fire on 14 November 2005. Vestel CIS Limited is negotiating insurance claims in the amount of YTL 59.248 (USD 36.963 thousand) with respect to a fire that destroyed certain Company properties, and the resulting business interruption the outcome of which is not known as of the date of these financial statements. The management of Vestel CIS Ltd. believes that there will be no difference between their claim and the compensation to be received from the insurance company and therefore no provision has been set aside in this respect. Furthermore the local tax authority in Russia has asked for a reimbursement of YTL 7.176 thousand representing the Value Added Tax (“VAT”) deducted in the past with respect to fixed assets which have been destroyed by the fire. Negotiations with the tax office have been in progress. No provision has been set aside in respect of the VAT reimbursement in question

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9. INVESTMENTS

Entity	Country	Share percentage		Amount	
		30.06.2006	31.12.2005	30.06.2006	31.12.2005
Unconsolidated entity					
Vestpro Electronics SA	Romania	52%	52%	301	301
Vestel USA Inc.	USA	100%	100%	233	233
Vestel Elektronika SA	Romania	100%	100%	18	18
Vestel India	India	100%	100%	10	10
Less: Allowance for diminution in value					
Vestpro Electronics SA	Romania			(301)	(301)
Vestel USA Inc.	USA			(233)	(233)
				28	28
Other investments					
Zorlu Enerji Elektrik Üretim A.Ş.	Turkey	Less than 1%	Less than 1%	1.985	3.013
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%	12	12
				2.041	3.069

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

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

- Zorlu Enerji Elektrik Üretim A.Ş. shares are quoted at the Istanbul Stock Exchange and are shown at market value by reference to the average of the closing bid prices at the balance sheet dates as required by IAS 39.

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10. PROPERTY, PLANT AND EQUIPMENT, net

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost						
Balance at 31.12.2005	213.633	1.224.573	4.433	83.066	76.698	1.602.403
Additions	747	21.788	1.055	3.251	43.756	70.597
Disposals	(130)	(1.734)	(157)	(69)	(4.931)	(7.021)
Consolidated companies	--	--	248	4.624	--	4.872
Translation differences	1.594	1.652	251	563	15.160	19.220
Transfers	1.064	38.877	462	773	(41.249)	(73)
Balance at 30.06.2006	216.908	1.285.156	6.292	92.208	89.434	1.689.998
Accumulated depreciation						
Balance at 31.12.2005	22.650	548.108	1.794	55.818	--	628.370
Additions	2.908	52.877	515	3.527	--	59.827
Disposals	(38)	(1.086)	(102)	(58)	--	(1.284)
Consolidated companies	--	--	93	2.660	--	2.753
Translation differences	212	265	87	379	--	943
Transfers	--	(40)	--	40	--	--
Balance at 30.06.2006	25.732	600.124	2.387	62.366	--	690.609
Net book value as of						
31.12.2005	190.983	676.465	2.639	27.248	76.698	974.033
30.06.2006	191.176	685.032	3.905	29.842	89.434	999.389

Property, plant and equipment have been mortgaged to the extent of YTL 45.000 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 30.286 (2005: YTL 34.231) 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. Significant portion of the construction-in-progress balance represented investment made in Vestel White to increase its refrigerator and washing machine production capacity and new investment made in cooker and dishwasher segment during 2005 and 2006 and new investment related to fully destroyed Vestel CIS plant (Russia) used for television production on 14 November 2005.

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11. INTANGIBLE ASSETS, net

	Goodwill	Research and development cost	Other intangible assets	Total
Cost				
Balance at 31.12.2005	74.125	38.545	154.032	266.702
Additions	128.388	--	17.820	146.208
Disposals	--	(3.842)	(30)	(3.872)
Consolidated companies	--	--	48	48
Translation differences	(972)	--	448	(524)
Transfers	--	--	73	73
Balance at 30.06.2006	201.541	34.703	172.391	408.635
Accumulated amortisation				
Balance at 31.12.2005	14.044	7.874	106.308	128.226
Additions	--	1.129	6.204	7.333
Disposals	--	--	--	--
Consolidated companies	--	--	8	8
Translation differences	(119)	--	351	232
Balance at 30.06.2006	13.925	9.003	112.871	135.799
Net book value as of				
Balance at 31.12.2005	60.081	30.671	47.724	138.476
Balance at 30.06.2006	187.616	25.700	59.520	272.836

The share values of Vestel White was established on basis of prices received from invitations for submission of price quotations between 11-12 April 2006 and the value thus ascertained was YTL 3.20 (full) per share. The Company purchased 89.699.993 shares (65% of capital) of Vestel White which were held by Zorlu Holding A.S. and Zorlu Family at YTL 3.20 (full) each on 13 April 2006 and consequently became 100% owner of the shares Vestel White. At the same time the share capital of Vestel White was increased by YTL 52.000 (52.000.000 shares) to YTL 190.000 and 59.800.000 shares were sold through public offering on 21 April 2006 at the price of YTL 3.20 (full) per share. Subsequently 7.800.000 shares were reacquired at the Istanbul Stock Exchange and therefore the interest of minorities in Vestel White was reduced to 27.4%.

On 3 May 2006, Company acquired 2.750.000 shares (55% of capital) of Birim Bilgi İşlem for YTL 1.990

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Goodwill arising on acquisitions and the net assets acquired of the companies mentioned above is given below:

	Vestel White	Birim Bilgi İşlem	Total
Purchase consideration	287.040	1.990	289.030
Group share of net assets acquired	(158.957)	(1.685)	(160.642)
Positive goodwill	128.083	305	128.388

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

	Current		Non - current	
	Foreign currency	YTL equivalent	Foreign currency	YTL equivalent
30.06.2006				
New Turkish lira borrowings	--	6.511	--	--
Foreign currency bank borrowings				
-USD ('000)	61.841	99.125	256.215	410.687
-EURO ('000)	160.681	322.888	40.394	81.171
Finance lease liabilities, net				
-USD ('000)	1.129	1.809	1.200	1.924
-EURO ('000)	555	1.116	196	393
		431.449		494.175
31.12.2005				
New Turkish lira borrowings	--	1.048	--	--
Foreign currency bank borrowings				
-USD ('000)	27.184	36.476	249.141	334.297
-EURO ('000)	82.215	130.516	118.644	188.347
Finance lease liabilities, net				
-USD ('000)	1.273	1.708	1.774	2.380
-EURO ('000)	1376	2.185	362	574
		171.933		525.598

The effective interest rates of foreign currency loans and New Turkish Lira loans vary between 2,8 % and 11,5% (2005: - 2,7% and 11,4% and), respectively.

Summary maturity schedule of bank borrowings were as follows:

	30.06.2006	31.12.2005
Due in one year	431.449	171.933
Due between one to five years	126.763	215.748
Over five years	367.412	309.850
	925.624	697.531

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Letters of guarantee and notes amounting to YTL 74.727 (USD 12.500.000 and EURO 27.276.947) have been given as collateral for Turkish Eximbank and other credits (2005: YTL 67.740 (USD 15.000.242 and EURO 29.992.000)).

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

13. TRADE PAYABLES

	30.06.2006	31.12.2005
Trade payables		
- Third parties	1.835.485	1.516.343
- Related parties (note 22)	6.787	1.272
Letters of credit	181.194	243.850
Letters of credit discounted	189.888	248.925
Notes payable	38.072	56.872
Less: unearned interest on payables	(5.307)	(3.285)
Other	17	615
	2.246.136	2.064.592

14. OTHER LIABILITIES

Income tax and social security payables	23.966	20.038
Advances received	25.272	18.373
Warranty expense provision	38.100	39.252
Accrued expenses	25.142	11.746
Forward expense accruals	619	62.526
Deferred project income	29.190	20.263
Due to personnel	6.669	6.663
Other	6.978	5.045
	155.936	183.906

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15. TAXATION ON INCOME

The corporation tax rate on the profits for the calendar year 2006 is 20% (2005: 30%). Taxable profits are calculated by modifying accounting income for certain exclusions and allowances for tax purposes from the profit disclosed in the statutory income. No other taxes are paid unless profits are distributed.

In Turkey no taxes are withheld from undistributed profits, profits added to share capital (bonus shares) and dividends paid to other resident companies. Other than those, profits distributed in dividend to individuals and non-resident companies are subject to withholding at the rate of 15%.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, provision for taxation charge, as reflected in the accompanying consolidated financial information, has been calculated on a separate-entity basis.

The exemption period granted on profits from the sale of investment shares and immovable property by Corporation Tax Law transitory articles No. 28 and 29 expired on 31 December 2004. However this exemption was re-enacted by Law No. 5281 on permanent basis in effect from 1 January 2005 and added to Corporation Tax Law article 8.

Accordingly, profits from the sale of investments and immovable held for a minimum of two years will be tax exempt provided such profits are added to share capital under certain conditions. However the two year holding period condition will not apply in the transfer or sale of investment and immovable property to creditor banks implemented by debtors and debt guarantors.

Companies were allowed to deduct 40% of the value of fixed assets (exceeding YTL 6.000) purchased after 24 April 2003 (investment allowances) from their taxable profits as investment incentive. Such investment deduction is also not subject to income tax withholding. The investment deductions not used in any year because of insufficient profits may be carried to future periods. 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%. Investment allowances have been cancelled as from 1 January 2006 but investment allowances earned prior to this date may be used up to 31 December 2008; any balance unused after this date may not be carried forward.

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

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

The Group's tax charge is as follows:

	30.06.2006	31.12.2005
Corporation and income taxes	5.420	54.699
Less : Prepaid taxes	(2.556)	(42.669)
Taxes payable	2.864	12.030

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Deferred taxation

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 the balance sheet dates using the expected future tax rates were as follows:

	30.06.2006		31.12.2005	
	Cumulative temporary difference	Deferred tax	Cumulative temporary difference	Deferred tax
Deferred tax asset				
Warranty expense provision	35.289	7.411	32.879	9.864
Retirement pay provision	17.585	3.751	16.173	4.852
Unearned interest on receivables	20.518	4.104	14.246	4.274
Capitalized financing expenses written off	17.400	4.665	12.728	3.818
Finance lease liabilities	760	228	2.056	617
Provision for doubtful receivables	8.693	1.739	6.536	1.961
Expense accruals	--	--	67.273	20.182
Investment incentive allowances	14.257	1.454	21.500	2.193
Other	27.106	5.846	24.238	7.270
		29.198		55.031
Deferred tax liability				
Temporary differences arising from				
Restating non-monetary assets	220.531	49.082	189.073	56.749
Income accruals	--	--	182.590	54.777
Unearned interest on payables	12.281	2.759	9.800	2.940
Other	16.198	3.242	4.302	1.287
		55.083		115.753

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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 1,771 (2005: YTL 1,727 (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 2006, 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.

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

	30.06.2006	31.12.2005
Opening balance	18.456	26.003
Charge for the period	2.601	5.639
Change in accounting estimate	--	(8.741)
Consolidated entity	787	593
Disposals	(1.849)	(3.908)
Monetary gain	--	(1.130)
Closing balance	19.995	18.456
Number of personnel employed as of year end:	12.080	11.845
	01.01.-	01.01.-
	30.06.2006	30.06.2005
Personnel cost:		
Gross salaries, wages and employer's share of social insurance	136.571	114.549

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17. SHARE CAPITAL

The authorized share capital of the Company comprised 220.000.000.000 shares of par value YKr 0,1 each at 30 June 2006. The issued and paid up share capital of the Company comprised 159.099.866.960 shares of par value YKr 0,1 each at 30 June 2006 and 31 December 2005.

As of 30 June 2006 and 31 December 2005 the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding	
	%	Amount
Collar Holding BV	51,59%	82.082
Other shareholders	48,41%	77.018
Share capital (Nominal)	100,00%	159.100
Inflation adjustment of share capital		417.762
Restated share capital equivalent to purchasing power of New Turkish Lira		576.862

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 2006 the Company had contingent liabilities of YTL 209.693 (2005: YTL 164.165) 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 realize exports amounting to USD 462.528.022 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 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 USD 125 million. Group companies and the majority shareholder of the Company were guarantors to the agreement.
- g) Claims from court cases started by the group and pending as of 30 June 2006 amounted to YTL 8.408 and EURO 285.000. Claims from court cases started and pending against the group as of the same date was YTL 619.
- Included among the court cases started by the group are receivables totalling YTL 7.505 and tax claim of YTL 903 which have been provided for in full. In addition a provision of YTL 619 has been set aside in respect of court cases opened against the group.
- h) A law suit has been initiated against the Company by a company which engaged in the production of household appliances for the invalidity of the patent certificate. The Company has initiated a counter law suit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The law-suits are still pending and at the stage of expert evaluation.
- i) Vestel CIS Limited's property, plant and equipment used for television production, part of finished goods, components and raw materials were fully destroyed by fire on 14 November 2005. In addition, construction in progress also suffered fire damage. Vestel CIS Limited is negotiating insurance claims in the amount of YTL 59.248 (USD 36.963 thousand) with respect to a fire that destroyed certain Company properties, and the resulting business interruption the outcome of which is not known as of the date of these financial statements. Additionally, the Vestel CIS Limited is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of YTL 7.761, the outcome of which is uncertain due to relevant Russian tax legislation. No provision for any loss relating to this insurance claim and VAT reclaim has been made in the financial statements.
- k) Total obligation of the Company related to operational lease agreements is amounted to YTL 2.062 (2005: 2.559 YTL).

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20. FINANCING INCOME / (EXPENSE), net

	01.01.- 30.06.2006	01.01.- 30.06.2005
Foreign exchange gain / (loss) on imports, borrowings exports and other receivables	(342.035)	78.939
Interest expense	(32.891)	(29.338)
Letters of credit expenses	(17.501)	(11.129)
Finance lease interest expense	(273)	(437)
Factoring expense	(1.877)	(1.803)
Interest income from demand deposit	19.113	38.798
Foreign exchange loss on forward contracts	(769)	(34.716)
Bank commissions and other financial expenses	(18.082)	(10.356)
	(394.315)	29.958

21. SUPPLEMENTARY CASH FLOW INFORMATION

Depreciation and amortisation:

Cost of sales	55.595	46.791
Selling, general and administrative expenses	11.565	9.435
	67.160	56.226

Changes in operating assets and liabilities:

Trade receivables	72.672	(35.454)
Inventories	(233.269)	(35.814)
Due from related parties	(16.840)	39.754
Prepayments and other current assets	(57.829)	72.490
Trade payables	175.904	51.877
Other payables and current liabilities	(94.118)	(70.589)
	(153.480)	22.264

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	01.01.- 30.06.2006	01.01.- 30.06.2005
Changes in other non-current assets and liabilities:		
Trade receivables	(3.177)	2.477
Other assets	(2.168)	(34.874)
	(5.345)	(32.397)

Acquisition of subsidiary:

During the period the Group acquired Birim Bilgi İşlem. The fair value of assets acquired and liabilities were as follows:

	Amount
Cash and cash equivalents	371
Trade receivables	10.094
Inventories	69
Other assets	1.158
Property, plant and equipment	2.027
Goodwill	305
Intangible assets, net	38
Deferred tax asset	692
Borrowings	(471)
Trade payables	(5.640)
Taxation on income	(33)
Other liabilities	(4.373)
Reserve for retirement pay	(787)
Deferred tax liability	(82)
Total net assets acquired	3.368
Less: Minority share	(1.378)
Total purchase price	1.990
Less: Cash and cash equivalents of Birim Bilgi İşlem	(371)
Cash flow on acquisition net of cash acquired	1.619

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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:

Related party	Due from related parties		Due to related parties
	Trade receivables	Other assets	Trade payables
30.06.2006			
Vestel Elektronika SA	--	233	--
Zorpet Petrogaz, Petrol ve Petrokimya A.Ş.	142	--	533
Promer Bilgisayar Limited Şirketi	--	--	1.132
Vestel USA Inc.	612	15	--
Teds International	--	721	--
L-3 Communications Investment	--	--	1.212
Other related parties	46	261	3.910
	800	1.230	6.787
31.12.2005			
Vestel Elektronika SA	--	117	--
Zorpet Petrogaz, Petrol ve Petrokimya A.Ş.	159	--	69
Vestel USA Inc.	469	--	--
L-3 Communications Investment	--	--	1.013
Other related parties	19	108	190
	647	225	1.272

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23. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Group'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 Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

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

Interest rate risk – The Group's operating income and operating cash flows are substantially independent from changes in market interest rates. The Group borrows short term at variable interest rates and borrows long term at fixed and variable interest rates.

Credit risk - The Group'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 Group's management based on prior experience and the current economic environment.

Liquidity risk - The Group raises funds by liquidating its short term financial instruments, eg by collecting receivables and disposing of marketable securities. The Group's proceeds from these instruments generally approximate their fair values.

Foreign exchange risk – The Group 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 2006 and 31 December 2005 is shown below:

30.06.2006	USD	EURO	GBP	YTL
	('000)	('000)	('000)	equivalent
Cash and cash equivalents	15.916	73.207	154	173.069
Trade receivables	199.100	236.333	1.249	797.679
Inventories	110.438	150.420	265	480.060
Other assets	60.762	16.431	436	131.681
Assets	386.216	476.391	2.104	1.582.489
Borrowings	320.385	201.826	-	919.113
Trade payables	854.821	367.064	290	2.108.651
Other liabilities	22.716	2.272	-	40.977
Liabilities	1.197.922	571.162	290	3.068.741
Net foreign currency position	(811.706)	(94.771)	1.814	(1.486.252)

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31.12.2005	USD	EURO	GBP	YTL
	('000)	('000)	('000)	equivalent
Cash and cash equivalents	48.832	103.508	179	230.238
Trade receivables	249.875	378.138	1.120	938.058
Inventories	174.305	123.640	217	430.642
Other assets	45.766	8.038	629	75.564
Assets	518.778	613.324	2.145	1.674.502
Borrowings	279.372	202.597	--	696.483
Trade payables	916.939	450.592	979	1.947.833
Other liabilities	23.540	3.272	47	36.855
Liabilities	1.219.851	656.461	1.026	2.681.201
Net foreign currency position	(701.073)	(43.137)	1.119	(1.006.699)

Liquidity risk - The Group raises funds by liquidating its short term financial instruments, eg by collecting receivables and disposing of marketable securities. The Group's proceeds from these instruments generally approximate their fair values.

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 Group 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 Group is based on such market data. The fair values of the remaining financial instruments of the Group can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

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

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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.

24. POST BALANCE SHEET EVENTS

On 23 August 2006, Vestel Group obtained a syndicated letter of credit facility from a foreign financial institution amounted to USD 125.000.000. The maturity of this facility is one year. The agreement is signed by Vestel Elektronik Sanayi ve Ticaret A.Ş., Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., Vestel Dijital Üretim Sanayi A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş. and Vestel Holland B.V.. These companies were borrowers and guarantors to this facility.