

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
CONSOLIDATED
FINANCIAL STATEMENTS AT
31.12.2006
TOGETHER WITH AUDITORS' REPORT**

INDEPENDENT AUDITOR'S REPORT

**To The Shareholders and Board of Directors of
Vestel Elektronik Sanayi ve Ticaret A.Ş.**

We have audited the accompanying consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret A.Ş. and its subsidiaries listed under note 1 (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), a 100% subsidiary, were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents relating to the period from 01 January through 14 November 2005. Therefore it was not possible to perform a full scope of the procedures to report on the financials statements of Vestel CIS Ltd. for the year ended 31 December 2005. Vestel CIS Ltd. recorded insurance claims of USD 37.347 thousand (YTL 52.495 thousand) with respect to assets affected by the said fire and the resulting business interruption (note 8). In addition Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of USD 4.894 thousand (YTL 6.879 thousand). Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, as well as negotiations with tax authorities, it is not possible to determine the amount that will be recovered under these claims. 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.

The total assets of Vestel CIS Ltd. are YTL 249.992 thousand which amounts to 5,2% of the consolidated total assets of the Group. The net loss of Vestel CIS Ltd. for year ending 31 December 2006 is YTL 10.314 thousand. The management of the Group is of the opinion that the total fire damage of YTL 52.495 thousand does not have a material effect on the operations of the Group.

Opinion

In our opinion, except for the effects on the corresponding figures of the adjustments, if any, which might have been considered necessary if it were possible to perform full scope of procedures on the financial statements of Vestel CIS Ltd. as of 31 December 2005 the consolidated financial statements present fairly in all material respects, the consolidated financial position of the Group as of 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Aykut Halit
Partner

İstanbul, 12 April 2007

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Assets	Note	31.12.2006	31.12.2005
Current assets			
Cash and cash equivalents	5	584.684	581.086
Trade receivables	6	1.349.794	1.367.848
Inventories	7	1.241.766	1.030.006
Other assets	8	233.667	196.391
Total current assets		3.409.911	3.175.331
Non-current assets			
Trade receivables		14.803	13.077
Investments	9	1.496	3.069
Property, plant and equipment, net	10	1.021.601	974.033
Intangible assets, net	11	267.513	138.476
Other assets	8	26.909	31.728
Deferred tax asset	15	36.113	55.031
Total non-current assets		1.368.435	1.215.414
Total assets		4.778.346	4.390.745

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

Liabilities and equity	Note	31.12.2006	31.12.2005
Current liabilities			
Borrowings	12	523.650	171.934
Trade payables	13	2.306.328	2.064.592
Taxation on income	15	7.317	12.030
Provision for expenses	14.1	46.286	105.674
Other liabilities	14.2	89.728	70.382
Total current liabilities		2.973.309	2.424.612
Non-current liabilities			
Borrowings	12	394.659	525.597
Provision for retirement pay	16	21.447	18.456
Provision for expenses	14.1	8.871	7.850
Other liabilities		265	--
Deferred tax liability	15	57.613	115.753
Total non-current liabilities		482.855	667.656
Equity			
Share capital	17	576.862	576.862
Minority interest		130.253	160.432
General reserves	18	615.068	561.183
Total equity		1.322.183	1.298.477
Commitments and contingencies	19		
Total liabilities and equity		4.778.346	4.390.745

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Note	01.01.- 31.12.2006	01.01.- 31.12.2005
Net sales	25.1	5.231.125	4.456.229
Cost of sales		(4.367.941)	(3.798.115)
Gross profit	25.3	863.184	658.114
Warranty expenses		(36.971)	(30.972)
Selling expenses		(444.726)	(337.763)
General and administrative expenses		(172.168)	(141.642)
Other income, net	20	28.016	22.265
Operating profit		237.335	170.002
Financing income	21	336.990	286.386
Financing expense	21	(581.303)	(322.471)
Profit / (loss) before taxation		(6.978)	133.917
Taxation charge			
Current		(17.272)	(54.699)
Deferred		38.677	43.592
Taxation on income	15	21.405	(11.107)
Profit after taxation		14.427	122.810
Monetary loss		--	(9.296)
Net profit for the year		14.427	113.514
Attributable to:			
Equity holders of the Company		2.021	83.346
Minority interest		12.406	30.168
		14.427	113.514
Basic and fully diluted earnings per share	4	0,00	0,05

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Share capital	General reserves	Minority interest	Total equity
Balance at 31.12.2004	576.862	493.873	110.722	1.181.457
Translation differences	--	(433)	--	(433)
Acquisition of subsidiary	--	(15.603)	19.542	3.939
Net profit for the year	--	83.346	30.168	113.514
Balance at 31.12.2005	576.862	561.183	160.432	1.298.477
Translation differences	--	5.205	575	5.780
Public offering of Vestel White	--	47.202	(45.123)	2.079
Change in minority interest	--	(543)	543	--
Acquisition of subsidiary	--	--	1.420	1.420
Net profit for the year	--	2.021	12.406	14.427
Balance at 31.12.2006	576.862	615.068	130.253	1.322.183

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31.12.2006 AND 2005

(All amounts in thousands of New Turkish Lira ("YTL") unless indicated otherwise.)

	Note	01.01.- 31.12.2006	01.01.- 31.12.2005
Profit (loss) before income tax		(6.978)	133.917
Adjustment to reconcile net income to net cash provided from operating activities:			
Depreciation and amortisation expense	22	139.470	119.222
(Profit) loss on sale of fixed assets		(2.348)	6.082
(Profit) loss on sale of investments		(3.189)	--
Provision for retirement pay		5.387	(4.237)
Provision for doubtful receivables		6.302	1.278
Warranty provision		5.104	2.757
Provision for expense accruals		10.801	11.746
Operating profit before changes in working capital		154.549	270.765
Changes in operating assets and liabilities	22	(43.409)	(56.766)
Taxes paid		(21.985)	(57.135)
Net cash provided by operating activities		89.156	156.864
Cash flows from financing activities			
Changes in current borrowings		351.245	15.142
Changes in non-current borrowings		(130.938)	16.562
Changes in minority interest		2.653	3.939
Net cash provided by financing activities		222.960	35.643
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	22	(1.619)	1.521
Purchases of investments		(71)	1.797
Purchases of property, plant and equipment		(215.781)	(267.780)
Purchases of intangible assets		(150.302)	(13.621)
Proceeds from sale of investments		4.833	--
Proceeds from sale of property, plant and equipment		54.422	43.585
Net cash used in investing activities		(308.518)	(234.498)
Net increase (decrease) in cash and cash equivalents		3.598	(41.991)
Cash and cash equivalents at beginning of year		581.086	623.077
Cash and cash equivalents at end of year		584.684	581.086

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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 the Foreign Capital regulations in Turkey 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 colour 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 production in the second half of 2003.

B. Refrigerator, air conditioning units, washing machines and cookers

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, washing machines and cooker unit was 2.500.000, 700.000, 2.000.000 and 1.000.000 (2005: 2.800.000, 700.000 and 2.000.000) units per year respectively.

Vestel CIS

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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 (%)	
			31.12.2006	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	99,3	98,0
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	Software	10,0	29,9
Cabot Communications Limited	England	Software	90,9	90,9
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	52,7	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	6,0	18,0
Electronics Outlet SRL	Italy	Marketing	50,8	50,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Marketing	94,0	93,8
Vestel Trade Limited	Russia	Marketing	100,0	--
Birim Bilgi Teknolojileri Ticaret A.Ş.	Turkey	Software	55,0	--

Vestel Savunma Sanayi A.Ş. and Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. with group shares of respectively 10% and 6% are consolidated because they are under the effective control and management of the Group.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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 and reporting currency

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 nationwide 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 31 December 2006 have therefore, not been subjected to any adjustment for inflation.

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

The financial statements as of 31 December 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 YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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, 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 period 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.

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

	31.12.2006	31.12.2005
US Dollar	1,4056	1,3418
EURO	1,8515	1,5875

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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 improvements	10 to 20
Buildings	25 to 50
Machinery, equipment and moulds	10 to 15
Furniture and fixtures	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 as operating leases. Lease payments on operating lease are recognized as an expense on a straight-line basis over the lease term.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31.12.2006

(All amounts in thousands of New Turkish Lira (“YTL”) unless indicated otherwise.)

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 Teknolojileri Ticaret 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.

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.

Other intangible assets – These are amortized using the straight line basis over their useful lives which vary 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 average of the closing bid prices at the balance sheet date.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads 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 measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method to set an allowance for unearned interest. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method to set an allowance for unearned interest.

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 23).

Bank borrowings

Interest-bearing bank loans and overdrafts are recognized at fair value at initial recognition which equate to 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 instruments

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 or when financial asset or a portion of financial asset expires. 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 virtually certain 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.

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.

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

Rental income – on an accrual basis.

Interest income – on an effective yield basis.

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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 labour law, the Company and its Turkish subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who retires in accordance with social insurance regulations or is called up for military service or dies. The reserve for retirement pay is made for the maximum amount payable to employees, based on their accumulated period of service at the balance sheet date.

Warranty – The Company 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.

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.

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4. EARNINGS PER SHARE

	31.12.2006	31.12.2005
Net profit for the year	14.427	113.514
Weighted average number of ordinary shares in issue ('000.000)	159.100	159.100
Basic and diluted earnings per share	0,00	0,07

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	574.492	570.557
Other	10.192	10.529
	584.684	581.086

The maturity of time deposits was January 2007 and the interest rate was between 2,7% and 5,9 % per year for foreign currency and between 15,6% and 19,8% for New Turkish Lira per year (2005: the interest rate was 2% for foreign currency and 14% for New Turkish Lira per year).

6. TRADE RECEIVABLES

Current

Current accounts		
- Third parties	1.012.263	1.090.297
- Related parties, note 23	1.154	647
Notes receivable		
- Third parties	368.669	300.336
Others	1.758	253
	1.383.844	1.391.533
Unearned interest on receivables (-)	(20.311)	(14.703)
Allowance for doubtful receivables (-)	(13.739)	(8.982)
	1.349.794	1.367.848

The movement of doubtful receivables is given below:

Beginning balance	8.982	8.938
Additions	6.302	1.278
Proceeds from doubtful receivables	(1.545)	(833)
Monetary gain	--	(401)
Ending balance	13.739	8.982

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7. INVENTORIES

	31.12.2006	31.12.2005
Raw materials	487.144	327.016
Work in process	42.241	42.589
Finished goods and merchandise	514.430	413.853
Spares and supplies	8.604	4.175
Goods in transit	197.901	248.404
Provision for diminution in value	(8.554)	(6.031)
	1.241.766	1.030.006

The cost of inventories recognized as expense and included in cost of sales during the year amounted to YTL 3.625.053 (2005: YTL 3.174.986).

8. OTHER ASSETS

Current

Prepaid expenses	25.019	25.123
Income accruals	6.445	43.655
VAT receivable	107.361	59.758
Work advances	1.549	4.222
Due from personnel	461	753
Due from related parties, note 23	911	225
Project expenses	23.618	17.273
Receivables from insurance company (*)	52.495	41.341
Prepaid taxes	12.960	1.910
Other	2.848	2.131
	233.667	196.391

Non-current

Prepaid expenses	26.899	31.583
Other	10	145
	26.909	31.728

(*)The property, plant and equipment for TV production, a part of stocks of finished goods, components and raw materials of Vestel CIS Ltd. (Russia), the 100% subsidiary of the Company were destroyed as a result of fire on 14 November 2005. The administrative building was also destroyed together with all accounting records and documents relating to the period from 01 January through 14 November 2005. Vestel CIS Ltd recorded insurance claims of USD 37.347 thousand (YTL 52.495 thousand) with respect to assets affected by the said fire and the resulting business interruption (note 8). In addition Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of USD 4.894 thousand (YTL 6.879 thousand). Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, as well as negotiations with tax authorities, it is not possible to determine the amount that will be recovered under these claims. 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.

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9. INVESTMENTS

	31.12.2006	31.12.2005
Unconsolidated investments	52	28
Other investments	1.444	3.041
	1.496	3.069

Unconsolidated investments	Country	Share percentage		Amount	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
Vestpro Electronics SA	Romania	52	52	301	301
Vestel USA Inc.	USA	100	100	233	233
Vestel Electronica SA	Romania	100	100	19	18
Vestel India	India	100	100	10	10
OY Vestel Scandinavia AB	Finland	100	--	17	--
Uts-United Technical Services, S.R.O	Romania	60	--	6	--
				586	562
Allowance for diminution in value (-)					
Vestpro Electronics SA				(301)	(301)
Vestel USA Inc.				(233)	(233)
				52	28

The above companies in which the Company has a controlling interest or significant influence are not consolidated because:

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

- Vestel Electronica SA, Vestel India, OY Vestel Scandinavia AB and Uts-United Technical Services, S.R.O are newly established inactive companies.

Other investments	Country	Share percentage		Amount	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
Zorlu Enerji Elektrik Üretim A.Ş	Turkey	Less than 1	Less than 1	1.369	3.013
Tursoft A.Ş.	Turkey	7	7	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1	1	50	3
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5	5	12	12
				1.444	3.041

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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 01.01.2005	169.373	1.074.281	2.832	72.583	72.174	1.391.243
Additions	14.010	86.492	1.328	8.960	160.532	271.322
Disposals	(11.997)	(46.746)	(109)	(2.825)	(4.376)	(66.053)
Acquisition of subsidiary	--	6.254	354	3.299	--	9.907
Translation differences	(1.998)	(935)	(133)	(264)	(686)	(4.016)
Transfers	44.245	105.227	161	1.313	(150.946)	--
Balance at 31.12.2005	213.633	1.224.573	4.433	83.066	76.698	1.602.403
Additions	40.164	79.795	1.681	25.838	58.486	205.964
Disposals	(144)	(3.897)	(627)	(238)	(43.248)	(48.154)
Acquisition of subsidiary	--	--	235	4.558	--	4.793
Translation differences	976	934	--	300	8.153	10.363
Transfers	1.761	42.608	--	1.379	(45.748)	--
Balance at 31.12.2006	256.390	1.344.013	5.722	114.903	54.341	1.775.369
Accumulated depreciation						
Balance at 01.01.2005	18.251	463.733	1.029	48.174	--	531.187
Additions	4.948	93.473	696	6.300	--	105.417
Disposals	(402)	(15.163)	(77)	(1.107)	--	(16.749)
Acquisition of subsidiary	--	6.201	174	2.614	--	8.989
Translation differences	(147)	(136)	(28)	(163)	--	(474)
Balance at 31.12.2005	22.650	548.108	1.794	55.818	--	628.370
Additions	10.212	104.229	916	9.505	--	124.862
Disposals	(29)	(2.040)	(490)	(217)	--	(2.776)
Acquisition of subsidiary	--	--	89	2.677	--	2.766
Translation differences	132	179	--	235	--	546
Balance at 31.12.2006	32.965	650.476	2.309	68.018	--	753.768
Net book value as of 31.12.2005	190.983	676.465	2.639	27.248	76.698	974.033
Net book value as of 31.12.2006	223.425	693.537	3.413	46.885	54.341	1.021.601

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As of 31.12.2006 and 2005, property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

Leased assets included in the table above comprise plant and machinery amounting to YTL 28.785 (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 fire damaged Vestel CIS plant (Russia) used for television production which was affected by fire on 14 November 2005.

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11. INTANGIBLE ASSETS, net

	Goodwill	Research and development cost	Other intangible assets	Total
Cost				
Balance at 01.01.2005	72.637	38.546	140.355	251.538
Additions	2.672	--	12.069	14.741
Disposals	--	--	(395)	(395)
Acquisition of subsidiary	--	--	2.273	2.273
Translation differences	(1.184)	--	(271)	(1.455)
Balance at 31.12.2005	74.125	38.546	154.031	266.702
Additions	128.387	12	21.531	149.930
Disposals	--	(6.557)	(1.376)	(7.933)
Acquisition of subsidiary	--	--	47	47
Translation differences	384	--	305	689
Balance at 31.12.2006	202.896	32.001	174.538	409.435
Accumulated amortisation				
Balance at 01.01.2005	14.212	5.544	93.425	113.181
Additions	--	2.330	11.475	13.805
Disposals	--	--	(32)	(32)
Acquisition of subsidiary	--	--	1.607	1.607
Translation differences	(168)	--	(167)	(335)
Balance at 31.12.2005	14.044	7.874	106.308	128.226
Additions	--	5.481	9.127	14.608
Disposals	--	--	(1.237)	(1.237)
Acquisition of subsidiary	--	--	8	8
Translation differences	51	--	266	317
Balance at 31.12.2006	14.095	13.355	114.472	141.922
Net book value as of 31.12.2005	60.081	30.672	47.723	138.476
Net book value as of 31.12.2006	188.801	18.646	60.066	267.513

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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

Goodwill arising in 2006 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	(158.958)	(1.685)	(160.643)
Positive goodwill	128.082	305	128.387

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 comprise internally generated expenditure on development costs on the above projects where it is reasonably anticipated that costs will be recovered through future commercial activity.

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12. BORROWINGS

	Current		Non-current	
	Foreign currency	YTL equivalent	Foreign currency	YTL equivalent
31.12.2006				
New Turkish Lira bank loans	--	1.649	--	--
Foreign currency bank loans				
-USD ('000)	183.712	258.226	235.280	330.710
-EUR ('000)	141.236	261.498	33.976	62.907
Finance lease liabilities, net				
-USD ('000)	1.373	1.930	610	857
-EUR ('000)	187	347	100	185
		523.650		394.659
31.12.2005				
New Turkish Lira bank loans	--	1.049	--	--
Foreign currency bank loans				
-USD ('000)	27.184	36.476	249.141	334.297
-EUR ('000)	82.215	130.516	118.644	188.347
Finance lease liabilities, net				
-USD ('000)	1.273	1.708	1.774	2.380
-EUR ('000)	1.376	2.185	362	573
		171.934		525.597

The effective interest rates of foreign currency loans and New Turkish Lira loans vary between 3% and 12,9% (2005: 2,7% and 11,4% and), respectively.

Summary maturity schedule of bank borrowings was as follows:

	31.12.2006	31.12.2005
Due in one year	523.650	171.934
One to five years	76.043	215.748
Over five years	318.616	309.849
	918.309	697.531

Letters of guarantee and notes amounting to YTL 35.113 (EUR 18.965.000) have been given as collateral for Turkish Eximbank and other credits (2005: YTL 67.740 (USD 15.000.242 and EURO 29.992.000)).

As of 31.12.2006 and 2005, property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

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The payment schedules of finance lease liabilities are given below:

	31.12.2006	31.12.2005
Finance lease liabilities - minimum lease payments:		
Payable with in one year	2.438	4.279
Payable later then one year and not later than four years	1.069	3.125
	3.507	7.404
Future finance charges on finance leases	(188)	(558)
Present value of finance lease liabilities	3.319	6.847
The present value of finance lease liabilities is as follows:		
Payable with in one year	2.277	3.893
Payable later then one year and not later than four years	1.042	2.953
	3.319	6.846

13. TRADE PAYABLES

Current accounts		
- Third parties	1.844.403	1.516.343
- Related parties, note 23	3.964	1.272
- Letters of credit	219.417	243.850
- Letters of credit discounted	197.639	248.925
Notes payable		
- Third parties	45.535	56.872
Other	118	615
	2.311.076	2.067.877
Unearned interest on payables (-)	(4.748)	(3.285)
	2.306.328	2.064.592

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14. PROVISION FOR EXPENSES AND OTHER LIABILITIES

14.1 PROVISION FOR EXPENSES

	31.12.2006	31.12.2005
Current		
Warranty provision	35.485	31.402
Expense accruals	10.801	74.272
	46.286	105.674
Non-current		
Warranty provision	8.871	7.850

The movement of provisions is as follows:

	Warranty expense	Expense accruals
Opening balance	39.252	74.272
Additions	36.971	10.801
Disposals	(31.867)	(74.272)
Closing balance	44.356	10.801

14.2 OTHER LIABILITIES

	31.12.2006	31.12.2005
Income tax and social security premiums payable	32.809	20.038
Advances received	17.489	18.373
Deferred project income	31.007	20.263
Due to personnel	3.665	6.663
Other	4.758	5.045
	89.728	70.382

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15. TAXATION ON INCOME

In Turkey, 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. Accordingly, 75% of profits from the sale of investments and immovables held for a minimum of two years will be tax exempt provided the sale proceeds are collected within two years and 75% of the profit is added to share capital or is kept in a special reserve account for minimum five years.

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; if this option is exercised the balance of taxable profit after deduction of investment allowances is to be taxed at 30%.

Tax losses that are reported in the Corporation Tax in Turkey return may 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 taxation liabilities of foreign subsidiaries are calculated in accordance with the regulations of the respective country where the subsidiary is situated, as follows:

Country	% of taxable profit
Germany	39,62
France	33,33
The Netherlands	25,50
UK	30,00
Spain	35,00
Italy	37,45
Russia	20,00

As of 31.12.2006 and 2005, taxation on income for the year is reconciled to the profit per income statements as follows:

	01.01.- 31.12.2006	01.01.- 31.12.2005
Profit (loss) before tax	(6.978)	133.917
Corporation tax using applicable tax rates	17.272	54.699
Disallowable expenses	41.446	48.863
Income not subject to tax	(70.674)	(76.553)
Investment allowances	(8.253)	(14.768)
Research and development allowances	(1.196)	(1.134)
Taxation on income	(21.405)	11.107

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

	31.12.2006	31.12.2005
Corporation and income taxes	17.272	54.699
Prepaid taxes (-)	(9.955)	(42.669)
Provision for taxation at the year end	7.317	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:

	Cumulative temporary difference		Deferred tax	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Deferred tax asset				
Warranty expense provision	38.039	32.879	8.192	9.864
Retirement pay provision	19.588	16.173	4.192	4.852
Unearned interest on receivables	21.034	14.246	4.296	4.274
Capitalized financing expenses written off on inventory and fixed assets	20.057	12.728	5.921	3.818
Finance lease liabilities	4	2.056	1	617
Provision for doubtful receivables	12.750	6.536	2.550	1.961
Accrued expenses	17.846	67.273	3.569	20.182
Investment incentive allowances	--	21.500	--	2.193
Taxable loss carried forward	10.205	4.788	2.041	1.436
Other	25.208	19.450	5.351	5.834
			36.113	55.031
Deferred tax liability				
Temporary differences arising from restating non-monetary assets	245.578	189.073	53.875	56.749
Income accruals	--	182.590	--	54.777
Unearned interest on payables	15.891	9.800	3.309	2.940
Other	1.798	4.302	429	1.287
			57.613	115.753
Deferred tax liability, net			(21.500)	(60.722)

The movement of deferred tax liability is given below:

	01.01.- 31.12.2006	01.01.- 31.12.2005
Opening balance	(60.722)	(106.574)
Acquisition of subsidiary	610	2.155
Deferred tax income	38.677	43.592
Translation difference	(65)	105
Closing balance	(21.500)	(60.722)

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16. PROVISION FOR RETIREMENT PAY

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each eligible 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.

The amount of indemnity is the equivalent of one month’s salary for each year of service subject to a ceiling which is YTL 1.857,4 as of 31 December 2006 (2005: YTL 1.727,2) on historical cost basis).

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

In the accompanying consolidated financial statements, the Company 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.

	01.01.- 31.12.2006	01.01.- 31.12.2005
Opening balance	18.456	17.262
Additions	5.387	5.639
Acquisition of subsidiary	788	593
Disposals	(3.184)	(3.908)
Monetary gain	--	(1.130)
Closing balance	21.447	18.456
Number of personnel employed at year end:	11.686	11.845
Personnel cost:		
Gross salaries, wages, and employer's share of social insurance	240.296	200.181
Key personnel salaries and other short term benefits	8.881	6.801

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17. SHARE CAPITAL

The authorized share capital of the Company comprised 22.000.000.000 shares of par value YKr 1 each at 31.12.2006 and the issued and paid up share capital of the Company comprised 15.909.988.696 shares of par value YKr 1 each at 31.12.2006 and 2005.

As of 31.12.2006 and 2005 the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding	
	Percentage	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
		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 31.12.2006 the Group had contingent liabilities of YTL 169.868 (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 Group has committed to realize exports amounting to USD 333.344.860 as of the balance sheet date.

c) Property, plant and equipment have been mortgaged to the extent of YTL 45.000 as collateral against bank loans.

d) 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 Group continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future. The amount of postponed VAT at 31.12.2006 was YTL 185.176 (2005: YTL 183.417).

e) The Group signed a loan agreement with Vakıflar Bankası for USD 125 million which has not yet been utilised. Group companies and the majority shareholder of the Group were guarantors to the agreement. This mortgage on fixed assets was released during March 2007.

f) Claims from court cases started by the group and pending as of 31.12.2006 amounted to YTL 14.477. Claims from court cases started and pending against the group as of the same date was YTL 927.

Included among the court cases started by the group are receivables totalling YTL 13.379 and tax claim of YTL 1.287 which have been provided for in full. In addition a provision of YTL 860 has been set aside in respect of court cases opened against the group.

h) A lawsuit has been initiated against the Group by a company engaged in the production of household appliances in respect of a patent certificate for a minor component used in refrigerators. The Group has initiated a counter lawsuit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The lawsuits 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 destroyed by a fire on 14 November 2005. The situation related to the fire at Vestel CIS Ltd. (Russia) has been explained under note (8) above.

k) Total obligation of the Group related to operational lease agreements is amounted to YTL 2.514 (2005: YTL 2.559) per year.

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20. OTHER INCOME, net

	01.01.- 31.12.2006	01.01.- 31.12.2005
Scrap sales	9.333	14.434
Export commission and freight related income	14.509	7.428
Profit on sale of fixed assets	2.896	635
Profit on sale of investments	3.189	–
Provisions	2.109	11.652
Other	10.970	5.026
Other income	43.006	39.175
Idle capacity expenses	(2.692)	(7.170)
Loss on sale of fixed assets	(548)	(6.717)
Other	(11.750)	(3.023)
Other expense	(14.990)	(16.910)
	28.016	22.265

21. FINANCING EXPENSE, net

Foreign exchange gain	276.280	183.835
Interest income from bank deposits	39.608	75.445
Profit on forward contracts	25	8.044
Unearned interest on payables	21.077	19.062
Financing income	336.990	286.386
Foreign exchange loss	(370.161)	(145.160)
Bank loans interest expense	(95.841)	(55.970)
Letters of credit expenses	(34.541)	(32.075)
Finance lease interest expense	(443)	(768)
Factoring expenses	(6.353)	(3.411)
Loss on forward contracts	(2.298)	(44.353)
Bank commission expenses	(17.683)	(14.427)
Unearned interest on receivables	(28.207)	(18.376)
Other financial expenses	(25.776)	(7.931)
Financing expense	(581.303)	(322.471)
	(244.313)	(36.085)

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22. SUPPLEMENTARY CASH FLOW INFORMATION

	01.01.- 31.12.2006	01.01.- 31.12.2005
Depreciation and amortisation:		
Cost of sales	114.858	97.868
Selling expenses and general and administrative expenses	24.612	21.354
	139.470	119.222
Changes in operating assets and liabilities:		
Trade receivables	20.120	(321.616)
Inventories	(211.691)	(116.199)
Other assets	(31.299)	11.572
Trade payables	236.096	429.106
Other liabilities	(56.635)	(59.629)
	(43.409)	(56.766)
Acquisition of subsidiary:		
During 2006 and 2005 the Group acquired Birim Bilgi İşlem and Aydın Yazılım. The fair value of assets acquired and liabilities were as follows:		
	Birim Bilgi İşlem	Aydın Yazılım
Current assets	11.692	20.409
Non-current assets	3.062	6.235
Total liabilities	(11.386)	(26.365)
Total net assets acquired	3.368	279
Minority share (-)	(1.378)	(235)
Total purchase price	1.990	44
Less: Cash and cash equivalents	(371)	(1.565)
Cash flow on acquisition net of cash acquired	1.619	(1.521)

Birim Bilgi İşlem is a Turkish company engaged in software preparation in hospitals and undertaking to operate computer information system in hospitals.

Aydın Yazılım is a Turkish company engaged in software work for military applications.

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23. 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.

a) The significant balances with related parties at year end are shown below:

Related party	Trade receivables	Other assets	Trade payables
31.12.2006			
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	58	--	330
Promer Bilgisayar Limited Şirketi	--	--	1.170
Vestel USA Inc.	535	240	--
Teds International	--	552	--
L-3 Communications Investments	--	--	1.553
Other related parties	561	119	911
	1.154	911	3.964
31.12.2005			
Vestel Elektronika SA	--	117	--
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	159	--	69
Vestel USA Inc.	469	--	--
L-3 Communications Investments	--	--	1.013
Other related parties	19	108	190
	647	225	1.272

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b) Significant income and expense from related parties are summarised below:

	01.01.- 31.12.2006	01.01.- 31.12.2005
Sales		
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	1.883	--
Other	933	--
	2.816	--
Operating expense		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	1.864	1.665
Other	--	851
	1.864	2.516
Other income		
Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş.	--	2.373
Other income	--	1.566
	--	3.939
Other expense		
Vestelnet Elektronik İletişim ve Bilgilendirme A.Ş.	--	1.540
Other expense	--	2.474
	--	4.014

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24. 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, e.g. 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 31.12.2006 and 2005 is shown below:

	USD	EURO	GBP	YTL equivalent
31.12.2006				
Cash and cash equivalents	112.975	110.133	12.114	396.106
Trade receivables	71.104	323.937	30.070	782.613
Inventories	94.599	96.887	9.640	338.931
Other receivables	89.328	8.479	202	141.815
Total foreign currency assets	368.006	539.436	52.026	1.659.465
Current borrowings	183.712	141.236	--	519.724
Non-current borrowings	235.280	33.976	--	393.617
Current lease payables	1.373	187	--	2.277
Non-current lease payables	610	100	--	1.042
Trade payables	905.641	499.294	813	2.199.653
Advance received	5.902	3.294	--	14.395
Other liabilities	22.060	--	--	31.007
Total foreign currency liabilities	1.354.578	678.087	813	3.161.715
Net foreign currency position	(986.572)	(138.651)	51.213	(1.502.250)

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31.12.2005	USD	EURO	GBP	YTL equivalent
Cash and cash equivalents	48.832	103.508	179	230.256
Trade receivables	249.875	378.138	1.120	938.166
Inventories	174.305	123.640	217	430.663
Other receivables	45.766	8.038	629	75.623
Total foreign currency assets	518.778	613.324	2.145	1.674.708
Current borrowings	27.184	82.215	--	166.992
Non-current borrowings	249.141	118.644	--	522.644
Current lease payables	1.273	1.376	--	3.893
Non-current lease payables	1.774	362	--	2.953
Trade payables	916.939	450.592	979	1.947.927
Advance received	8.439	3.272	47	16.626
Other liabilities	15.101	--	--	20.263
Total foreign currency liabilities	1.219.851	656.461	1.026	2.681.298
Net foreign currency position	(701.073)	(43.137)	1.119	(1.006.590)

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:

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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25. SEGMENT INFORMATION

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

Television and monitor	:Produced by Vestel Elektronik Sanayi ve Ticaret A.Ş. (Manisa/Turkey). :Produced by Vestel CIS (Vladimir Region/Russia)
Electronic devices	:Produced by Vestel Komünikasyon Sanayi ve Ticaret A.Ş. (Izmir/Turkey). Produced by Vestel Dijital Üretim Sanayi A.S. (Manisa/Turkey).
White Goods	:Produced by Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.(Manisa/Turkey). Produced by Vestel CIS (Vladimir Region/Russia)

Segment information about these businesses is presented below:

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

	01.01- 31.12.2006		01.01- 31.12.2005	
	Amount	Quantity	Amount	Quantity
Television	3.271.073	10.978.636	2.797.912	10.868.211
- Domestic	366.950	1.044.342	499.189	1.338.265
- Export	499.817	1.666.790	443.839	1.779.806
- Foreign marketing companies	2.404.306	8.267.504	1.854.884	7.750.140
Monitor	--	--	24.125	267.749
- Domestic	--	--	12.737	96.986
- Export	--	--	14	26
- Foreign marketing companies	--	--	11.374	170.737
Electronic Devices	582.375	5.999.434	545.342	7.314.755
- Domestic	240.335	970.389	148.371	1.028.466
- Export	124.564	549.749	54.848	995.718
- Foreign marketing companies	217.476	4.479.296	342.123	5.290.571
White goods	1.216.844	4.150.159	902.191	3.203.442
- Domestic	452.194	864.728	398.113	832.743
- Export	297.867	1.428.259	182.787	938.669
- Foreign marketing companies	466.783	1.857.172	321.291	1.432.030
Other	160.833	--	186.659	--
- Domestic	160.833	--	186.659	--
	5.231.125		4.456.229	

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25.2 The breakdown of television export sales by country is as follows:

	01.01- 31.12.2006		01.01- 31.12.2005	
	Amount	Quantity	Amount	Quantity
Germany	639.525	2.151.110	548.197	2.164.831
United Kingdom	666.439	2.094.247	464.591	1.823.995
France	325.763	1.153.621	262.351	1.052.771
Denmark	35.409	115.813	37.404	162.918
Portugal	49.187	187.055	34.607	149.830
Netherlands	79.064	225.439	79.322	322.832
Spain	263.809	942.889	217.339	874.363
Italy	269.328	978.108	216.894	883.110
Russia	218.548	786.015	140.491	564.926
Others	357.051	1.299.997	297.527	1.530.370
	2.904.123	9.934.294	2.298.723	9.529.946

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

	01.01- 31.12.2006		01.01- 31.12.2005	
	Gross profit amount	% of sales	Gross profit amount	% of sales
<i>Domestic</i>				
Televisions	75.115	20	106.594	21
Monitors	--	--	1.437	11
Electronic devices	40.008	17	24.392	16
White goods	91.182	20	74.162	19
Others	17.008	11	28.955	14
Domestic total	223.313	18	235.540	19
<i>Export</i>				
Televisions	422.779	15	287.480	13
Monitors	--	--	1.157	10
Electronic devices	48.904	14	41.656	10
White goods	168.188	22	92.281	18
Export total	639.871	16	422.574	13
	863.184	17	658.114	15

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25.4 The segment assets and liabilities at 31.12.2006 and 2005 and capital expenditure for the year then ended are as follows:

	Television and monitor	Electronic devices	White goods	Other	Total
31.12.2006					
Trade receivables	951.727	97.076	279.692	21.299	1.349.794
Inventories	759.968	220.018	220.174	41.606	1.241.766
Property, plant and equipment, net	505.121	59.801	451.844	4.835	1.021.601
Intangible assets, net	74.678	33.174	155.104	4.557	267.513
Unallocated assets					897.672
Total assets					4.778.346
Trade payables	1.693.199	258.825	323.939	30.365	2.306.328
Unallocated liabilities					1.149.835
Total liabilities					3.456.163
Capital expenditure	66.829	19.151	116.898	3.086	205.964
31.12.2005					
Trade receivables	1.121.299	70.435	156.899	19.215	1.367.848
Inventories	709.301	176.028	122.127	22.550	1.030.006
Property, plant and equipment, net	564.546	80.965	325.392	3.130	974.033
Intangible assets, net	89.352	39.714	2.837	6.573	138.476
Unallocated assets					880.382
Total assets					4.390.745
Trade payables	1.599.660	239.482	196.564	28.886	2.064.592
Unallocated liabilities					1.027.676
Total liabilities					3.092.268
Capital expenditure	74.881	26.270	163.864	6.307	271.322

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25.5 Geographical segments:

Segment sales	01.01.- 31.12.2006	01.01.- 31.12.2005
Turkey	1.220.312	1.245.069
Europe	3.717.611	2.924.010
Rest of the world	293.202	287.150
	5.231.125	4.456.229
Segment assets	31.12.2006	31.12.2005
Turkey	3.418.942	3.387.930
Europe	1.069.341	836.247
Asia	290.063	166.568
	4.778.346	4.390.745
Capital expenditure	01.01.- 31.12.2006	01.01.- 31.12.2005
Turkey	137.129	213.997
Europe	1.520	910
Asia	67.315	56.415
	205.964	271.322