

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
CONSOLIDATED
FINANCIAL STATEMENTS AT
30.06.2007
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 30 June 2007, and the consolidated statements of income, changes in equity and cash flow for the six month period 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.

Conclusion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2007, and of its consolidated financial performance and its consolidated cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

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

Aykut Halit
Partner

İstanbul, 24.09.2007

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 30.06.2007 AND 31.12.2006

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

Assets	Note	30.06.2007	31.12.2006
Current assets			
Cash and cash equivalents	5	479.776	584.684
Trade receivables	6	981.095	1.349.794
Inventories	7	1.218.147	1.241.766
Other assets	8	243.660	233.667
Total current assets		2.922.678	3.409.911
Non-current assets			
Trade receivables		14.178	14.803
Investments	9	1.412	1.496
Property, plant and equipment, net	10	1.044.981	1.021.601
Intangible assets, net	11	260.559	267.513
Other assets	8	28.293	26.909
Deferred tax asset	15	30.518	36.113
Total non-current assets		1.379.941	1.368.435
Total assets		4.302.619	4.778.346

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 30.06.2007 AND 31.12.2006

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

Liabilities and equity	Note	30.06.2007	31.12.2006
Current liabilities			
Borrowings	12	342.300	523.650
Trade payables	13	1.970.770	2.306.328
Taxation on income	15	4.713	7.317
Provisions	14.1	58.449	46.286
Other liabilities	14.2	113.354	89.728
Total current liabilities		2.489.586	2.973.309
Non-current liabilities			
Borrowings	12	452.210	394.659
Reserve for retirement pay	16	18.325	21.447
Provisions	14.1	8.262	8.871
Other liabilities		90	264
Deferred tax liability	15	52.660	57.613
Total non-current liabilities		531.547	482.854
Equity			
Share capital	17	576.862	576.862
Minority interest		132.744	130.253
General reserves	18	571.880	615.068
Total equity		1.281.486	1.322.183
Commitments and contingencies	19		
Total liabilities and equity		4.302.619	4.778.346

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTH PERIODS ENDED 30.06.2007 AND 2006

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

	Note	01.01.- 30.06.2007	01.01.- 30.06.2006
Net sales		2.105.153	2.533.171
Cost of sales		(1.877.048)	(1.987.664)
Gross profit		228.105	545.507
Warranty expenses		(18.863)	(14.722)
Selling expenses		(183.146)	(179.689)
General and administrative expenses		(99.410)	(82.951)
Other income, net	20	4.181	13.470
Operating profit (loss)		(69.133)	281.615
Financing income	21	339.641	238.587
Financing expense	21	(279.609)	(632.902)
Loss before taxation		(9.101)	(112.700)
Taxation charge			
Current		(18.046)	(5.420)
Deferred		(633)	34.717
Taxation on income	15	(18.679)	29.297
Net loss for the period		(27.780)	(83.403)
Attributable to:			
Equity holders of the Company		(39.235)	(87.812)
Minority interest		11.455	4.409
		(27.780)	(83.403)
Basic and fully diluted earnings per share	4	(0,2)	(0,5)

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 SIX MONTH PERIODS ENDED 30.06.2007 AND 2006

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

	Share capital	General reserves	Minority interest	Total equity
Balance at 01.01.2006	576.862	561.183	160.432	1.298.477
Translation difference	--	(35.816)	(2.357)	(38.173)
Public offering of Vestel White		47.203	(45.122)	2.081
New consolidated subsidiaries	--	--	1.420	1.420
Net loss for the period	--	(87.812)	4.409	(83.403)
Balance at 30.06.2006	576.862	484.758	118.782	1.180.402
Balance at 01.01.2007	576.862	615.068	130.253	1.322.183
Translation difference	--	(4.750)	312	(4.438)
Change in minority interest	--	914	(914)	--
New consolidated subsidiaries	--	(117)	50	(67)
Dividend paid	--	--	(8.412)	(8.412)
Net loss for the period	--	(39.235)	11.455	(27.780)
Balance at 30.06.2007	576.862	571.880	132.744	1.281.486

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 SIX MONTH PERIODS ENDED 30.06.2007 AND 2006

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

	Note	01.01.- 30.06.2007	01.01.- 30.06.2006
Loss before taxation		(9.101)	(112.700)
Adjustment to reconcile loss before taxation to net cash provided from operating activities:			
Depreciation and amortization expense	22	76.901	67.160
Loss on sale of fixed assets, net		371	45
Profit on sale of investments		--	(2.820)
Provision for retirement pay		2.874	2.601
Provision for doubtful receivables		(2.343)	2.417
Interest expense		40.685	32.891
Warranty provision		5.222	(1.152)
Provision for expense accruals		17.133	25.142
Operating profit before changes in working capital		131.742	13.584
Changes in operating assets and liabilities	22	51.062	(158.248)
Taxes paid		(20.650)	(14.586)
Net cash provided by (used in) operating activities		162.154	(159.250)
Cash flows from financing activities			
Changes in current borrowings		(191.330)	250.063
Changes in non-current borrowings		57.551	(31.422)
Interest paid		(30.705)	(23.910)
Changes in minority interest		(552)	(234)
Dividends paid		(8.412)	--
Net cash provided by (used in) financing activities		(173.448)	194.497
Cash flows from investing activities			
Acquisition of subsidiary		--	(1.619)
Acquisition of investments		17	--
Purchases of property, plant and equipment		(95.117)	(90.920)
Purchases of intangible assets		(1.119)	(143.195)
Proceeds from sale of investments		67	3.848
Receipts from sale of tangible and intangible assets		2.538	9.564
Net cash used in investing activities		(93.614)	(222.322)
Net decrease in cash and cash equivalents		(104.908)	(187.075)
Cash and cash equivalents at beginning of year		584.684	581.086
Cash and cash equivalents at end of period		479.776	394.011

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 SIX MONTH PERIOD ENDED 30.06.2007

(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 color 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 19.000.000 (2006: 14.300.000) units per year respectively.

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 has been 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, cooker and dishwasher unit was 3.000.000, 700.000, 2.000.000, 1.500.000 and 500.000 (2006: 2.500.000, 700.000, 2.000.000 and 1.000.000) 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 SIX MONTH PERIOD ENDED 30.06.2007

(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 6.600.000 (31.12.2006: 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, computer and panel was 2.640.000, 1.656.000 and 964.140 (31.12.2006: 3.700.000, 969.000, 964.140) 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 (%)	
			30.06.2007	31.12.2006
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	72,6	72,6
Vestel Komünikasyon Sanayi ve Ticaret A.Ş.	Turkey	Manufacturing	99,3	99,3
Vestel CIS Ltd.	Russia	Manufacturing	100,0	100
Vestel Dijital Üretim Sanayi A.Ş.	Turkey	Manufacturing	99,3	99,3
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9	99,9
Vestel Savunma Sanayi A.Ş.	Turkey	Software	29,9	10,0
Cabot Communications Ltd.	England	Software	90,8	90,9
Cabot İzmir Donanım Sanayi ve Ticaret A.Ş.	Turkey	Software	52,7	52,7
Aydın Yazılım Elektronik ve Sanayi A.Ş.	Turkey	Software	18,0	6,0
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 Ltd.	England	Marketing	99,7	99,7
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	Turkey	Marketing	100,0	99,8
Vestel Italy SRL	Italy	Marketing	50,8	50,8
Vestel Holland BV	Netherlands	Marketing	99,7	99,7
Electronics Outlet SRL	Italy	Marketing	50,8	50,8
Vestek Elektronik Araştırma Geliştirme A.Ş.	Turkey	Marketing	94,0	94,0
Vestel Trade Ltd.	Russia	Marketing	100,0	100,0
Birim Bilgi İşlem ve Müşavirlik Ticaret A.Ş.	Turkey	Software	45,0	55,0
OY Vestel Scandinavia AB	Finland	Marketing	99,7	--
Deksamet Telekomünikasyon A.Ş.	Turkey	Information	99,0	--

Vestel Savunma Sanayi A.Ş., Aydın Yazılım Elektronik Sanayi ve Ticaret A.Ş. and Birim Bilgi İşlem ve Müşavirlik Ticaret A.Ş. with group shares of respectively 29,9%, 18% and 45% are consolidated because they are under the effective control and management of the Group.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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 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 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 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 SIX MONTH PERIOD ENDED 30.06.2007

(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:

	30.06.2007	31.12.2006
US Dollar	1,3046	1,4056
EURO	1,7585	1,8515

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 SIX MONTH PERIOD ENDED 30.06.2007

(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 SIX MONTH PERIOD ENDED 30.06.2007

(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. 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 labor 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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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.

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

4. EARNINGS PER SHARE

	30.06.2007	31.12.2006
Net loss for the period	(27.780)	(83.403)
Weighted average number of ordinary shares in issue('000)	159.100.000	159.100.000
Basic and diluted earnings per share - YKr	(0,17)	(0,52)

5. CASH AND CASH EQUIVALENTS

Cash at banks and in hand	129.386	118.617
Time deposits at banks	345.415	455.875
Cash in transit	4.975	10.192
	479.776	584.684

The maturity of time deposits was vary between July 2007 and January 2008 the interest rate was between 3,9% and 5,2 % per year for foreign currency and between 17,8% and 18,3% for New Turkish Lira per year (2006: 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).

6. TRADE RECEIVABLES

Current		
Current accounts		
- Third parties	695.330	1.012.263
- Related parties, note 23	1.338	1.154
Notes receivable		
- Third parties	303.560	368.669
Others	10.355	1.758
	1.010.583	1.383.844
Unearned interest on receivables (-)	(18.092)	(20.311)
Allowance for doubtful receivables (-)	(11.396)	(13.739)
	981.095	1.349.794

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

The movement of doubtful receivables is given below:

	01.01.- 30.06.2007	01.01.- 31.12.2006
Beginning balance	13.739	8.982
Charge for the period	739	6.302
Proceeds from doubtful receivables	(3.082)	(1.545)
Ending balance	11.396	13.739

7. INVENTORIES

	30.06.2007	31.12.2006
Raw materials	437.578	487.144
Work in process	49.296	42.241
Finished goods and merchandise	518.551	514.430
Spares and supplies	10.581	8.604
Goods in transit	212.992	197.901
Provision for diminution in value	(10.851)	(8.554)
	1.218.147	1.241.766

The cost of inventories recognized as expense and included in cost of sales during the six month period ended 30.06.2007 amounted to YTL 1.355.133 (01.01.-30.06.2006: 1.438.609)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

8. OTHER ASSETS

	30.06.2007	31.12.2006
Current		
Prepaid expenses	29.793	25.019
Income accruals	2.658	6.445
VAT receivable	132.014	107.361
Work advances	4.796	1.549
Due from personnel	604	461
Due from related parties, note 23	2.198	911
Project expenses	33.225	23.618
Receivables from insurance company	29.654	52.495
Prepaid taxes	1.322	12.960
Other	7.396	2.848
	243.660	233.667
Non-current		
Prepaid expenses	22.598	26.899
Receivables from insurance company	3.696	--
Other	1.999	10
	28.293	26.909

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 of the Company were destroyed as a result of fire on 14 November 2005. During 2007, the insurance companies agreed to pay a sum of USD 28.000 thousand (YTL 36.528 thousand) with respect to assets affected by the said fire and the resulting business interruption. As of 30 June 2007 the remaining balance receivable from the above mentioned insurance claims by Vestel CIS amounted YTL 29.654. Additionally the white goods factory of Vestel CIS was also damaged as a result of fire on 14 November 2005. Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, Vestel CIS Ltd. recorded insurance claims under non-current assets of YTL 3.696 with respect to assets affected by the said fire.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

9. INVESTMENTS

				30.06.2007	31.12.2006
				1.412	1.496
				35	52
				1.377	1.444
				1.412	1.496
Entity	Country	Share %		Amount	
		30.06.2007	31.12.2006	30.06.2007	31.12.2006
Vestpro Electronics SA	Romania	52%	52%	301	301
Vestel USA Inc.	USA	100%	100%	233	233
Vestel Elektronika SA	Romania	100%	100%	19	19
Vestel India	India	100%	100%	10	10
OY Vestel Skandinavia AB	Finland	--	--	--	17
Uts-United Technical Services, S.R.O	Romania	60%	60%	6	6
				569	586
Allowance for diminution in value (-)					
Vestpro Electronics SA				(301)	(301)
Vestel USA Inc.				(233)	(233)
				35	52
Other investments					
Zorlu Enerji Elektrik Üretimi A.Ş.	Turkey	Less than 1%	Less than 1%	1.302	1.369
Tursoft A.Ş.	Turkey	7%	7%	13	13
Zorlu Endüstriyel Enerji A.Ş.	Turkey	1%	1%	50	50
İzmir Teknoloji Geliştirme A.Ş.	Turkey	5%	5%	12	12
				1.377	1.444

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 Electronika SA, Vestel India and Uts-United Technical Services, S.R.O are newly established inactive companies.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

10. PROPERTY, PLANT AND EQUIPMENT, net

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost						
Balance at 01.01.2006	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 difference	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
Additions	1.676	19.323	744	12.625	65.862	100.230
Disposals	--	(4.735)	(264)	(1.794)	--	(6.793)
Translation difference	(2.176)	(2.040)	(88)	(182)	(1.156)	(5.642)
Transfers	11.356	41.741	--	550	(53.647)	--
Balance at 30.06.2007	267.246	1.398.302	6.114	126.102	65.400	1.863.164
Accumulated depreciation						
Balance at 01.01.2006	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 difference	132	179	--	235	--	546
Balance at 31.12.2006	32.965	650.476	2.309	68.018	--	753.768
Additions	3.321	56.679	582	9.201	--	69.783
Disposals	--	(3.416)	(108)	(1.315)	--	(4.839)
Translation difference	(61)	(357)	(37)	(74)	--	(529)
Balance at 30.06.2007	36.225	703.382	2.746	75.830	--	818.183
Net book value as of						
31.12.2006	223.425	693.537	3.413	46.885	54.341	1.021.601
30.06.2007	231.021	694.920	3.368	50.272	65.400	1.044.981

Leased assets included in the table above comprise plant and machinery amounting to YTL 29.083 (2005: YTL 28.785) 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 2006 and 2007 and new investment related to fire damaged Vestel CIS plant (Russia) used for television production which was affected by fire on 14 November 2005.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

11. INTANGIBLE ASSETS, net

	Goodwill	Research and development cost	Other intangible assets	Total
Cost				
Balance at 01.01.2006	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 difference	384	--	305	689
Balance at 31.12.2006	202.896	32.001	174.538	409.435
Additions	--	--	1.715	1.715
Disposals	--	(871)	(87)	(958)
Acquisition of subsidiary	--	--	26	26
Translation difference	(340)	--	(357)	(697)
Balance at 30.06.2007	202.556	31.130	175.835	409.521
Accumulated amortization				
Balance at 01.01.2006	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 difference	51	--	266	317
Balance at 31.12.2006	14.095	13.355	114.472	141.922
Additions	--	763	6.355	7.118
Disposals	--	--	(3)	(3)
Translation difference	(41)	--	(34)	(75)
Transfers	--	--	--	--
Balance at 30.06.2007	14.054	14.118	120.790	148.962
Net book value as of 31.12.2006	188.801	18.646	60.066	267.513
Net book value as of 30.06.2007	188.502	17.012	55.045	260.559

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

As of 31.12.2006, 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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

12. BORROWINGS

	Current		Non-current	
	Foreign Currency	YTL Equivalent	Foreign Currency	YTL Equivalent
30.06.2007				
New Turkish Lira bank loans	--	1.904	--	--
Foreign currency bank loans				
-USD ('000)	75.328	98.272	293.684	383.140
-EUR ('000)	136.503	240.041	39.158	68.859
Finance lease liabilities, net				
-USD ('000)	1.277	1.666	1	1
-EUR ('000)	237	417	119	210
		342.300		452.210
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

The effective interest rates of foreign currency loans and New Turkish Lira loans vary between 3% and 13,4% (2006:3% and 12,9%), respectively.

Summary maturity schedule of bank borrowings is given below:

	30.06.2007	31.12.2006
Due in one year	342.300	523.650
One to five years	444.299	76.043
Over five years	7.911	318.616
	794.510	918.309

Letters of guarantee and notes amounting to YTL 30.619 (EUR 17.412 thousand) have been given as collateral for Turkish Eximbank and other credits (2006: YTL 35.113 (EUR 18.965.000)).

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

The payment schedule of finance lease liabilities is given below:

	30.06.2007	31.12.2006
Finance lease liabilities - minimum lease payments:		
Payable with in one year	2.172	2.438
Payable later then one year and not later than four years	229	1.069
	2.401	3.507
Future finance charges on finance leases	(107)	(188)
Present value of finance lease liabilities	2.294	3.319

The present value of finance lease liabilities is as follows:

Payable with in one year	2.083	2.277
Payable later then one year and not later than four years	211	1.042
	2.294	3.319

13. TRADE PAYABLES

Current

Current accounts		
- Third parties	1.436.197	1.844.403
- Related parties, note 23	3.273	3.964
- Letters of credit	242.465	219.417
- Letters of credit discounted	215.017	197.639
Notes payable		
- Third parties	83.864	45.535
Other	37	118
	1.980.853	2.311.076
Unearned interest on payables (-)	(10.083)	(4.748)
	1.970.770	2.306.328

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

14. PROVISION FOR EXPENSES AND OTHER LIABILITIES

14.1 PROVISION FOR EXPENSES

	30.06.2007	31.12.2006
Current		
Warranty provision	41.316	35.485
Expense accruals	17.133	10.801
	58.449	46.286
Non-current		
Warranty provision	8.262	8.871

The movement of provisions is as follows:

	Warranty expense	Expense accruals
Opening balance	44.356	10.801
Additions	24.085	17.133
Disposals	(18.863)	(10.801)
Closing balance	49.578	17.133

14.2 OTHER LIABILITIES

	30.06.2007	31.12.2006
Income tax and social security payables	26.372	32.809
Advances received	29.354	17.489
Deferred project income	31.945	31.007
Due to personnel	8.255	3.665
Other	17.428	4.758
	113.354	89.728

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

15. TAXATION ON INCOME

In Turkey, the corporation tax rate on the profits for the calendar year 2007 is 20% (2006: 20%). 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 immovable 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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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	24,00
UK	30,00
Spain	35,00
Italy	37,45
Russia	20,00

As of 30.06.2007 and 2006, taxation on income for the year is reconciled to the profit per income statements as follows:

	01.01.- 30.06.2007	01.01.- 30.06.2006
Loss before tax	(9.101)	(112.700)
Corporation tax using applicable tax rates	18.046	5.420
Disallowable expenses	14.176	1.149
Income not subject to tax	(13.144)	(32.815)
Investment allowances	--	(2.676)
Research and development allowances	(399)	(375)
Taxation on income	18.679	(29.297)

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

	30.06.2007	31.12.2006
Corporation and income taxes	18.046	17.272
Prepaid taxes (-)	(13.333)	(9.955)
	4.713	7.317

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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	
	30.06.2007	31.12.2006	30.06.2007	31.12.2006
Deferred tax asset				
Warranty expense provision	39.539	38.039	7.908	8.192
Retirement pay provision	17.995	19.588	3.603	4.192
Unearned interest on receivables	19.138	21.034	3.828	4.296
Capitalized financing expenses written off on inventory and fixed assets	20.540	20.057	4.123	5.921
Finance lease liabilities	16	4	3	1
Provision for doubtful receivables	9.794	12.750	1.959	2.550
Accrued expenses	24.512	17.846	4.902	3.569
Taxable loss carried forward	--	10.205	--	2.041
Other	20.466	25.208	4.192	5.351
			30.518	36.113
Deferred tax liability				
Temporary differences arising from restating non-monetary assets	245.574	245.578	48.359	53.875
Unearned interest on payables	18.361	15.891	3.672	3.309
Other	2.326	1.798	629	429
			52.660	57.613
			(22.142)	(21.500)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

The movement of deferred tax liability is given below:

	01.01.- 30.06.2007	01.01.- 30.06.2006
Opening balance	(21.500)	(60.722)
Acquisition of new subsidiary	--	610
Deferred tax income	(633)	34.717
Translation difference	(9)	(490)
Closing balance	(22.142)	(25.885)

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 1.960,7 as of 30.06.2007 (2006: YTL 1.857,4) 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.

	30.06.2007	31.12.2006
Opening balance	21.447	18.456
Charge for the year	2.874	5.387
Consolidated entity	--	788
Disposals	(5.996)	(3.184)
Closing balance	18.325	21.447
Number of personnel employed at period end:	10.273	11.686

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

Personnel cost:

	01.01.- 30.06.2007	01.01.- 30.06.2006
Gross salaries, wages, and employer's share of social insurance	172.963	136.571
Key personnel salaries and other short term benefits	6.148	4.667

17. SHARE CAPITAL

The authorized share capital of the Company comprised 22.000.000.000 shares of par value YKr 1 each at 30.06.2007 and the issued and paid up share capital of the Company comprised 15.909.988.696 shares of par value YKr 1 each at 30.06.2007 and 31.12.2006.

As of the balance sheet dates the shareholders of the Company and their percentage shareholdings is given below:

	Shareholding %	Shareholding amount
Collar Holding BV	52%	82.082
Other shareholders	48%	77.018
Share capital	100%	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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

18. GENERAL RESERVES

General reserves comprise legal reserves and retained earnings.

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

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

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

19. COMMITMENTS AND CONTINGENCIES

a) At 30.06.2007 the Group had contingent liabilities of YTL 207.984 (31.12.2006: YTL 169.868) 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 322.318 thousand (31.12.2006: USD 333.445 thousand) as of the balance sheet date.

c) 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 30.06.2007 was YTL 179.698 (31.12.2006: YTL 185.176).

d) The Group signed a loan agreement with Vakıflar Bankası for USD 97,5 million which has not yet been utilized. Group companies were guarantors to the agreement.

e) Claims from court cases started by the group and pending as of 30.06.2007 amounted to YTL 14.358. Claims from court cases started and pending against the group as of the same date was YTL 2.106.

Included among the court cases started by the group are receivables totaling YTL 11.396 and tax claim of YTL 1.481 which have been provided for in full. In addition a provision of YTL 910 has been set aside in respect of court cases opened against the group.

f) 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.

g) 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. The white goods factory of Vestel CIS was also damaged as a result of fire on 14 November 2005. Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and the insurance company, Vestel CIS Ltd. recorded insurance claims under non-current assets of YTL 3.696 with respect to assets affected by the said fire. Additionally, Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties in the amount of USD 5.079 thousand (YTL 6.626). Pending the outcome of negotiations (and possible litigation) between Vestel CIS Ltd and tax authorities, it is not possible to determine the amount that will be recovered under these claims.

h) Total obligation of the Group related to operational lease agreements is amounted to YTL 2.772 (31.12.2006: YTL 2.514) per year.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

20. OTHER INCOME, net

	01.01.- 30.06.2007	01.01.- 30.06.2006
Scrap sales	3.769	1.829
Export commission and freight related income	5.177	5.716
Profit on sale of fixed assets	548	1.029
Profit on sale of investments	--	2.820
Provisions	7.680	916
Other	7.038	6.869
Other income	24.212	19.179
Idle capacity expenses	(5.228)	(2.277)
Loss on sale of fixed assets	(919)	(1.075)
Loss on fire incident	(6.303)	--
Other	(7.581)	(2.357)
Other expense	(20.031)	(5.709)
	4.181	13.470

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 outcome of negotiations between Vestel CIS Ltd and the insurance company is finalized for the TV factory and as a result a loss of YTL 6.303 is recorded under other expense.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

21. FINANCING EXPENSE, net

	01.01.- 30.06.2007	01.01.- 30.06.2006
Foreign exchange gain	281.469	190.203
Interest income from bank deposits	14.891	19.113
Profit on forward contracts	--	73
Unearned interest on payables	43.281	29.198
Financing income	339.641	238.587
Foreign exchange loss	(166.222)	(527.612)
Bank loans interest expense	(40.685)	(32.891)
Letters of credit expenses	(23.828)	(17.501)
Finance lease interest expense	(108)	(273)
Factoring expenses	(3.253)	(1.877)
Loss on forward contracts	--	(769)
Bank commission expenses	(3.700)	(5.609)
Unearned interest on receivables	(32.592)	(33.891)
Other financial expenses	(9.221)	(12.479)
Financing expense	(279.609)	(632.902)
	60.032	(394.315)

22. SUPPLEMENTARY CASH FLOW INFORMATION

Depreciation expense and amortization charge:

Cost of sales	62.115	55.595
Selling expenses and general and administrative expenses	14.786	11.565
	76.901	67.160

Changes in operating assets and liabilities:

Trade receivables	371.667	69.495
Inventories	23.619	(233.269)
Other assets	(11.377)	(76.837)
Trade payables	(335.558)	175.904
Other liabilities	2.711	(93.541)
	51.062	(158.248)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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
30.06.2007			
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	9	--	136
Vestel USA Inc.	15	--	--
Teds International	--	490	--
L-3 Communications Investments	--	--	1.248
Due to shareholders	--	--	1.275
Vestel Birim Datasel Adı Ortaklığı	--	1.277	--
UTS-United Technical Services, Spol.S.R.O	392	176	--
Other sundry related parties	922	255	614
	1.338	2.198	3.273
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 sundry related parties	561	119	911
	1.154	911	3.964

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

b) Sales to and operating expenses from related parties are summarized below:

	01.01.- 30.06.2007	01.01.- 30.06.2006
Sales		
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	39	793
Other	427	231
	466	1.024
Operating expense		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	1.452	1.428
Other	430	--
	1.882	1.428

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 the balance sheet dates is shown below:

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

	USD	EUR	Other currencies YTL equivalent	YTL equivalent
30.06.2007				
Cash and cash equivalents	144.548	137.633	3.002	433.607
Trade receivables	58.901	220.026	27.018	490.776
Inventories	91.969	114.764	54.319	376.114
Other receivables	12.914	9.480	59.805	93.324
Total foreign currency assets	308.332	481.903	144.144	1.393.821
Current borrowings	75.328	136.503	--	338.313
Non-current borrowings	293.684	39.158	--	451.999
Current lease payables	1.277	237	--	2.083
Non-current lease payables	1	119	--	211
Trade payables	994.531	301.406	18.984	1.846.472
Advance received	--	636	--	1.118
Other liabilities	24.487	--	--	31.945
Total foreign currency liabilities	1.389.308	478.059	18.984	2.672.141
Net foreign currency position	(1.080.976)	3.844	125.160	(1.278.320)
31.12.2006				
Cash and cash equivalents	112.975	110.133	33.397	396.106
Trade receivables	71.104	323.937	82.900	782.613
Inventories	94.599	96.887	26.577	338.931
Other receivables	89.328	8.479	557	141.815
Total foreign currency assets	368.006	539.436	143.431	1.659.465
Current borrowings	183.712	141.236	--	519.724
Non-current borrowings	235.280	33.977	--	393.617
Current lease payables	1.374	187	--	2.277
Non-current lease payables	610	100	--	1.042
Trade payables	905.641	499.294	2.241	2.199.653
Advance received	5.902	3.294	--	14.394
Other liabilities	22.060	--	--	31.008
Total foreign currency liabilities	1.354.578	678.087	2.241	3.161.715
Net foreign currency position	(986.572)	(138.651)	141.190	(1.502.250)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30.06.2007

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

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.