

**VESTEL ELEKTRONİK SANAYİ VE
TİCARET ANONİM ŞİRKETİ
CONSOLIDATED
FINANCIAL STATEMENTS AT
31.12.2007
TOGETHER WITH AUDITORS' REPORT**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Vestel Elektronik Sanayi ve Ticaret A.S.

We have audited the accompanying consolidated financial statements of Vestel Elektronik Sanayi ve Ticaret A.S. and its subsidiaries listed under note 1 (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, 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.

Conclusion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ergin Uluslararası Denetim ve Yeminli Mali Müsavirlik A.Ş.
Member Firm of GRANT THORNTON International

Aykut Halit
Partner

İstanbul, 14.04.2008

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
CONSOLIDATED BALANCE SHEETS
AT 31.12.2007 AND 2006

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

Assets	Note	2007	2006
Current assets			
Cash and cash equivalents	5	512.130	584.684
Trade receivables	6	1.134.997	1.349.794
Inventories	7	1.091.379	1.241.766
Other assets	8	203.431	233.667
Total current assets		2.941.937	3.409.911
Non-current assets			
Trade receivables		6.441	14.803
Investments	9	1.713	1.496
Property, plant and equipment	10	1.023.279	1.021.601
Intangible assets	11	301.844	267.513
Other assets	8	19.446	26.909
Deferred tax asset	16	42.304	36.113
Total non-current assets		1.395.027	1.368.435
Total assets		4.336.964	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 31.12.2007 AND 2006

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

Liabilities and equity	Note	2007	2006
Current liabilities			
Borrowings	12	236.948	523.650
Trade payables	13	2.062.835	2.306.328
Taxation on income	16	11.642	7.317
Provision for expenses	14	58.474	46.286
Other liabilities	15	109.433	89.728
Total current liabilities		2.479.332	2.973.309
Non-current liabilities			
Borrowings	12	425.417	394.659
Reserve for retirement pay	17	19.208	21.447
Provision for expenses	14	11.700	8.871
Other liabilities		112	264
Deferred tax liability	16	56.841	57.613
Total non-current liabilities		513.278	482.854
Equity			
Share capital	18	576.862	576.862
Translation reserve		23.724	29.782
Minority interest		142.788	130.253
General reserves	19	600.980	585.286
Total equity		1.344.354	1.322.183
Commitments and contingencies	20		
Total liabilities and equity		4.336.964	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 YEARS ENDED 31.12.2007 AND 2006

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

	Note	2007	2006
Revenue		4.627.011	5.231.125
Cost of sales		(4.101.699)	(4.367.941)
Gross profit		525.312	863.184
Warranty expenses		(35.612)	(36.971)
Selling expenses		(417.484)	(444.726)
General and administrative expenses		(168.913)	(172.168)
Other income	21	49.857	43.006
Other expense	21	(48.120)	(14.990)
Operating profit		(94.960)	237.335
Financing income	22	849.227	336.990
Financing expense	22	(692.472)	(581.303)
Profit / (loss) before taxation		61.795	(6.978)
Taxation charge			
Current		(39.008)	(17.272)
Deferred		8.079	38.677
Taxation on income	16	(30.929)	21.405
Net profit for the year		30.866	14.427
Net profit attributable to:			
Equity holders of the Company		14.662	2.021
Minority interest		16.204	12.406
		30.866	14.427
Basic and fully diluted earnings per share (YKr)		0,2	0,1

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 31.12.2007 AND 2006

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

	Share capital	Translation reserve	General reserves	Minority interest	Total equity
Balance at 01.01.2006	576.862	24.557	536.626	160.432	1.298.477
Translation difference	--	5.205	--	575	5.780
Public offering of Vestel White	--	--	47.202	(45.123)	2.079
Change in minority interest	--	--	(543)	543	--
Acquisition of subsidiaries	--	--	--	1.420	1.420
Net profit for the year	--	--	2.021	12.406	14.427
Balance at 01.01.2007	576.862	29.782	585.286	130.253	1.322.183
Translation difference	--	(6.058)	--	247	(5.811)
Change in minority interest	--	--	914	(914)	--
Acquisition of subsidiary	--	--	(117)	5.410	5.293
Gain on investments taken to equity	--	--	235	--	235
Dividends paid	--	--	--	(8.412)	(8.412)
Net profit for the year	--	--	14.662	16.204	30.866
Balance at 31.12.2007	576.862	23.724	600.980	142.788	1.344.354

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 31.12.2007 AND 2006

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

	Note	2007	2006
Profit (loss) before taxation		61.795	(6.978)
Adjustment to reconcile profit (loss) before taxation to net cash provided from operating activities:	23	269.280	224.871
Operating profit before changes in working capital		331.075	217.893
Changes in operating assets and liabilities	23	149.774	(50.141)
Taxes paid		(34.683)	(21.985)
Net cash provided by operating activities		446.166	145.767
Cash flows from investing activities			
Acquisition of subsidiary		(3.775)	(1.619)
Purchase of investments		(117)	(71)
Purchases of property, plant and equipment		(162.124)	(215.781)
Purchases of intangible assets		(50.459)	(150.302)
Proceeds from sale of investments		--	4.833
Proceeds from sale of property, plant and equipment		2.498	54.422
Net cash used in investing activities		(213.977)	(308.518)
Cash flows from financing activities			
Changes in current borrowings		(296.249)	340.350
Changes in non-current borrowings		30.758	(130.938)
Interest received		37.284	39.608
Interest paid		(80.801)	(85.389)
Changes in minority interest		5.656	2.653
Dividends paid to minority interest		(8.412)	--
Net cash provided by (used in) financing activities		(311.764)	166.284
Translation differences		7.021	65
Net decrease in cash and cash equivalents		(72.554)	3.598
Cash and cash equivalents at beginning of year		584.684	581.086
Cash and cash equivalents at end of year		512.130	584.684

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

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

1. ORGANISATION AND NATURE OF ACTIVITIES

Vestel Elektronik Sanayi ve Ticaret Anonim Sirketi (the “Company” or “Vestel Elektronik”) was founded in March 1983 under the name of Ferguson Elektronik Sanayi ve Ticaret A.S. under the Turkish Commercial Code and was registered in İstanbul, Turkey. The name was changed to Star Elektronik Sanayi ve Ticaret A.S. during the same year. In April 1984 Polly Peck Group acquired the Company and changed its name to Vestel Elektronik Sanayi ve Ticaret Anonim Sirketi 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.S.

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.S. (“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 YEAR THEN ENDED 31.12.2007

(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 6.900.000 (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 computer and panel was 1.656.000 and 964.140 (2006: 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 (%)	
			2007	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
Veseg Video Handelsgesellschaft GmbH	Germany	Marketing	99,7	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
OY Vestel Scandinavia AB	Finland	Marketing	99,7	--
Vestel Savunma Sanayi A.Ş.	Turkey	Software	29,9	10,0
Cabot Communications Ltd.	UK	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
Birim Bilgi İşlem ve Müşavirlik Ticaret A.Ş.	Turkey	Software	45,0	55,0
Deksar Multimedya ve Telekomünikasyon A.Ş.	Turkey	Information	99,9	99,9
Deksarnet Telekomünikasyon A.Ş.	Turkey	Information	99,9	--
		Operational		
Intertechnika LLC	Russia	Leasing	99,9	--

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 YEAR THEN ENDED 31.12.2007

(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, receivables, interest expense accruals on bank loans.

Measurement currency and reporting currency

The financial statements have been prepared under the historical cost convention, other than financial assets which are stated at fair value.

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.

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

(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:

	2007	2006
US Dollar	1,1647	1,4056
EURO	1,7102	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 YEAR THEN ENDED 31.12.2007

(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
Motor vehicles	5 to 10

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.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

(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.S., Vestel Dış Ticaret A.S., Vestel Komünikasyon Sanayi ve Ticaret A.S., Vestel Beyaz Eşya Sanayi ve Ticaret A.S. and Birim Bilgi Teknolojileri Ticaret A.S. 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 which is the estimated period over which technology is expected to lead the market and have commercial value. 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 fair value. Unconsolidated investments which are not quoted at any stock exchange are stated at cost less any required reserve for impairment as their fair value cannot be reliably determined.

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.

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Related parties

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 transaction with related parties on commercial terms.(see note 24).

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 accruals 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 a financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of a financial asset or when a financial asset or a portion of a financial asset expires. The Company derecognizes a financial liability when and only when a liability is extinguished and that is when the obligation specified in the contract is discharged, cancelled and expires.

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. Estimation have been used mainly for provision for possible losses due to lawsuits, warranty provision, provision for retirement pay, doubtful receivables and deferred tax assets. Estimations have been made on basis previous experience and other appropriate data supplied by the management.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group manufactures and sells a range of television sets and monitors, electronic devices and white goods in the wholesale market. Sales of goods are recognized when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provision have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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 YEAR THEN ENDED 31.12.2007

(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 with the original maturity of three months or less.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

4. EARNINGS PER SHARE

	2007	2006
Net profit attributable to shareholders	30.866	14.427
Weighted average number of ordinary shares in issue('000)	15.909.989	15.909.989
Basic and diluted earnings per share (YKr)	0,2	0,1

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	175.972	118.617
Time deposits	320.385	455.875
Other	15.773	10.192
	512.130	584.684

The maturity of time deposits was vary between 01 January and 30 June 2008; the interest rate varied between 2% and 5,6 % per year for foreign currency and between 14,9% 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	858.055	1.012.263
- Related parties, note 23	15.799	1.154
Notes receivable		
- Third parties	296.505	368.669
Others	4.364	1.758
	1.174.723	1.383.844
Unearned interest on receivables (-)	(19.058)	(20.311)
Allowance for doubtful receivables (-)	(20.668)	(13.739)
	1.134.997	1.349.794

The movement of doubtful receivables is given below:

Beginning balance	13.739	8.982
Charge for the year	8.251	6.302
Amounts utilized during the year	(1.322)	(1.545)
Ending balance	20.668	13.739

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

7. INVENTORIES

	2007	2006
Raw materials	406.430	487.144
Work in process	45.793	42.241
Finished goods and merchandise	468.968	514.430
Spares and supplies	11.634	8.604
Goods in transit	178.848	197.901
	1.111.673	1.250.320
Provision for diminution in value	(20.294)	(8.554)
	1.091.379	1.241.766

The cost of inventories recognized as expense and included in cost of sales during the year amounted to YTL 3.333.667 (2006: 3.174.986)

8. OTHER ASSETS

Current

Prepaid expenses	23.518	25.019
Income accruals	1.004	6.445
VAT receivable	115.289	107.361
Work advances	2.636	1.549
Due from personnel	523	461
Due from related parties, note 23	2.079	911
Deferred project expenses	44.554	23.618
Receivables from insurance company	2.912	52.495
Prepaid taxes	2.444	12.960
Other	8.472	2.848
	203.431	233.667

Non-current

Prepaid expenses	19.446	26.899
Other	--	10
	19.446	26.909

The property, plant and equipment related to TV division and a part of white good production division, 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 32.611 thousand) with respect to assets affected by the said fire and the resulting business interruption. As of 31 December 2007 the remaining balance receivable from the above mentioned insurance claims by Vestel CIS amounted YTL 2.912 which was duly collected during January-April 2008.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

9. INVESTMENTS

	2007	2006
Unconsolidated investments	35	52
Other investments	1.678	1.444
	1.713	1.496

Unconsolidated investments	Country	Share %		Amount	
		2007	2006	2007	2006
Vestpro Electronics SA	Romania	52%	52%	301	301
Vestel USA Inc.	USA	100%	100%	233	233
Vestel Elektronika SRL	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	Slovakia	60%	--	6	6
				569	586
Allowance for diminution in value (-)					
Vestpro Electronics SA				(301)	(301)
Vestel USA Inc.				(233)	(233)
				35	52

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

OY Vestel Skandinavia AB is consolidated to the accompanying financial statements as from 1 January 2007

Other investments

Zorlu Enerji Elektrik Üretim A.Ş.	Turkey	Less than 1%	Less than 1%	1.603	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
				1.678	1.444

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

10. PROPERTY, PLANT AND EQUIPMENT

	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 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
Additions	5.698	44.998	1.037	27.179	83.212	162.124
Disposals	--	(6.479)	(478)	(3.762)	--	(10.719)
Acquisition of subsidiary	1.652	48	--	12	--	1.712
Translation difference	(6.015)	(3.679)	(194)	(387)	(2.386)	(12.661)
Transfers	28.213	72.150	36	1.418	(102.523)	(706)
Balance at 31.12.2007	285.938	1.451.051	6.123	139.363	32.644	1.915.119
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 differences	132	179	--	235	--	546
Balance at 31.12.2006	32.965	650.476	2.309	68.018	--	753.768
Additions	6.877	122.712	1.105	16.622	--	147.316
Disposals	(29)	(4.308)	(227)	(2.919)	--	(7.483)
Acquisition of subsidiary	--	293	--	--	--	293
Translation difference	(93)	(1.752)	(56)	(153)	--	(2.054)
Balance at 31.12.2007	39.720	767.421	3.131	81.568	--	891.840
Net book value as of						
31.12.2006	223.425	693.537	3.413	46.885	54.341	1.021.601
31.12.2007	246.218	683.630	2.992	57.795	32.644	1.023.279

Leased assets included in the table above comprise plant and machinery amounting to YTL 24.986 (2006: 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 YEAR THEN ENDED 31.12.2007

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

11. INTANGIBLE ASSETS

	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 differences	384	--	305	689
Balance at 31.12.2006	202.896	32.001	174.538	409.435
Additions	816	44.075	6.384	51.275
Disposals	--	(1.175)	(13)	(1.188)
Translation difference	(846)	--	(659)	(1.505)
Transfers	--	645	61	706
Balance at 31.12.2007	202.866	75.546	180.311	458.723
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 differences	51	--	266	317
Balance at 31.12.2006	14.095	13.355	114.472	141.922
Additions	--	2.033	13.075	15.108
Disposals	--	--	(2)	(2)
Acquisition of subsidiary	--	--	--	--
Translation difference	(103)	--	(46)	(149)
Transfers	--	--	--	--
Balance at 31.12.2007	13.992	15.388	127.499	156.879
Net book value as of				
31.12.2006	188.801	18.646	60.066	267.513
31.12.2007	188.874	60.158	52.812	301.844

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

On 26 December 2007 Vestel CIS acquired 99.9 % of shares of Intertechnika LLC for a cash payment of RUR 50 222 thousand.

Goodwill arising in 2007 on acquisitions and the net assets acquired of the company mentioned above is given below:

	Intertechnika LLC
Purchase consideration	4.591
Group share of net assets acquired	(3.775)
Positive goodwill	816

As of 31.12.2006, the share value of Vestel White was established on basis of prices 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 the 100% owner of the shares in 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.S. and Vestel Elektronik A.S. 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.

Other intangible assets include mainly expenditure on computer software, rights and trade marks.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

(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
2007				
New Turkish Lira bank loans		3.439		--
Foreign currency bank loans				
-USD ('000)	112.889	131.482	287.707	335.093
-EUR ('000)	59.078	101.035	52.755	90.223
Finance lease liabilities, net				
-USD ('000)	610	710	--	--
-EUR ('000)	165	282	59	101
		236.948		425.417
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:

	2007	2006
Due in one year	236.948	523.650
One to two years	80.148	36.340
Two to three years	16.135	19.139
Three to four years	37.333	12.809
Four to five years	282.113	7.754
Over five years	9.688	318.617
	662.365	918.309

Letters of guarantee and notes amounting to YTL 27.568 (EUR 16.120 thousand) have been given as collateral for Turkish Eximbank and other credits (2006: YTL 35.113 (EUR 18.965 thousand)).

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Payment schedule of finance lease liabilities is given below:

	2007	2006
Finance lease liabilities - minimum lease payments:		
Payable with in one year	1.021	2.438
Payable later then one year and not later than four years	994	1.069
	2.015	3.507
Future finance charges on finance leases	(38)	(188)
Present value of finance lease liabilities	1.977	3.319
The present value of finance lease liabilities is as follows:		
Payable with in one year	992	2.277
Payable later then one year and not later than four years	101	1.042
	1.093	3.319

13. TRADE PAYABLES

Current

Current accounts		
- Third parties	1.473.400	1.844.403
- Related parties, note 23	3.671	3.964
- Letters of credit	266.498	219.417
- Letters of credit discounted	248.374	197.639
Notes payable		
- Third parties	73.627	45.535
Other	1.024	118
	2.066.594	2.311.076
Unearned interest on payables (-)	(3.759)	(4.748)
	2.062.835	2.306.328

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

14. PROVISION FOR EXPENSES

	2007	2006
Current		
Warranty provision	38.397	35.485
Expense accruals	20.077	10.801
	58.474	46.286
Non-current		
Warranty provision	11.700	8.871

The movement of provisions is as follows:

	Warranty expense	Expense accruals
Opening balance	44.356	10.801
Additions	41.353	20.077
Disposals	(35.612)	(10.801)
Closing balance	50.097	20.077

15. OTHER LIABILITIES

Income tax and social security payables	23.468	32.809
Advances received	27.724	17.489
Deferred project income	45.654	31.007
Due to personnel	8.576	3.665
Other	4.011	4.758
	109.433	89.728

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

16. 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.

In Turkey 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 a minimum of five years.

In Turkey 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%.

In Turkey 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.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

(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 31.12.2007 and 2006, taxation on income for the year is reconciled to the profit per income statements as follows:

	2007	2006
Profit (loss) before tax	57.272	(6.978)
Corporation tax using applicable tax rates	39.008	17.272
Disallowable expenses	37.963	41.446
Income not subject to tax	(45.303)	(70.674)
Investment allowances	--	(8.253)
Research and development allowances	(739)	(1.196)
Taxation on income	30.929	(21.405)

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

Corporation and income taxes	39.008	17.272
Prepaid taxes (-)	(27.366)	(9.955)
	11.642	7.317
Deferred tax asset	(42.304)	(36.113)
Deferred tax liability	56.841	57.613
	26.179	28.817

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

(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	
	2007	2006	2007	2006
Deferred tax asset				
Warranty expense provision	43.953	38.039	8.791	8.192
Retirement pay provision	18.854	19.588	3.780	4.192
Unearned interest on receivables	19.237	21.034	3.847	4.296
Capitalized financing expenses written off on inventory and fixed assets	21.748	20.057	4.378	5.921
Finance lease liabilities	--	4	--	1
Provision for doubtful receivables	17.382	12.750	3.476	2.550
Accrued expenses	9.066	17.846	1.813	3.569
Taxable loss carried forward	36.155	10.205	7.760	2.041
Prepaid expenses	12.377	--	2.475	--
Other	26.354	25.208	5.984	5.351
			42.304	36.113
Deferred tax liability				
Temporary differences arising from restating non-monetary assets	269.219	245.578	53.931	53.875
Unearned interest on payables	8.584	15.891	1.717	3.309
Other	9.568	1.798	1.193	429
			56.841	57.613
			(14.537)	(21.500)

The movement of deferred tax liability is given below:

Opening balance	(21.500)	(60.723)
Acquisition of new subsidiary	--	610
Deferred tax income	8.079	38.677
Translation difference	(1.116)	(64)
Closing balance	(14.537)	(21.500)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

17. 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 2.030,19 as of 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.

Opening balance	21.447	18.456
Charge for the year	6.322	5.387
Consolidated entity	--	788
Disposals	(8.561)	(3.184)
Closing balance	19.208	21.447
Number of personnel employed at year end:	9.945	11.686
Personnel cost:		
Gross salaries, wages, and employer's share of social insurance	251.688	240.296
Key personnel salaries and other short term benefits	12.160	8.881

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

18. SHARE CAPITAL

The authorized share capital of the Company comprised 22.000.000.000 shares of par value YKr 1 each at 31.12.2007 and the issued and paid up share capital of the Company comprised 15.909.988.696 shares of par value YKr 1 each at 31.12.2007 and 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.

19. 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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

20. COMMITMENTS AND CONTINGENCIES

a) At 31.12.2007 the Group had contingent liabilities of YTL 189.439 (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 233.025 thousand (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 31.12.2007 was YTL 214.034 (2006: YTL 185.176).

d) The Group signed a loan agreement with Vakıflar Bankası for USD 97,5 million as a facility for letters of credit which has not been utilized as no need has arisen in this respect. Group companies are guarantors to the agreement.

e) Claims from court cases started by the group and pending as of 2007 amounted to YTL 21.556. Claims from court cases started and pending against the group as of the same date was YTL 2.226.

Included among the court cases started by the group are receivables totaling YTL 22.100 and tax claim of YTL 1.081 which have been provided for in full. In addition a provision of YTL 1.195 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. No amount has been provided in respect of these lawsuits.

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. Additionally, Vestel CIS Ltd is negotiating with relevant tax authorities a VAT reclaim on the destroyed properties. 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 amounted to YTL 2.668 (2006: YTL 2.514) per year. The obligation spreads over next these years.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

21. OTHER INCOME

	2007	2006
Scrap sales	1.749	9.333
Export commission and freight related income	20.818	14.509
Profit on sale of property, plant and equipment	1.515	2.896
Profit on sale of investments	--	3.189
Provisions	5.957	2.109
Other	19.818	10.970
Other income	49.857	43.006
Idle capacity expenses	(5.769)	(2.692)
Loss on sale of property, plant and equipment	(3.440)	(548)
Insurance expense	(6.303)	--
Other	(32.608)	(11.750)
Other expense	(48.120)	(14.990)
	1.737	28.016

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.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

22. FINANCING INCOME AND FINANCING EXPENSE

	2007	2006
Foreign exchange gain	784.662	276.280
Interest income	37.284	39.608
Profit on forward contracts	--	25
Unearned interest on payables	27.045	21.077
Other	236	--
Financing income	849.227	336.990
Foreign exchange loss	(504.931)	(370.161)
Interest expense	(89.928)	(95.841)
Letters of credit expenses	(40.920)	(34.541)
Finance lease interest expense	(420)	(443)
Factoring expenses	(7.865)	(6.353)
Loss on forward contracts	--	(2.298)
Bank commission expenses	(11.134)	(17.683)
Unearned interest on receivables	(23.052)	(28.207)
Other financing expenses	(14.222)	(25.776)
Financing expense	(692.472)	(581.303)
Financing income (expense), net	156.755	(244.313)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

23. SUPPLEMENTARY CASH FLOW INFORMATION

	2007	2006
Adjustment to reconcile net income to net cash provided from operating activities:		
Depreciation of property, plant and equipment	147.316	124.862
Amortization of intangible assets	15.108	14.608
Profit on sale of property, plant and equipment	(1.515)	(2.896)
Loss on sale of property, plant and equipment	3.440	548
Loss on sale of investments	--	(3.189)
Provision for retirement pay	6.322	5.387
Provision for doubtful receivables	8.251	6.302
Interest expense	90.348	96.284
Interest income	(37.284)	(39.608)
Warranty provision	5.741	5.104
Unearned interest on receivables	(1.253)	5.608
Unearned interest on payables	989	(1.463)
Provision for diminution in value of inventories	11.740	2.523
Provision for expense accruals	20.077	10.801
	269.280	224.871
Depreciation expense and amortization charge:		
Cost of sales	124.168	114.858
Selling expenses and general and administrative expenses	38.256	24.612
	162.424	139.470
Changes in operating assets and liabilities:		
Trade receivables	217.715	14.512
Inventories	138.647	(214.214)
Other assets	37.716	(31.299)
Trade payables	(244.495)	237.559
Other liabilities	191	(56.699)
	149.774	(50.141)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Acquisition of subsidiary:

During 2007 and 2006 the Group acquired Intertechnika LLC and Birim Bilgi İşlem. The fair value of assets acquired and liabilities were as follows:

	Intertechnika LLC	Birim Bilgi İşlem
Current assets	1.580	11.692
Non-current assets	2.235	3.062
Total liabilities	(13)	(11.386)
Total net assets acquired	3.802	3.368
Minority share (-)	(1)	(1.378)
Total purchase price	3.801	1.990
Less: Cash and cash equivalents	(26)	(371)
Cash flow on acquisition net of cash acquired	3.775	1.619

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

24. RELATED PARTY DISCLOSURE

These comprised the following:

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

Related party	Shareholding %	Due from related parties		Due to
		Trade receivables	Other assets	Trade payables
2007				
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	See below *	5	--	343
Vestel USA Inc.	100%	--	13	--
Teds International	See below **	--	375	--
L-3 Communications Investments	See below **	--	--	1.116
Due to shareholders		--	255	--
Vestel Elektronica SRL	100%	13.951	516	--
UTS-United Technical Services, Spol.S.R.O	60%	215	141	--
Other related parties	See below *	1.628	779	2.212
		15.799	2.079	3.671
2006				
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	See below *	58	--	330
Promer Bilgisayar Limited Şirketi	See below **	--	--	1.170
Vestel USA Inc.	100%	535	240	--
Teds International	See below **	--	552	--
L-3 Communications Investments	See below **	--	--	1.553
Other related parties	See below *	561	119	911
		1.154	911	3.964

* Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş. and “other related parties” are companies controlled by the majority shareholder of Vestel Elektronik.

** Teds International, L-3 Communications Investments and Promer Bilgisayar Limited Şirketi are third party minority shareholders in subsidiary companies of the Group.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

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

	2007	2006
Sales		
Zorpet Petrogaz, Petrol, Gaz ve Petrokimya A.Ş.	59	1.883
Other	1.180	933
	1.239	2.816
Operating expense		
Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş.	1.540	1.864
Other	1.576	--
	3.116	1.864

Deniz Destek Oto Alım Satım Kiralama Temizlik Hizmetleri ve İnşaat A.Ş. is a company controlled by the majority shareholder of Vestel Elektronik.

25. FINANCIAL INSTRUMENTS

Risk management objectives and policies

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result both from its operating and investing activities. The Group’s risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group’s short to medium term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

Foreign currency risk

The majority of the Group’s transactions are carried out in Euros and US Dollars. Exposure to currency exchange rates arise from the Group’s overseas sales and purchases, trade receivables, bank loans and trade payables which are primarily denominated in US Dollars and Euros.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group manages its currency exposure risk by organizing a balanced distribution between its foreign currency assets and commitments and by matching off the liabilities and receivables and its net currency position.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

The net currency position of the Group as of the balance sheet dates are shown below:

	USD	EUR	Other currencies YTL equivalent	YTL equivalent
2007				
Cash and cash equivalents	184.430	139.343	8.025	461.135
Trade receivables	87.588	322.174	35.031	688.027
Inventories	117.695	106.475	44.408	363.581
Other receivables	4.106	8.565	11.054	30.484
Total foreign currency assets	393.819	576.557	98.518	1.543.227
Current borrowings	112.890	59.078	--	232.518
Non-current borrowings	287.707	52.756	--	425.316
Current lease payables	610	165	--	992
Non-current lease payables	--	59	--	101
Trade payables	1.167.375	342.765	22.314	1.968.152
Advance received	7.799	4.254	3.587	19.946
Other liabilities	31.755	5.069	--	45.654
Total foreign currency liabilities	1.608.136	464.146	25.901	2.692.679
Net foreign currency position	(1.214.317)	112.411	72.617	(1.149.452)

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

	USD	EUR	Other currencies YTL equivalent	YTL equivalent
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	338.932
Other receivables	89.328	8.479	557	141.815
Total foreign currency assets	368.006	539.436	143.431	1.659.466
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	(1.502.249)

On basis of the above an increase of 1% in the foreign exchange rates against the Turkish Lira as of 31 December 2007 will amount to a loss of YTL 11.494 and a decrease will amount to profit of the same amount.

Interest rate risk

Interest rate risk arises because changes in interest rates may affect profitability as disclosed in financial statements.

The Group is subject to interest rate risk as a result of differences in balancing off the dates or timing differences related to assets and liabilities maturing or to be subjected to price revision. The Group manages its interest rate risk by applying risk management strategies whereby its strives to balance off the dates of changes in interest rates related to assets and liabilities.

An increase in the variable interest rates related to the borrowings as of 31 December 2007 is not expected to have any material effect on the financial results because the Management of the Group is able to maintain existing loans on the same terms as before or negotiate new loans on the same terms as existing ones.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Liquidity risk

Liquidity risk comprises the risk that the Group becomes unable to find its payment requirements.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day projection.

The breakdown of liabilities according to their contractual maturity is based on the maturity dates from the date of the balance sheet is given below:

	Current		Non-current		Total
	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years	
2007					
Borrowings	106.626	130.322	415.729	9.688	662.365
Trade payables	1.510.911	551.924	--	--	2.062.835
Other liabilities	160.351	19.198	11.812	--	191.361
	1.777.888	701.444	427.541	9.688	2.916.561
2006					
Borrowings	251.352	272.298	76.042	318.617	918.309
Trade payables	1.872.483	433.845	--	--	2.306.328
Other liabilities	125.589	17.742	9.135	--	152.466
	2.249.424	723.885	85.177	318.617	3.377.103

However expected maturities may differ from contractual liabilities in response to changes in term that may occur in the ordinary course of business.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Capital risk management

The Group’s capital management objectives are:

- ensure the Group’s ability to continue as a going concern; and
- to provide an adequate return to shareholders,

by pricing products and services commensurately with the level of risk

The Group monitors capital on the basis of the carrying amount of equity plus its total of current and non current borrowings (net debt) less cash and cash equivalents as presented on the face of the consolidated balance sheet.

The Group sets the amounts of capital in proportion to its overall financing structure i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group’s capital to overall or financing ratio developed as follows:

	2007	2006
Total borrowings (note 12)	662.365	918.309
Less : Cash and cash equivalents (note 5)	(512.130)	(584.684)
Net debt	150.235	333.625
Total equity	1.344.354	1.322.183
Overall financing	1.494.589	1.655.808
Capital to overall financing ratio	90%	80%

The ratio improvement during 2007 resulted from a reduction of borrowings which in turn resulted mainly from a reduction in trade receivables and inventories and the profits during the year.

Credit risk

The Group’s exposure to credit risk is limited to the carrying amount of financial assets recognized at the balance sheet date.

Credit risk concerns the risk that a loss will be suffered by a party due to the reason that the other party to the transaction is unable to meet its obligations.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180 day and a 360 day lookout period are identified monthly.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group’s policy is to deal only with creditworthy counterparties.

The Group management considers that all the financial assets shown above under paragraph liquidity risk that are not impaired for each of the reporting dates under review are of good credit quality.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

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.

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

26. 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).

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)

The segment results for the year ended 31.12.2007 are as follows:

Business segments	Television and monitor	Electronic devices	White goods	Other	Total
2007					
Revenue	2.540.142	431.781	1.373.990	281.098	4.627.011
Cost of sales	(2.332.803)	(378.954)	(1.139.736)	(250.206)	(4.101.699)
Gross profit	207.339	52.827	234.254	30.892	525.312

Other segment items included in the income statement:

Depreciation expense	82.377	12.476	43.457	9.006	147.316
Amortisation charge	1.411	3.781	1.204	8.712	15.108
Impairment of inventory	4.960	5.217	1.708	(145)	11.740
	88.748	21.474	46.369	17.573	174.164

The segment results for the year ended 31.12.2006 are as follows:

Revenue	3.271.073	582.375	1.216.844	160.833	5.231.125
Cost of sales	(2.773.179)	(493.463)	(957.474)	(143.825)	(4.367.941)
Gross profit	497.894	88.912	259.370	17.008	863.184

Other segment items included in the income statement:

Depreciation expense	72.277	8.876	39.097	4.612	124.862
Amortization charge	1.141	4.552	1.282	7.633	14.608
Impairment of inventory	734	1.001	850	(62)	2.523
	74.152	14.429	41.229	12.183	141.993

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.Ş.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

The segment assets and liabilities at 31.12.2007 and 2006 and capital expenditure for the year then ended are as follows:

	Television and monitor	Electronic devices	White goods	Other	Total
2007					
Trade receivables	803.874	94.126	217.678	25.760	1.141.438
Inventories	601.261	200.863	283.125	6.130	1.091.379
Property, plant and equipment	479.835	52.943	484.850	5.651	1.023.279
Intangible assets	100.410	52.860	146.326	2.248	301.844
Unallocated assets					779.024
Total assets					4.336.964
Trade payables	1.518.889	215.972	291.455	36.519	2.062.835
Unallocated liabilities					929.775
Total liabilities					2.992.610
Capital expenditure	89.506	18.771	80.622	24.500	213.399
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	505.121	59.801	451.844	4.835	1.021.601
Intangible assets	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	67.538	20.956	245.524	21.876	355.894

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Cash and cash equivalents	512.130	--	584.684	--
Deferred tax	42.304	56.841	36.113	57.613
Other assets	222.877	--	275.379	--
Investments	1.713	--	1.496	--
Current tax	--	11.642	--	7.317
Current borrowings	--	236.948	--	523.650
Non-current borrowings	--	425.417	--	394.659
Reserve for retirement pay	--	19.208	--	21.447
Provisions	--	74.697	--	55.157
Other liabilities	--	109.545	--	89.992
	779.024	934.298	897.672	1.149.835

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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

Geographical segments	2007	2006
Revenue		
Turkey	1.213.326	1.220.312
Europe	3.172.222	3.717.611
Rest of the world	241.463	293.202
	4.627.011	5.231.125
Segment assets		
Turkey	2.897.173	3.418.942
Europe	1.176.231	1.069.341
Asia	263.560	290.062
	4.336.964	4.778.345
Capital expenditure on property plant and equipment		
Turkey	132.212	137.129
Europe	841	1.520
Asia	29.071	67.315
	162.124	205.964
Capital expenditure on intangible assets		
Turkey	48.149	148.167
Europe	2.310	1.763
Asia	816	--
	51.275	149.930
Depreciation expenses of property plant and equipment		
Turkey	143.053	118.950
Europe	901	1.203
Asia	3.362	4.709
	147.316	124.862
Amortization charge of intangible assets		
Turkey	14.465	14.384
Europe	643	224
Asia	--	--
	15.108	14.608

VESTEL ELEKTRONİK SANAYİ VE TİCARET A.S.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR THEN ENDED 31.12.2007

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