

# VESTEL WHITE GOODS ANNUAL REPORT 2007





## Contents

02	Corporate Profile
05	Milestones of Growth
06	Zorlu Group and Vestel Group
08	Financial Highlights
10	Vestel White Goods' Strategic Targets and Competitive Strengths
12	Chairman's Message
14	Board of Directors
16	Assessment by the Vestel Group of Companies Executive Committee Member Responsible for White Goods
18	Executive Committee
20	Senior Management
22	Management's Assessment and Analysis of the Year's Operational Results
34	Vestel White Goods' Distribution Network
37	R&D at Vestel White Goods
38	Vestel White Goods, People and the Environment
40	Corporate Governance Compliance Report
51	Profit Distribution Policy and Proposal
52	Statutory Auditor's Report Summary
53	Resolution of the Board of Directors
54	Financial Statements at 31 December 2007 Together with Auditor's Report
88	Investor Information

VESTEL WHITE GOODS, ONE OF VESTEL GROUP'S FLAGSHIP COMPANIES, STANDS AMONG THE WORLD'S LEADING MANUFACTURERS OF WHITE GOODS.



## Vestel White Goods: The Rising Star of White Goods

Vestel White Goods is one of Vestel Group's driving forces and also one of the world's leading manufacturers of white goods. Vestel White Goods manufactures refrigerators, washing machines, air conditioners, cookers, and dishwashers in its 311,799 m<sup>2</sup> production facility based in Manisa. Fueled by rising demand for the Company's products and new investments, Vestel White Goods has raised its annual production capacity from 2.75 million units in 2003 to 7.5 million units by the end of 2007 in line with the Company's rapid and sound growth strategy.

Vestel White Goods serves its customers ("A-Brand" manufacturers, retail market chains, and distributors) in Europe, which constitute the Company's biggest export market, as an original equipment manufacturer (OEM) and an original design manufacturer (ODM). The Company also sells its Vestel and Regal branded products in Turkey and to other countries in the same time zone with Turkey, such as the Turkic Republics and countries in the Middle East and North Africa.

Vestel White Goods' marketing and sales activities as well as after-sales services are carried out by two Vestel Group companies, Vestel Durable Goods Marketing and Vestel Foreign Trade, which are wholly-owned subsidiaries of its own major shareholder, Vestel Electronics. In Turkey, Vestel Durable Goods Marketing serves customers through a network consisting of 1,250 dealerships and 600 after-sales services outlets. International sales and marketing activities are handled through 10 Vestel Group subsidiaries located around Europe.

Vestel has established itself in Turkey as a strong and widely trusted brand name with an extensive array of products. With market shares in Turkey ranging between 6% (dishwashers - the latest addition to its product line) and 15% (refrigerators), Vestel White Goods' sales to the domestic market are made under the Vestel name and those of Regal (to distributors) and SEG (retail market chains) as well as number of private label brands.

With exports and market shares increasing year after year, Vestel White Goods provides OEM and ODM services in the European market to


- "A-Brand" manufacturers
- Retail market chains
- Distributors


In line with its strategy, Vestel White Goods does not compete directly with its customers' brands through the "non-branded" sales that it undertakes to the European market.

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VESTEL SERVES ITS CUSTOMERS ("A-BRAND" MANUFACTURERS, RETAIL MARKET CHAINS, AND DISTRIBUTORS) IN EUROPE, WHICH MAKES UP THE COMPANY'S BIGGEST EXPORT MARKET, AS AN ORIGINAL EQUIPMENT MANUFACTURER (OEM) AND AN ORIGINAL DESIGN MANUFACTURER (ODM).

# Shareholder Structure

 Vestel Elektronik Sanayi ve Tic. A.Ş.

 Others (Publicly Held)

27.4%

72.6%



In 2007, Vestel White Goods accounted for a 38% share of all refrigerators and a 37% share of all washing machines exported from Turkey. At the end of 2007, the Company already commanded an 18% share of cooker exports, production of which began in the last quarter of 2005. Vestel White Goods ships 88% of its exports to European countries. In parallel with the growth in its product line and customer base, the Company expects its share in total exports in the sector to sustain its rising trend for the foreseeable future.

Vestel White Goods continues to grow strongly and successfully, thanks to its position as the only company serving A-Brand manufacturers in Europe as an original equipment manufacturer (OEM) and an original design manufacturer (ODM), by distinguishing itself with its ability to create and develop its own technology through its enviable R&D strength, its broad selection of designs and diversity of products and models which appeal to a wide range of consumers. Vestel White Goods maintained its 27th ranking in the Istanbul Chamber of Industry's list of Turkey's 500 biggest companies in 2006.

Following its IPO in 2006, 31.5% of Vestel White Goods' shares have been trading on the Istanbul Stock Exchange under the VESBE symbol.

Vestel Electronics is the Company's majority shareholder, controlling a 72.6% stake in the Company, including 4.1% of Vestel White Goods' publicly traded stock.

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IN 2007, VESTEL WHITE GOODS ACCOUNTED FOR A 38% SHARE OF ALL REFRIGERATORS AND A 37% SHARE OF ALL WASHING MACHINES EXPORTED FROM TURKEY.



## Milestones of Growth

Vestel White Goods;

**1997** Founded in Manisa.

**1999** Begins manufacturing refrigerators.

**2000** Begins manufacturing air conditioning units at its refrigerator factory.

**2003** Launches production of washing machines incorporating its own technology and design expertise. Air conditioner factory enters production.

**2005** Production begins at second refrigerator factory. Production capacity at washing machine plant increased. Production of cookers gets underway. Investment in dishwasher production begins towards year end.

**2006** 31.5% of the Company's shares are publicly floated. Work continues at full pace on dishwasher investment.

**2007** Dishwasher production facility enters production.



VESTEL WHITE GOODS IS TODAY ONE OF THE STRONGEST PLAYERS IN ITS SECTOR WITH AN ANNUAL PRODUCTION CAPACITY OF 7.5 MILLION UNITS, IN ITS FACILITIES IN MANISA BOASTING 311,799 M<sup>2</sup> OF ENCLOSED SPACE.



# Zorlu Group and Vestel Group

# 30,000

Employees

# 11 billion

Total Assets (TRY)

## ZORLU GROUP

### TEXTILE GROUP

Korteks  
Zorluteks  
Linens Marketing  
Zorlu Foreign Trade

### VESTEL GROUP OF COMPANIES

Vestel Electronics  
Vestel White Goods  
Vestel Digital  
Vestel Communications  
Vestel Foreign Trade  
Vestel Durable Goods Marketing  
Vestel CIS  
Vestel Defense Industrials  
AYESAS  
Birim  
Vestel Germany  
Vestel France  
Vestel Iberia  
Vestel Italy SRL  
Vestel Holland BV  
Vestel Benelux BV  
Vestel Trade  
Vestel UK limited  
Vestel Electronica SRL  
OY Vestel Scandinavia AB  
UTS-United Technical Services, SPOL S.R.O.  
Vestpro Electronics S.A.  
Dexar Multimedia&Telecommunications  
Vestel USA  
CABOT Communications Ltd.  
Vestel Electronic India  
Vestel Electronics Research&Development  
Deksarnet Telecommunications  
Izmir Technology Development  
Vestek

### ENERGY GROUP

Zorlu Energy  
Zorlu O&M  
Zorlu Industrial  
Rotor  
Zorlu Hydroelectric  
Zorlu Electricity  
Zorlu Petrogas  
Amity Oil International  
Zorlu Zorlu Natural Gas  
Thrace Region Natural Gas Distribution  
Gaziantep Natural Gas Distribution  
ICFS International LLC  
Rosmiks International B.V.  
Rosmiks LLC (Russia)  
Zorlu Energy Pakistan  
Dorad Energy (Israel)  
Ashdod Energy (Israel)  
Ramat Negev Energy (Israel)  
Solbar Energy (Israel)

### PROPERTY GROUP

Zorlu Construction&Investment  
Zorlu Property  
Development&Investment  
Akmerkez (Passtel Shopping Center)  
Intermar

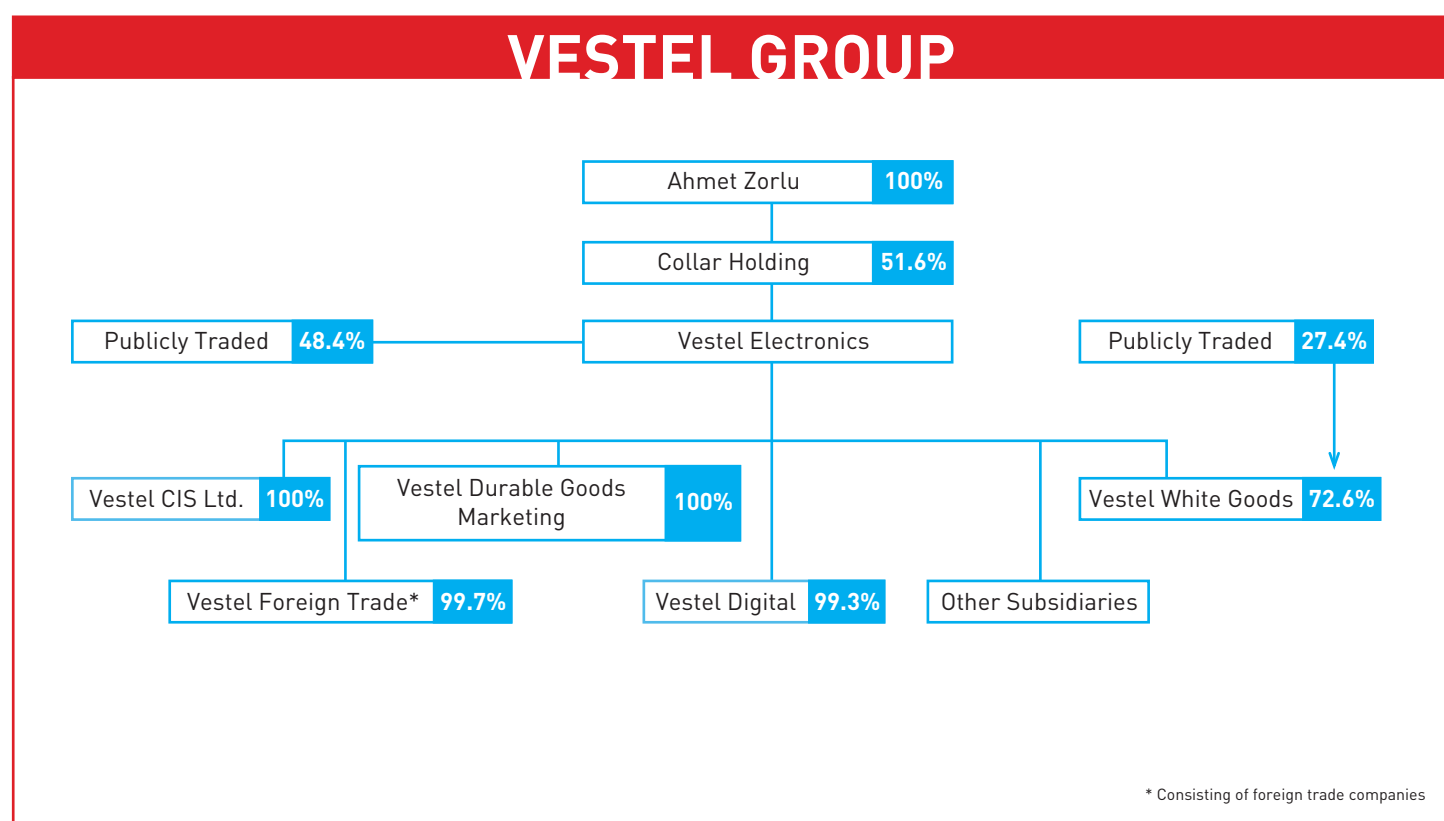
The story of the Zorlu Group dates back to its foundation in the early 1950s in a small textile atelier in the town of Babadağ in Denizli province. Growing and gaining strength in textiles by creating globally recognized brands, the Zorlu Group translated its success in textiles into the businesses of brown and white goods and digital products through Vestel and into the energy sector through Zorlu Energy. In 2006, the Zorlu Group made a bold and successful entry into real estate investment and development in order to tap the huge growth potential that it saw there and it undertook a number of investments in İstanbul as well as in İzmir and Marmaris.

With brands that Turkey takes pride in, facilities that carry Turkish industry into the future, and uninterrupted investment in business and society, the Zorlu Group today produces and works for Turkey.

With 30 thousand employees and total assets worth TRY 11 billion and in keeping with its philosophy "If we're going to go, then go as far as we can. If we're going to ascend, then go as high as we can. If we're going to be, then be the best we can be", the Zorlu Group continues to increase the visibility of the Zorlu name in the global arena as well as the confidence that is felt in it.



# VESTEL ELECTRONICS CONTROLS THE HIGHEST STAKE IN THE MAJORITY OF GROUP COMPANIES.



## Vestel Electronics

Controlling the biggest stake in the majority of group companies and with the pioneering consumer electronics that it has introduced to the market, Vestel Electronics is the flagship company of the Vestel Group. Vestel Electronics is one of the biggest brown goods manufacturers providing OEM and ODM services to customers not just in Turkey but all over Europe. The Company controls a 21% (LCD 11% and CRT 50%) share of the European TV market.

## Vestel CIS

Operating from Russia, Vestel CIS is 100% owned by Vestel Electronics, the principle shareholder in Vestel White Goods. The Company manufactures refrigerators and washing machines for the Russian and CIS markets in facilities with 85,000 m<sup>2</sup> of enclosed space. The refrigerator and washing machine plants, which entered production in 2006, each have annual production capacities of 500,000 units.

Conducting its operations independently of Vestel White Goods, Vestel CIS has agreed not to undertake either production or sales outside Russia, Ukraine, Belarus and Kazakhstan.

## Financial Highlights

# 906

**Net Sales** (USD million)

# 709

**Total Assets** (USD million)

# 433

**Shareholders' Equity** (USD million)

# 57

**Net Earnings** (USD million)

USD million	2007	2006
Net Sales	906	783
Exports/Sales	68%	62%
Operating Profit	23	70
EBITDA	54	94
Net Earnings	57	45
Capital Expenditures	38	35
R&D Expenditures/Sales	1%	1%
Total Assets	709	595
Shareholders' Equity	433	324
Net Debt	10	57
Net Debt/Equity	2%	18%
EBITDA Margin	5.9%	12%
Return on Equity	15%	18%

Based on financial statements audited in accordance with IFRS.

VESTEL WHITE GOODS INCREASED ITS SALES REVENUES BY 16% IN US DOLLAR TERMS (WITH A 6% INCREASE IN EURO TERMS) DURING 2007, WHILE TOTAL SALES REVENUE REACHED USD 906 MILLION.

In 2007, Vestel White Goods exported goods with a value of USD 615 million, with 88% of the exports sent to Europe.



# Vestel White Goods'

## Strategic Targets and Competitive Strengths

Vestel White Goods seeks to achieve sustainable and controllable growth by means of the revenues and profitability that it achieves by focusing on its principal business activity, the production of high-quality consumer goods.

### The axes of Vestel White Goods' growth:

1. Increase market share in the countries of Turkey's hinterland through brand awareness.
2. Undertake investments necessary to achieve brand awareness:
  - Acquire local brands
  - Increase the strength of the Vestel trademark.
3. Steadily increase market share in western European markets through OEM and ODM-based production/sales strategies with major brands and retail chains.
4. Invest in technology products that are environment-friendly, quiet, and energy conserving.
5. Develop and build up a line of products diversified so as to respond to the particular needs of different customer segments.



#### Vestel White Goods' competitive advantages:

1. It is the only company providing OEM and ODM services exclusively for Europe's "A-Brand" producers.
2. Its proximity to European markets gives it an edge in logistics.
3. Its labor costs are significantly lower than those in Europe.
4. The Vestel trademark is strongly positioned in the market and gives it additional marketing clout.
5. The Vestel Group has a well-established domestic and international distribution network.
6. Turkey is one of the leading suppliers of white goods today.
7. The Company's production capacity is both high and flexible, which allows it to take advantage of economies of scale.
8. Working with an extensive network of national and international suppliers, the Company enjoys logistical, cost, and quality advantages thanks to its vicinity to domestic suppliers.
9. Having undertaken and completed its major investments in just the last seven years, the Company has the most advanced production facilities anywhere in Europe.
10. The concentration of all production facilities at a single location results in tremendous productivity and cost advantages.
11. The Company has a young, dynamic, and flexible management team.



## Chairman's Message



Ahmet Zorlu  
Chairman of Board of Directors

## WITH THE TIMELY INTRODUCTION OF OUR NEW PROJECTS AND NEW PRODUCTS, WE ARE GRADUALLY CEMENTING OUR POSITION IN GLOBAL MARKETS.

2007 was a year in which expectations and uncertainties left their mark on the global economy. The fallout of this has been amply felt in the Turkish economy and our sector. Nevertheless, Vestel White Goods chalked up a very satisfactory performance in 2007 without any sacrifices to its strategy of rapid and sound growth, and went a long way towards realizing its future-oriented plans.

### **We are growing together with Turkey with full conviction and trust.**

The Turkish economy has, in recent years, entered a period of development, innovation and growth. In this new era, we need to work hard to implement reforms as part of our process of social and economical restructuring, aimed at harmonization with EU standards in each field. Provided structural reforms and strict financial policies are implemented in an environment of political stability, the private sector will advance with its activities and investments, fuelled by utmost confidence in Turkey's future.

We view our priority at all times as contributing to the future of our country by working with clear determination and decisiveness. We anticipate the importance of being one step ahead of the present conditions and evaluating events through a wide perspective in order to lead the competition, which we have now carried to a global level.

Our second refrigerator factory and cooker factory were opened at the beginning of 2007 along with a new dishwasher plant, recently added to our product line at Vestel City, home to state-of-the-art technology. We will move to bring new facilities into operation as our capacity becomes insufficient.



With the timely introduction of our new projects and new products, we are gradually cementing our position in global markets. Our implementations and their results show how appropriate our strategies have proven, with the miracle created by Vestel White Goods through its own know-how and design ability being the best indication of this.

We created a white goods production base in the space of just a decade with an annual capacity of 7.5 million units, with 88% of its sales going to Europe. We set the ground for supplier industries in the Manisa Organized Industrial Region. Vestel White Goods currently procures 49% of its total supplies from within Turkey's borders and 75% of its domestic supplies from the Manisa region. These supplier industrial facilities, in addition to Vestel White Goods, serve also other companies both at home and abroad.

As well as realizing its own dreams, Vestel White Goods also creates employment, added value and dynamism for the national economy.

Our criteria for success in the period ahead in white goods is not merely to reach international standards, but to define them, to "productivize" leading technologies and to promote creativity in industrial design.

#### **We are an admired and preferred brand.**

For a company to survive, get ahead of its rivals and generate a profit, it is no longer sufficient to carry out high-quality production. In order to be a preferred manufacturer and brand, to add value to the brand and to protect corporate prestige it is vitally crucial to establish strong ties with the society where it operates.

Our success in further promoting the Vestel brand and managing its prestige has won wide acclaim in a number of studies carried out. Vestel increased its ranking from 5th to 4th place this year in the survey of the "Most Admired Companies of Turkey", held annually by the Capital magazine, one of Turkey's most respected economy magazines. The comprehensive study on brands carried out in 2007 by Nielsen, a research company, puts Vestel at 6th place among Turkey's 10 most admired and prestigious brands.

#### **For our gains tomorrow**

One of the most important developments in 2007 was the signing of the Global Compact by the Zorlu Group, of which Vestel is a member. This represented a strong step towards carrying the principles and values, which the Group has adopted since its foundation, to a new level of global social responsibility.

We believe our social mission is not only limited to creating employment and added value, or paying tax. Backed by our belief in taking social responsibility, we have to add value to society and give some of what we earn back to society. With this approach, Vestel White Goods always considers universal ideals in each decision it takes in order to leave a beautiful world to future generations.

Fulfilling our liabilities to all our social stakeholders is one of the cornerstones of institutional sustainability. In keeping with this dictum, the principles of corporate governance, configured on the basis of transparency, accountability, social and environmental responsibility, honesty and fairness - the principles which guide us in all our corporate actions and activities - will always remain our guiding lights.

We believe wholeheartedly that Vestel White Goods' superior abilities in white goods production will help the Company attain its deserved place in the global league. To achieve this, we have built the resources of power which are compulsory for our corporate sustainability: corporate structure and human resources, R&D and technological superiority, infrastructure and the ability for flexible production.

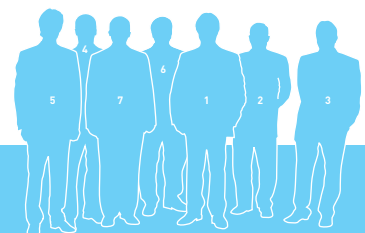
We have achieved all of our successes by working together with discipline and conviction. We will pull together and work hard at all times in the coming period to reach ever higher targets. I would like to take this opportunity to extend my boundless thanks to every coworker who shares in this belief, while conveying my sincerest appreciation to our shareholders for their unstinting support, and to the business partners, who have been firmly behind us in building our successes.

#### **Ahmet Zorlu**

Chairman of Board of Directors



## Board of Directors



[1]

**Ahmet Zorlu**  
Chairman

(1944 - Denizli) Ahmet Zorlu began his career in a family-owned textile business. He set up his first company, Korteks, in 1976. In the years that followed, he continued to undertake new investments in the textile industry and founded Zorlu Holding in 1990. Ahmet Zorlu purchased the rights to the Vestel trademark in 1994. He is currently the chairman or a board member of 29 companies active in different sectors.

[2]

**Prof Ekrem Pakdemirli**  
Board Member

(1939 - İzmir) Prof Ekrem Pakdemirli has served as transportation minister (1987-89), finance minister (1989-90), and deputy prime minister (1991). He is currently a member of the faculties of Bilkent, Başkent, and Ege universities and has previously served as deputy rector of Dokuz Eylül University and as foreign trade undersecretary. He is the author of ten books and more than a hundred published articles.

[3]

**Ömer Yüngül**  
Board Member and Chairman of the Executive Committee

(1955 - İzmir) Ömer Yüngül graduated from Boğaziçi University (Department of Mechanical Engineering) in 1978. He joined the Zorlu Group in 1997 as head of the Executive Committee responsible for white goods. On 3 January 2000 his responsibilities were expanded to include all of the Group's production activities. Mr. Yüngül is currently chairman of the Vestel Executive Committee.

[4]

**Cem Köksal**  
Board Member

(1967 - Ankara) Cem Köksal graduated from Boğaziçi University (Department of Mechanical Engineering) in 1988 and received his master's degree from Bilkent University in 1990. He served in various positions in the banking industry between 1990 and 2001, becoming assistant general manager of DenizBank in 1997. Mr. Köksal joined Vestel in 2002 as a vice chairman responsible for finance and he has the same responsibility as a member of the Executive Committee.

[5]

**Olgun Zorlu**  
Board Member

(1965 - Trabzon) Having graduated from university in the UK, Olgun Zorlu began his career in 1986 and gained managerial experience in the Zorlu Group's textiles companies. He started to serve as a Board Member for Zorlu Holding in 1998. In addition, he remains a Board Member of Vestel White Goods and Korteks Mensucat San. ve Tic. A.Ş.

[6]

**Enis Turan Erdoğan**  
Board Member and Member of Executive Committee

(1955 - Mersin) Enis Turan Erdoğan graduated from İstanbul Technical University (Department of Mechanical Engineering) in 1976 and completed a master's degree in production management at Brunel University (England) in 1980. After serving in positions for a number of firms in Turkey, he joined the Vestel Group as managing director of Vestel Foreign Trade in 1988. Since 1997, Mr. Erdoğan has also been a member of the Vestel Executive Committee.

[7]

**Yılmaz Argüden**  
Board Member

(1958 - Eskişehir) Dr Yılmaz Argüden is the chairman of ARGE Consulting. He has extensive experience in both the private and public sectors as well as in international organizations, non-governmental organizations, and academia. He was responsible for the conduct of Turkey's privatization program between 1988-90 and has served as chief consultant to the prime minister of Turkey on economic matters. He is presently the senior adviser to and representative of the Rothschild investment bank in Turkey and serves on the boards of directors of a number of organizations both in Turkey and abroad. Dr Argüden is an adjunct professor of Business Strategy at Boğaziçi University and in the MBA program of Koç University and is also the author of numerous books and a columnist for newspapers and magazines. He has been selected by the World Economic Forum as one of its "100 Global Leaders for Tomorrow".

## Assessment by the Vestel Group of Companies Executive Committee Member Responsible for White Goods



İzzet Güvenir  
Member of the Executive Committee

## VESTEL WHITE GOODS WILL CONTINUE TO CATER TO THE NEEDS AND TASTES OF GLOBAL CONSUMERS THROUGH ITS NEW MODELS AND DESIGNS.

The year 2007 saw Vestel White Goods maintain the trend of rapid growth which got underway in 2006. Despite the strength of the TL, which has posed one of the greatest challenges for the Turkish economy, our production and sales figures were in line with our targets on an annual basis, while Vestel White Goods ended the year 2007 with a strong profit.

The strength of the Euro against the Dollar paved the way for more activity from Far Eastern manufacturers, and Chinese manufacturers in particular. However, Vestel White Goods managed to maintain its robust competitive position.

Vestel White Goods fully capitalizes on its advantage of being the only OEM-ODM white goods producer for A-brand manufacturers with its production structure based on efficiency, low costs and flexibility, as well as its logistics advantages, proximity to suppliers, strong relations and managerial abilities.

### Vestel White Goods continues its rapid growth trend.

I am proud to point out that Vestel White Goods' growth rate exhibits a trend rarely seen throughout the world. The proof of this tremendous success can be seen in capacities and production figures for refrigerators, and especially washing machines, which we achieved in a short time.

Vestel White Goods reached a production capacity of 7.5 million in 2007 and manufactured more than 4.8 million units. Vestel White Goods offers a wide variety of products which address all of the Company's target markets.

Dishwashers were added to the Company's production range in 2007. After initial trial production runs started in February, full commercial production of dishwashers started in August, rounding off the Company's entire product range of white goods. The second refrigerator factory and cooker factory were also officially opened at the beginning of 2007. We will sustain our capacity increases going forward.

Vestel White Goods' rising success has been reflected to its steadily increasing in the Istanbul Chamber of Industry's list of Turkey's 500 biggest companies. Our Company maintained its 27th ranking in 2006.

Vestel White Goods has maintained its success in reflecting innovations demanded both at home and abroad through its products. The Company has pioneered innovations in reducing products' energy consumption, improving their aesthetics and in being a consumer-friendly company.

At the end-2007,

- Quality and performance of refrigerators was increased to optimum levels.
- In the washing machine category, measures to produce superior quality products at a higher volume, increase the washing performance of its washing machines and improve energy efficiency were completed; production of these energy efficient washing machines will commence in 2008.
- In the field of cookers, product ranges were expanded, especially for the European markets.
- The product design of fixed air conditioning units was completed and serial production was initiated. Production commenced for split air conditioners of Energy Class A which apply the energy-saving inverter technology. Environmentally friendly refrigerants are used in air conditioning units with a cooling capacity varying between 9,000 Btu/h and 18,000 Btu/h, thus ensuring the production of air conditioning units in compliance with the Kyoto protocol. Noise levels have been reduced to a minimum through the application of new technologies in the design of parts, including the body, fan and pipes of the entire product range. Design studies initiated on systems with multiple VRV and VRF internal units.
- The Company achieved a very respectable position in the market for built-in products, with cookers offering the widest range. The Company has been offering a complete product range in the refrigerator category for 3 years. The semi-integrated dishwasher, production of which recently started, will be brought to the market in the first half of 2008 while the fully-integrated model will be available in the second half of 2008.

#### Cementing our strong position in exports

Revenues increased by 16% in US Dollar terms (with a 6% increase in Euro terms) in 2007 and reached USD 906 million. Exports amounting USD 615 million in 2007 accounted for the major share in total sales. 88% of exports were directed to Europe.

In 2007, Vestel White Goods commanded a 38% share of all refrigerators and a 37% share of all washing machines exported from Turkey. The Company's exports of cookers accounted for 18% of all cookers which were exported in 2007.

Vestel White Goods successfully carries out OEM-ODM cooperation with the strong A-brands in global markets, with our sales to European markets still carried out through supermarket chains under different brands. An elaborate marketing organization network has been established in our markets abroad, where we sell our products under Vestel brand, extending from the Balkans to the CIS countries, playing a highly significant role in retail studies and expanding the area of the Company's activities.

#### Stepping into the future with R&D

R&D activities are carried out on a product basis in terms of ease of management and raising concentration, while each factory has a separate R&D department. Although these R&D departments have predominantly concentrated on product development, they have now moved onto the creation of new technologies and productivizing them. Moreover, the Company boasts a groundbreaking Technology Development Center - bound to the Head Office - which carries out industrial design and innovation studies for all products. This center has achieved tremendous success through its courageous, unique and leading approach. Our R&D engineers have performed a range of studies on different washing techniques in the washing machine category, new cooling technologies in the refrigerator category and specialized cooking techniques in the cooker category. Our Company distinguishes itself with its OEM-ODM

manufacturer identity gained through its ODM competency and tremendous achievements in creativity and industrial design.

The year 2007 saw a record number of patent applications. Importance is placed on the quality of patents rather than their number and patents are evaluated in terms of their applicability and their level of added value. Apart from the dishwasher range, for which production recently got underway, a considerable number of new product patents for refrigerators, washing machines, cookers and air conditioners were received during the year.

Vestel White Goods received the "Golden Patent" award granted by the Turkish Patent Institute in 2007.

#### We will retain our popularity with global consumers.

Vestel White Goods will continue to cater to the needs and tastes of global consumers through its new models and designs. Vestel White Goods aims to further raise the performance and design of its products to the highest possible levels in the coming period. In particular, we are still working to bring high tech products to the market in order to cement our brand image in the refrigerator and washing machine categories. Our dishwashers, which have attracted wide acclaim and seen vigorous demand from consumers, and our cookers which have rapidly gained a presence in foreign markets with their built-in models, will also serve to support our position and image.

The dedicated efforts of all our employees who have adopted the Vestel vision and the ability of our engineers in converting the latest technology into desirable products lie at the heart of Vestel White Goods and ensure the Company will remain an indispensable name and brand in the "comfortable house" concept.

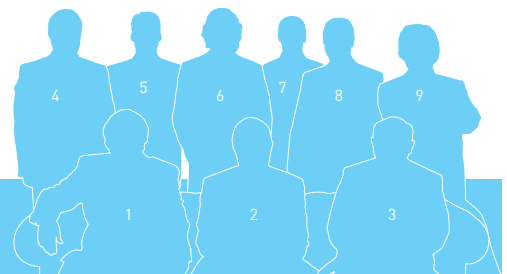
Yours truly,

**İzzet Güvenir**

Member of the Executive Committee



## Executive Committee



[1]

**Enis Turan Erdoğan**  
Executive Committee Member

(1955 - Mersin) Enis Turan Erdoğan graduated from İstanbul Technical University (Department of Mechanical Engineering) in 1976 and completed a master's degree in production management at Brunel University (England) in 1980. After serving in positions for a number of firms in Turkey, he joined the Vestel Group as managing director of Vestel Foreign Trade in 1988. Since 1997, Mr. Erdoğan has also been a member of the Vestel Executive Committee.

[2]

**Ömer Yüngül**  
Chairman of the Executive Committee

(1955 - İzmir) Ömer Yüngül graduated from Boğaziçi University (Department of Mechanical Engineering) in 1978. He joined the Zorlu Group in 1997 as the head of the Executive Committee responsible for white goods. On 3 January 2000 his responsibilities were expanded to include all of the Group's production activities. Mr. Yüngül is currently chairman of the Vestel Executive Committee.

[3]

**Cengiz Ultav**  
Executive Committee Member

(1950 - Eskişehir) Cengiz Ultav graduated from Middle East Technical University with BS and MS degrees in electronics engineering. He began his career at the Philips International Institute and subsequently served in the information technology and R&D departments of electronics companies in Turkey and abroad. Mr. Ultav joined Vestel in 1997 as a vice chairman responsible for technology and is currently a member of the Executive Committee responsible for strategic planning and technology.

[4]

**İhsaner Alkim**  
Executive Committee Member

(1954 - Kırcaali) İhsaner Alkim graduated from İstanbul Technical University (Department of Electronics and Communications Engineering) in 1977. After serving in various positions in the electronics and communications sectors, he joined Vestel in 1988 and since then has been undertaking duties in matters related to R&D save for a four-year period in 1998-2002. Mr. Alkim rejoined Vestel in the latter year and is a member of the Executive Committee responsible for electronics R&D.

[5]

**Levent Hatay**  
Executive Committee Member

(1963 - Oklahoma) Levent Hatay graduated from the Department of Electronics Engineering at Dallas Southern Methodist University in 1984 and went on to complete a Master's degree in Engineering Management, before gaining a Ph.D. in Processes Research. After serving in Aygaz and Altinyıldız, he joined Vestel Durable Goods Marketing Inc in 1999 as a General Manager. He has been working as an Executive Committee Member responsible for marketing-sales and branding since 2005.

[6]

**Özer Ekmekçiler**  
Executive Committee Member

(1957 - İzmir) Özer Ekmekçiler graduated from Middle East Technical University (Department of Industrial Engineering). After serving in senior management positions in a number of sectors he was made general manager of Vestelkom in 2000. Since 2005 Mr. Ekmekçiler has been a member of the Executive Committee responsible for Vestel Electronics, Vestelkom, Vestel Digital, and Vestel Russia.

[7]

**Cem Köksal**  
Executive Committee Member

(1967 - Ankara) Cem Köksal graduated from Boğaziçi University (Department of Mechanical Engineering) in 1988 and received his master's degree from Bilkent University in 1990. He served in various positions in the banking industry between 1990 and 2001, becoming assistant general manager of DenizBank in 1997. Mr. Köksal joined Vestel in 2002 as a vice chairman responsible for finance and he has the same responsibility as a member of the Executive Committee.

[8]

**İzzet Güvenir**  
Executive Committee Member

(1955 - İzmir) İzzet Güvenir graduated from the Department of Aeronautical Engineering of İstanbul Technical University in 1980. After serving in various positions in the white goods sector, he joined Vestel in 1998 as the manager of the air conditioner plant. Mr. Güvenir was appointed general manager of Vestel White Goods in 2000 and since 2005 he has been a member of the Executive Committee responsible for white goods.

[9]

**Necmi Kavuşturan**  
Executive Committee Member

(1956 - Gaziantep) Necmi Kavuşturan graduated from the Faculty of Political Sciences of Ankara University in 1979. After serving in various positions in the banking industry, he joined DenizBank in 1997 as an assistant general manager in the bank's Management Services Division and he became human resources coordinator for Zorlu Holding in 2003. Since 2005 Mr. Kavuşturan has been a member of the Executive Committee responsible for human resources at Vestel Group.

## Senior Management





**İzzet Güvenir**

Member of the Executive Committee

İzzet Güvenir graduated from the Department of Aeronautical Engineering of İstanbul Technical University in 1980. After serving in various positions in the white goods sector, he joined Vestel in 1998 as the manager of the air conditioner plant. Mr. Güvenir was appointed general manager of Vestel White Goods in 2000 and since 2005 he has been a member of the Executive Committee responsible for white goods.

**Nedim Sezer**

General Manager

Mr. Sezer graduated from İstanbul Technical University with a B.Sc degree in mechanical engineering in 1982 and obtained a certificate in Administrative Economics from İstanbul University in 1990. Mr. Sezer has served as Household Appliances R&D Manager at Peg Profilo A.Ş. between 1985-1997. He has served in various positions in Vestel Group since 1998 and is currently serving as the General Manager of Vestel White Goods.

**Alp Dayı**

Assistant General Manager, Financial Affairs

Mr. Dayı graduated from Dokuz Eylül University, Faculty of Industrial Engineering in 1985 and received diploma in finance from University of California in 2006. He served as the Finance Manager at İzmir Demir Çelik between 1987-1993 and as the Deputy General Manager responsible of purchasing, human resources, finance, accounting and budgeting at Raks Elektronik between 1993-1999. He served in various positions in Vestel Group since 1999 and is currently serving as the Assistant General Manager responsible for finance and accounting.

**Umut Gönen**

Assistant General Manager, Procurement

Mr. Gönen graduated from İstanbul Technical University with a B.Sc degree in mechanical engineering in 1992. Mr. Gönen has served as the R&D Manager at İnci Akü between 1992-1993 and as the Purchasing Engineer at BMC between 1995-1996 and as the Chief of Quality Assurance & New Projects at Raksev A.Ş. between 1996-1999. He has served in various positions in Vestel Group and is currently the Assistant General Manager responsible for purchasing.

**Serhat Tolga Sönmez**

Manager of the Refrigerator Plant

Mr. Sönmez graduated from Dokuz Eylül University, Faculty of Electrical and Electronic Engineering in 1994. He was responsible for maintenance at BSHG Refrigerator Plant between 1994-1997 and is currently serving as the Manager of the Refrigerator Plant at Vestel White Goods.

**Kemal Özgür**

Manager of the Washing Machine Plant

Mr. Özgür graduated from İstanbul Technical University with a B.Sc degree in industrial engineering in 1992. He served as a project engineer at Peg Profilo between 1995-1997. He has since served in various positions in Vestel Group since 1997 and is currently serving as the Manager of the Washing Machine Plant.

**Cevdet Yavuz**

Manager of the Cooker Plant

Mr. Yavuz graduated from the Department of Mechanical Engineering of İstanbul Technical University in 1985 and received a masters degree from İstanbul Technical University in 1988. After serving in various positions in the leading white goods companies in Turkey between 1990 and 2003, he joined Vestel White Goods in 2003. He is currently serving as the Manager of the Cooker Plant at Vestel White Goods.

**Erdal Haspolat**

Manager of the Dishwasher Plant

Mr. Haspolat graduated from Middle East Technical University with a B.Sc degree in mechanical engineering in 1992. He worked as a design engineer at Özmak Makine between 1992-1993 and as the design leader at MKEK Elroksan between 1993-1996. He served in various positions in Vestel Group since 1998 and is currently the Manager of the Dishwasher Plant.

**Hakan Akıncı**

Manager of the Air Conditioner Plant

Mr. Akıncı graduated from the Department of Mechanical Engineering of İstanbul Technical University in 1992 and received a masters degree in mechanical engineering from Dokuz Eylül University in 1996. He served in various positions in Vestel Group since 1999 and is currently the Manager of the Air Conditioner Plant at Vestel White Goods.

# Management's Assessment and Analysis of the Year's Operational Results

## Economic and Sectoral Development Impacting the Company's Activities

### Economic outlook

- The global economy continued to grow in 2007 despite uncertainty and volatility originating in the USA. The global economy grew by an estimated 5.9% in 2007, with global trade volume increasing by 9.2%, equal to the growth rate in 2006.
- The Turkish economy completed the sixth consecutive year of growth, despite a slowdown, with 4.5% GNP growth.
- The rate of CPI inflation ended the year 2007 at 8.4%. Rising oil and commodity prices prevented inflation from falling to its targeted levels, even though the prevailing high interest rates slowed consumer expenses.
- The high interest rate policy implemented by the Central Bank until September 2007 combined with the overvalued Turkish Lira put considerable pressure on the real sector. At the same time, rising commodity prices presented another factor to push costs in industrial production higher.
- Exports rose to USD 107.1 billion in 2007. Total imports reached USD 170 billion during the year.

- While exports climbed by 25.3%, imports rose by 20.5%; due to the higher level of imports, the foreign trade deficit nevertheless increased by 14.9% from USD 41.3 billion (2006) to USD 47.5 billion in 2007.
- During this period, 86.7% of Turkey's total exports were composed of industrial products, while agricultural products accounted for 10.7%, with mining products composing 2.6% of Turkey's total exports.
- In 2007, the total value of industrial products exported reached USD 91.9 billion, marking an increase of 24.3% when compared to the previous year.
- Although the overvalued Turkish Lira presented a challenge for exporters, exports continued to increase due to the high proportion of exports sold to the countries in the Euro Zone, and the strengthening of the Euro against the US Dollar.
- The current deficit increased from USD 32.2 billion between January-December 2006 to USD 38 billion in the same period of 2007, an increase of 18%.
- Net cash inflow realized from FDI increased from USD 19 billion in January-December 2006 to USD 19.8 billion in the same period of 2007.

### Sectoral outlook

- Total domestic sales in the four main product groups (refrigerators, washing machines, cookers and dishwashers), which chalked up rapid growth between 2004 and 2006 on the back of strong pent-up demand, retreated by 5% in 2007 to 5.2 million units. This fall can be attributed to declining sales in two segments - refrigerators and washing machines - which are already relatively saturated.
- While no substantial improvement in domestic sales is forecasted for 2008, the future of the Turkish white goods sector looks bright indeed in view of rising purchasing power in parallel with the sustainability in political and economic stability, a high rate of population growth, low rates of penetration in some product groups, demand driven by replacements and renewals, and new products incorporating new technologies coming onto the market.
- Turkey's white goods exports continue to increase, with a YoY rise of 10% in four main product groups (refrigerators, washing machines, cookers, and dishwashers) in 2007, bringing total exports up to 11.4 million units. While exports of refrigerators climbed by 6% YoY with exports of washing machines up by 4%, segments which underpinned the average growth rate in the domestic sector as well as exports were dishwashers and cookers, which saw growth rates of 62% and 21%, respectively.

TURKEY'S WHITE GOODS EXPORTS CONTINUE TO INCREASE, WITH A YOY RISE OF 10% IN FOUR MAIN PRODUCT GROUPS (REFRIGERATORS, WASHING MACHINES, COOKERS, AND DISHWASHERS) IN 2007, BRINGING TOTAL EXPORTS UP TO 11.4 MILLION UNITS.

- EU countries were the largest consumers of exports in the sector.
- Producers of white goods in Europe suffer from extremely thin profit margins due to low rates of population growth, high levels of penetration and increasingly more expensive manpower and raw materials.
- Saddled by higher production costs, European white goods producers are closing down their own production facilities and either setting up smaller units in eastern European countries, where costs are lower, or having appliances built by manufacturers in those countries.
- Because of the high shipping costs incurred, competition in the white goods sector is regional rather than global in scale, meaning that the principal competitors of the sector are in Eastern Europe. Nevertheless, thanks to a combination of its geographical location, low-cost yet high-quality labor and broad base of component manufacturers, Turkey is becoming Europe's production center for white goods.
- In parallel with the sharp growth in exports, production in the sector grew by 7% in 2007, despite the contraction in the domestic market, and a total 16.2 million units of white goods were manufactured.



## Assessment of the Year's Activities for 2007

### Developments in production

The year 2007 saw Vestel White Goods extend its growth trend, which has now continued for several years. This growth has principally been supported by capacity expansion and new product investments. The dishwasher facility entered production trials in February 2007. Following the completion of investments aimed at increasing production flexibility, the number of models and capacity at the refrigerator facility, new facilities producing washing machines and cookers were officially opened in early 2007 along with a second refrigerator and cooker facility. These investments brought our total annual production capacity up 7.5 million units.

Total production reached 4,853,652 units, corresponding to a YoY increase of 14.7%. The capacity utilization rate was realized as 70%.

Vestel White Goods continued to enter long-term OEM/ODM agreements with the world's giant white goods producers in 2007 to support its vision of increasing its presence in national and international markets through international collaborations.

In production undertaken in line with the demands of "A-Brand" firms, Vestel White Goods is itself responsible for all aspects ranging from industrial design, R&D and engineering to the final product.

Vestel White Goods' production flexibility enables it to quickly provide whatever gamut of models its customer may require for every product group.



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TOTAL PRODUCTION REACHED 4,853,652 UNITS,  
CORRESPONDING TO A YOY INCREASE OF 14.7%.

## Capacities

Product	Enclosed Space (m <sup>2</sup> )	Production Capacity
Refrigerator	148,916	3,200,000
Washing Machine	40,733	2,200,000
Air Conditioner	15,750	600,000
Cooker	33,650	1,000,000
Dishwasher	15,750	500,000
Warehouse	57,000	-
<b>Total</b>	<b>311,799</b>	<b>7,500,000</b>

## Production (Units)

Product	2005	2006	2007
Refrigerator	1,718,091	2,174,527	2,359,729
Washing Machine	1,020,850	1,451,017	1,579,037
Air Conditioner	369,497	214,913	280,842
Cooker	76,982	390,513	579,822
Dishwasher	-	-	54,222
<b>Total</b>	<b>3,185,420</b>	<b>4,230,970</b>	<b>4,853,652</b>

**TOTAL PRODUCTION CAPACITY** (units)

**7.5 million**





## Refrigerators

- Under-worktop, double door, no-frost, fridge-freezer units and built-in refrigerators as well as freezers and larger refrigerators are primary cooling units with a width ranging between 48 cm and 81 cm, addressing a variety of markets.
- A variety of color, style and material options (inox, patterned metal sheet aluminum, dyed metal sheet, etc.) is available, which can meet very distinctive customer demands.
- Since cooling systems are designed in compliance with various climatic conditions and different voltage levels which vary from one country to another, products can be sold to both tropical markets and markets with colder climates.
- Vestel White Goods recognized the gravity of the current energy shortage a long time in advance, and stepped up its R&D studies in respect to energy efficiency in previous years, raising the energy class of its products to an A+ level. These refrigerators consume 50% less energy than those manufactured a decade ago; also products of energy class A++ will be put on the market in near future.
- Vestel White Goods is the first company to have brought 3-d cooling technology to Turkey. This technology enables refrigerators to cool foods more homogeneously and thus protect their hygienic conditions and prolong their usability.
- Products have electronic controls allowing users to select the ideal conditions of operation according to their varying needs, which include a number of different functions such as vacation mode, economic mode, extra fast mode, and freezing/cooling modes which provide ease of use.

- Products designed for specific markets are also available, whereby the doors can be locked, and whose direction of door opening can be changed according to where they are located.
- Addressing the top-notch customer segment, products with MP3 players, with a sound recording feature and uniform illumination system will be brought to the market in near future.

#### Air Conditioners

- Single and multiple split air conditioners performing only cooling or heating and cooling functions together with capacity ranging between 7000 btu/h and 24000 btu/h.
- Air conditioners with negative ion generators that filter out dust and micro organisms and neutralize them through negative ions produced within the unit; in addition, air conditioning units equipped with anti-allergic filters, antibacterial / antivirus covered exchangers prevent the reproduction of microorganisms in the moist environment within the unit; thus, besides changing the temperature of the room, these air conditioning units also remove dust from the air, mites, bacteria, viruses, smell molecules and other harmful elements threatening human health.
- Air conditioning units with the energy-saving smart eye function, which sense the presence of people in the room and reduce their working speed when no people are in the area, are also available.
- Noise levels in air conditioners are reduced to a minimum due to the low-drag air flow path and fan design.
- Air conditioning units can account for a high share in energy consumption in an average home. Also leading R&D activities in our country, Vestel White Goods has brought energy class A air conditioning units to the market in recent years. The first platinum series air conditioners with a DC inverter to be designed in Turkey consume 20-30% less energy than normal class A air conditioning units by automatically adjusting air and compression speed to the amount required by the environment.
- In regions such as the Middle East and South America where the air temperature regularly exceeds 52°C, many air conditioning units are unable to operate. However, Vestel air conditioners boasting the super tropical function are also able to perform effective cooling in such situations as well.
- The heating performance of many air conditioners can decrease by as much as 30% when the air temperature falls below -5°C. We have developed technology which enables the compressor to operate at greater speeds in such temperatures, thus preventing any fall in heating capacity.
- Air conditioners in the Quatro series perform 3-d cooling or 3-d heating, thus allowing the environment to be conditioned more homogenously.



VESTEL WHITE GOODS' PRODUCTION FLEXIBILITY ENABLES IT TO QUICKLY PROVIDE ALL MODELS THAT CUSTOMERS MAY REQUIRE FOR EACH PRODUCT GROUP.



### Washing Machines

- Main products in the washing machine category are electronically-controlled washing machines with mechanical timers, which have a washing capacity of between 3 kg and 7.5 kg, and whose spin cycle varies between 400 cycles/min and 1,600 cycles/min.
- SUPERSLIM washing machines with a depth of 35 cm and SLIM washing machines with a depth of 40 cm, specially designed for narrow locations, are also available in the product range.
- Washing machines using inverter engine technology, a spin cycle of 1,400 cycles/min and 1,600 cycles/min can wash loads of 7.5 kg and 6 kg.

- Vestel washing machines address problems associated with the growth of bacteria and fungi in the moist, warm environment left over at the end of the washing process. Antibacterial / anti-fungal bellows are used in Vestel washing machines, thus preventing the reproduction of microorganisms which can threaten human health.
- Thanks to half-load detection technology applied in some products, the machine automatically adjusts the program flow if the machine detects that the amount of laundry in the machine is less than the capacity of the washing machine, cutting washing time by 50%, reducing energy consumption by 40% and water consumption by 30%.

- Vestel White Goods has developed a special pump following intensive R&D activities, and for which a patent application was made. The pump reduces the noise level of the washing machines to a minimum.
- An electronic interface is used in all machines in order to improve ease of use and enable quick adjustment.
- As a result of R&D activities carried out with utmost awareness of energy efficiency, washing machines of the A+ energy class have been brought to the market.
- The eco-ball system, which raises washing performance, is used in all washing machines.
- Vestel White Goods has introduced washing machines of triple A class (energy class A; washing performance A; spinning performance A) which reduce consumption of energy, water and time without impairing functional performance.

ecowash



### Cookers

- The Company produces all types of products demanded by the market with widths of 50 or 60 cm, developed for the European and Turkish markets.
- Gas or electric free standing cookers can be manufactured in any kind of combination, such as gas burners in the stove-cooktop, electric hotplate tables, heat-resistant security glass tables and vitroceramic heaters (Ceran cooktop).
- Apart from conventional free standing cookers, Vestel White Goods also offers free standing cookers with two compartments which can perform two different cooking modes simultaneously.
- Vestel White Goods' range of stoves include cooktop stoves with gas, hotplate or gas/hotplate combinations, and security or vitroceramic domino stoves, as well as built-in stoves with gas, hotplate, security, vitroceramic or induction combinations.
- A variety of products which address the entire market is available in the built-in ovens category, which comprise a considerable share of the cooker market.
- Trays over the cookers are equipped with a slide mechanism to easily insert and remove food.

- One of the most important sought after features in cookers is ease in cleaning; features such as the pyrolytic self-cleaning ability, easy removal of the cooker glass and easy access to the cooker ceiling by sliding the cooker resistance with a single movement allow Vestel cookers to be cleaned easily. Moreover, thanks to the enamel coating with an easy-to-clean feature, internal surfaces of the cooker and stove table can be cleaned easily.
- Induction cookers protecting users from burning by only heating the chamber above and saving a considerable amount of energy have started to become available throughout Europe.
- The use of low emission glass in cookers has enabled the amount of power consumed in cooking or heating to be reduced to a minimum, while some products consuming even less energy than class A products have been brought to the market.
- In cookers with the cool-touch feature, the temperature of the glass remains below 55°C, preventing incidences of burning.

### Dishwashers

- Vestel's range of dishwashers caters to a large section of the market and includes solo, semi-integrated or fully-integrated dishwashers with a capacity to wash dinnerware of 12 people, appropriate to the 60 cm standard, available in a variety of options ranging between 2 programs to 9(+) programs.
- Dishwashers offer three different automatic program alternatives depending on the type of dishes in the load. The automatic programming function automatically detects the level of dirt in the machine and thus ensures maximum efficiency before washing.

- The tablet detergent function selects the most appropriate washing program prior to the washing cycle, thus maximizing efficiency from the detergent.
- The Company has applied for a patent of its special design which allows the height to be adjusted even when the upper basket is full. This feature will enable users to easily adjust the positions of the basket depending on the size of the containers.
- Some dishwashers offer the half-load function, which allows the selection of the appropriate saving mode when only the upper or lower basket is full, or there are only a small number of dishes in the upper and lower baskets, thus saving washing time, energy and water.
- The attachable features in the upper basket allows glasses and cups of various sizes and shapes to be washed.
- The pre-washing button, presented as a separate function, allows the user to perform pre-washing in the program of their choice; thus ensuring full cleaning even when the load is extensively soiled.
- The delayed start button allows users to delay the washing process for up to 19 hours after setting.
- Triple A class (energy class-washing performance-drying performance) products ensure an outstanding washing and drying performance while keeping energy consumption at a minimum.
- Apart from conventional drying systems, products with the high-tech turbo drying systems shorten the drying process to just a few minutes.
- Noise levels are reduced to 45 dBA, preventing users from being disturbed by dishwasher noise.
- Vestel's fully-integrated dishwashers, which are all electronically controlled, include a sound alert system.

## IN TERMS OF PRODUCT GROUP, THE BIGGEST CONTRIBUTOR TO TOTAL TURNOVER WAS REFRIGERATORS, WITH A SHARE OF 47%.

### Sales

Vestel White Goods' total sales increased by 12% in 2007 to 4.8 million units. Although domestic sales fell by 17% on a unit basis amid contracting demand and intense competition in the market, sales still increased thanks to a 21% rise in exports.

In terms of exports, cookers contributed most to the increase in sales. This product group, which was added to the Company's product line in the last quarter of 2005, recorded a 109% surge in exports.

Vestel White Goods' total sales revenues were up 6% in 2007 in Euro terms. Exports accounted for a 68% share of the Company's total sales in 2007 (62% in 2006).

Supplying a diversified line of products that are targeted at different customer segments and with a low cost structure and flexible production competencies, Vestel White Goods is the exclusive "OEM/ODM only" white goods manufacturer serving for "A-Brand" producers, and has enjoyed steady growth in market share in the European market. Some 88% of Vestel White Goods' exports are shipped to European countries.

In terms of product group, the biggest contributor to total turnover was the refrigerator segment (47%) followed by washing machines (25%).

Vestel's dishwashers, production of which started in 2007, enjoyed massive popularity with 47,000 dishwashers sold to the domestic market and 7,400 dishwashers exported for trial purposes. It is forecasted that this product group will notch up considerable sales volumes in the coming period.

### Sales\* (units)

Product	2005	2006	2007
Refrigerator	1,694,465	2,242,833	2,368,052
Washing Machine	1,015,578	1,423,953	1,539,023
Air Conditioner	332,395	237,449	266,552
Cooker	72,441	364,624	560,033
Dishwasher	-	-	50,722
<b>Total</b>	<b>3,114,879</b>	<b>4,268,859</b>	<b>4,784,382</b>

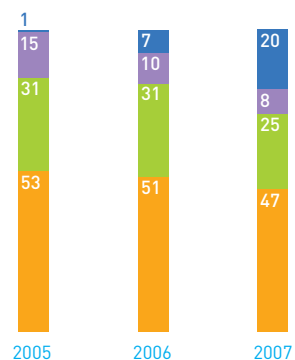
\* Vestel White Goods' marketing and sales activities are carried out by two Vestel Group companies, Vestel Durable Goods Marketing and Vestel Foreign Trade.

## Breakdown of Sales Revenues

Sales Revenues	2005	2006	2007
<b>(USD million)</b>			
Domestic	269	297	291
Export	329	486	615
<b>Total</b>	<b>598</b>	<b>783</b>	<b>906</b>
<b>(%)</b>			
Domestic	45	38	32
Export	55	62	68

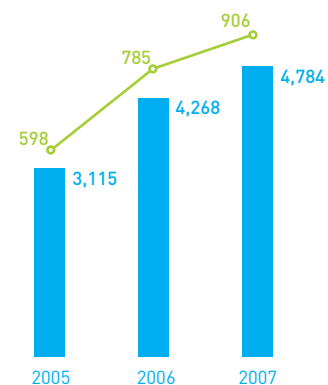
## Breakdown of Sales Revenues by Product (%)

- Refrigerator
- Washing Machine
- Air Conditioner
- Cooker



## Sales, Unit-Revenue Development

- Revenues (USD million)
- Sales (units)



### Market position

In parallel with the growth experienced in the last few years in particular, Vestel White Goods' market share of Turkey's refrigerator and washing machine exports has now topped 35% in both product groups.

Vestel commanded a share of 38% of all Turkey's refrigerator exports and 37% of exports of washing machines.

Backed by a growing customer base and expanding product range, there is every reason to expect the Company to continue to increase its market share of Turkey's white goods exports going forward.

Vestel White Goods is one of the sector's biggest players in the domestic market, with market shares ranging between 6% (dishwashers, a new product) to 15% (refrigerators) for various products. The Company's goal is to increase its market share to 20-25% range in the coming period.

Domestic sales of cookers have exhibited robust and rapid growth, with a direct impact on the Company's market share in this segment. The introduction of built-in units conforming to new home concepts has supported the momentum in sales. Having only begun exporting cookers in 2006, Vestel has already built up a market share of 17.7% in the sector's exports, achieving an impressive sales volume in a short space of time.

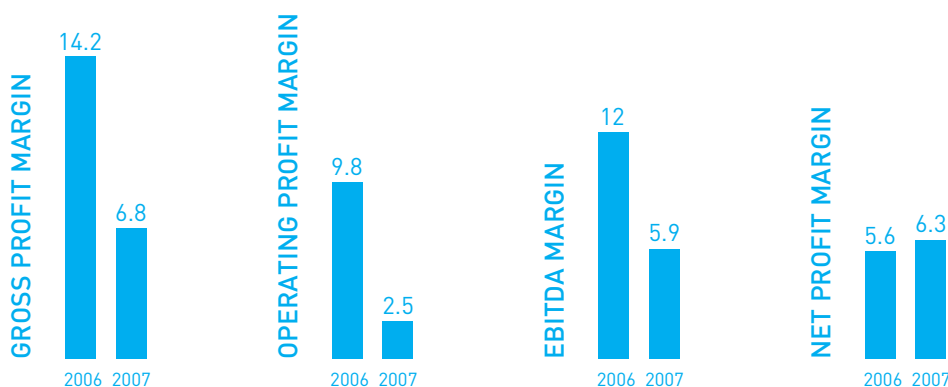
### Profitability analysis

While the strong TL and contraction in the domestic market negatively impacted operating margins, the major reason for the sharp shift in the EBITDA margin from 12% in 2006 to 5.9% in 2007 was the current accounting practice which leads to fluctuations in overall margins in parallel with exchange rate movements.

The negative impact of the appreciation of the Turkish Lira on EBITDA was compensated by FX gains reported under the 'financial/other income' item, with a limited impact at the bottom line.

At the bottom line, Vestel White Goods' net profit margin climbed from 5.6% in 2006 to 6.3% in 2007; the Company generated a net profit of USD 57 million in this period.

## Profit Margins (%)



### Indebtedness

Vestel White Goods' gross financial debt amounted to USD 74 million at the end of 2007. The gross debt to shareholders' equity ratio fell from 21% in 2006 to 17% by the end of 2007. Backed by the improvement on the working capital side, the Company's net financial debt declined to USD 10 million at year-end 2007 from USD 57 million at the end of 2006.

### Investment

Vestel White Goods' capital expenditures reached USD 38 million during 2007. These expenditures mainly covered capacity increase and new mould investments. The Company plans to invest USD 45 million in 2008.

R&D investments in 2007 amounted to USD12 million, corresponding to 1.3% of the total turnover.

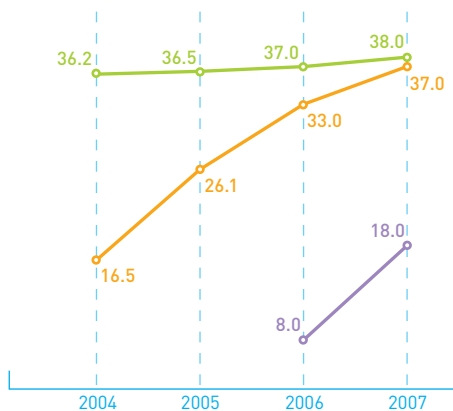
### Expectations and outlook

The expected slowdown in economic growth in Europe, which forms Vestel White Goods' primary export market, combined with the anticipation of continuing sluggish demand in domestic market, require a more conservative approach in our expectations and projections. Nevertheless, we still target an annual increase of 11% in production. Sales are forecasted to rise further, led by strong performances in the cooker and dishwasher segments

Through correct assessments of sector and market conditions, Vestel White Goods will continue to benefit from the competitive advantages it offers by being the exclusive "OEM-ODM only" manufacturer in Europe.

### Shares in Turkey's Total Exports (%)

- Refrigerator
- Washing Machine
- Cooker



### Investments in 2007

	(USD million)
Refrigerator Plant	9.4
Washing Machine Plant	13.3
Air Conditioner Plant	0.8
Cooker Plant	10.5
Dishwasher Plant	3.7
<b>Total</b>	<b>37.7</b>

# Vestel White Goods' Distribution Network

Vestel's international sales are conducted by Vestel Foreign Trade Inc, a member of the Vestel Group of Companies, while its domestic sales are handled by Vestel Durable Goods Marketing Inc, another group company.

## Vestel Foreign Trade;

- Exports products to more than 100 countries throughout the world.
- Is a distributor in 10 European countries
- Has a strong competitive edge in foreign markets thanks to its flexibility in meeting customers' needs, its ability to adapt quickly to changing market conditions and a strong and sure hand in after-sales services.

In an environment which has become more competitive with the rapid entry of international electronics market chains into the Turkish market, Vestel Durable Goods Marketing gained a competitive advantage by restructuring its distribution channels in 2007. The Company also distinguishes itself with high-quality products and the experience it has gained in the multi-brand concept which it has been developing since 2002. Under the new restructuring, dealers and service outlets have been gathered under the same roof. This regulation marks a sound step towards meeting customer demands swiftly and effectively.

## Vestel Durable Goods Marketing

- Has a nationwide sales and service capability with 1,250 showrooms, 600 authorized service outlets, and 5,100 service personnel throughout Turkey.
- Effectively uses its call center to provide customer satisfaction. The Company's call center served an average of 2,634 calls (1,100 inbound calls and 1,534 outbound calls) per day in 2007 with its team of 41 personnel. Only 2% of the calls were made to register a complaint in 2007.

Outbound calls were made to monitor levels of customer and service satisfaction, inform of free maintenance days and to return consumers' calls, creating diversification and raising satisfaction in the eye of customers.

## Vestel Durable Goods Marketing

- has adopted a customer and sales focused approach with its concept stores and multi-brand strategy.
- is the hub of an effective dealership and service outlet management system that incorporates GIS (Geographical Information System) technology.
- provides live, online product training to 250 dealers and their personnel nationwide via satellite services supplied by the Vestel Group company Dexar.
- provides logistics services efficiently at a loading ratio of 90% through the Manugistics system.
- carries out an effective communications and marketing strategy: Vestel is the 6th most easily remembered brand in Turkey. During 2007 Vestel continued to increase the number of its "concept stores", which are based on a multi-brand sales model that includes Vestel products. By the end of the year, the number of concept stores had reached 196, seven of which were abroad.

A new sales and after-sales services organization is being set up to expand the Vestel trademark into new markets outside Turkey: Russia and CIS countries (Georgia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan), the Middle East (Syria, Iran, Iraq), South Asia, North Africa (Morocco), and Cyprus. In this context, a very broad distribution network was rapidly established in such markets through wholesale channels and corners via distributors as well as standard showrooms which only sell Vestel products.

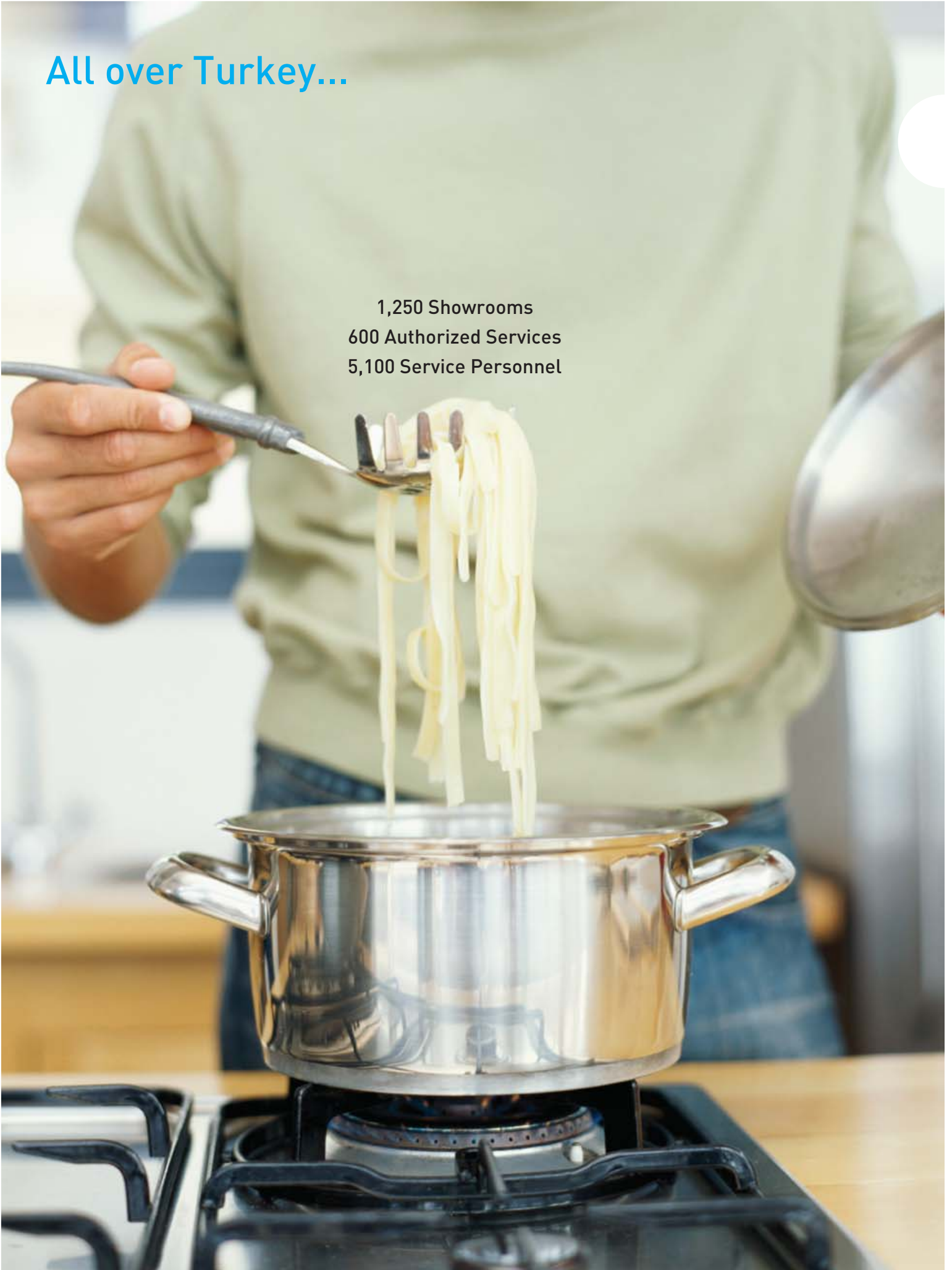


THE NUMBER OF CONCEPT STORES (MULTI-BRANDED SALES MODELS WHICH INCLUDE THE VESTEL BRAND) CONTINUED TO INCREASE IN 2007.



All over Turkey...

1,250 Showrooms  
600 Authorized Services  
5,100 Service Personnel



### Foreign distribution networks selling products with the Vestel brand:

#### Georgia

Sales network organization: 2 distributors, stores with Vestel nameplate and chain stores  
Number of stores: 3 concepts, 14 showrooms, 20 local shops

#### Azerbaijan

Sales network organization: 1 distributor  
Number of stores: 2 concepts, 5 showrooms, 55 local shops

#### Armenia

Sales network organization: 1 distributor, stores with Vestel nameplate  
Number of stores: 6 showrooms

#### Uzbekistan

Sales network organization: wholesale channel  
Number of stores: 1 concept, 2 showrooms

#### Turkmenistan

Sales network organization: 1 distributor, wholesale channel  
Number of stores: 2 showrooms

#### Kyrgyzstan

Sales network organization: wholesale channel  
Number of stores: 1 concept, 2 showrooms

#### Cyprus

Sales network organization: 1 distributor, stores  
Number of stores: 1 concept, 7 showrooms

#### Syria

Sales network organization: 1 distributor, stores with Vestel nameplate, wholesale channel  
Number of stores: 1 concept, 3 showrooms, 60 local shops

#### Kazakhstan

Sales network organization: wholesale channel  
Number of stores: 1 concept, 4 showrooms

#### Iraq

Sales network organization: 1 distributor, stores belonging to the distributor and wholesale channel  
Number of stores: 11 showrooms

#### Morocco

Sales network organization: wholesale channel, chain stores and the developed distribution network of the distributor

#### Iran

Sales network organization: 1 distributor, wholesale channel belonging to the distributor  
Number of stores: 200 wholesalers, 1,500 local shops

## R&D at Vestel White Goods

R&D is one of the most important means in which Vestel White Goods hones its competitive edge and distinguishes itself. An ability to create new and pioneering technologies and to come up with designs and products which appeal to customers globally and meet their needs is the outcome of the talents and efforts invested by Vestel White Goods' strong R&D team.

Vestel White Goods' research and development division consists of individual departments, each of which is concerned with all aspects of its own production line. While every facility has its own R&D unit which reports directly to the facility manager, there is also a Technology Development Center bound to the Head Office, which performs industrial design and innovation activities for all Vestel products. A total of 189 R&D personnel were employed at the end of 2007 (130 at 2006).

These R&D teams are responsible for:

- The procurement or implementation of new technologies
- The design of new products
- Ensuring production processes are more environment-friendly
- Developing existing products
- Increasing productivity and reducing costs.

The common objective of every Vestel White Goods' R&D department and the Technology Development Center is to develop their own products so as to support efforts to further increase the Company's competitive strength in international markets and enhance customer satisfaction.

These R&D units are also specialized in resolving any technical problems that may arise with respect to products or production methods. In line with this, R&D units and the Technology Development Center:

- Closely monitor technical, academic, and industrial publications related to white goods and keep abreast of sectoral innovations and developments.
- Perform basic research at their own laboratories and apply the results of such research studies into products as innovative features.
- Keep a close watch on customers' needs and wishes through customer visits and by attending fairs and exhibitions. New products are designed and existing models are modified accordingly, taking current market trends into account.
- Design products incorporating enhanced functions and features and improved production parameters.

- Carry out trial production so as to obtain pre-producing qualification for newly designed or for improved products.

Vestel White Goods has built up a strong trend of success in the field of intellectual properties. At the end of 2007 on a national and international level,

- 77 industrial applicability/patent applications were submitted, 13 of which were registered;
- 33 industrial design applications were submitted, 21 of which were registered.

Vestel White Goods crowned a successful year of studies in respect to intellectual rights by winning the "Turkish Patent Golden Award", awarded by the Turkish Patent Institute (TPI), for the second time in 2007.

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IN 2007, VESTEL WHITE GOODS WON THE "TURKISH PATENT GOLDEN AWARD", GIVEN BY THE TURKISH PATENT INSTITUTE (TPI), FOR THE SECOND TIME.

# Vestel White Goods, People and the Environment

## Human resources at Vestel White Goods

The prime objective of Vestel White Goods' human resources policy is to recruit and employ qualified and productive people in keeping with the Company's own dynamism. The satisfaction of our employees is always given consideration in the planning and conduct of all of the Company's activities. Recognizing that productivity and quality in production increase in parallel with appropriate working conditions, Vestel White Goods shapes all of its human resources policies and practices with this approach.

Vestel White Goods employed 4,220 staff at the end of 2007, of which 3,747 were blue collar and 473 were white collar workers.

Vestel White Goods employs a young workforce where the average age of the employees is 28.3 years, and 39 years among those in senior management positions, and 31 years for those in middle management. The average age among the Company's other white-collar personnel is 28 years.

## Management systems and environmental and occupational health and safety at Vestel White Goods

In the main outline, Vestel White Goods' Quality Management System is based on the foundation of maximizing performance and safety, being worthy of customers' confidence and achieving customer satisfaction and customer loyalty.

Vestel White Goods was awarded ISO 9001-1994 Quality Management System certification in 2002 and the ISO 9001-2000 Quality Management System certification in 2003.

Vestel White Goods completed preparations to earn the OHSAS 18001 Occupational Health & Safety Management System certification and the related tests will be performed in the week beginning March 31, 2008. The results are notified in 10 days following the completion of the tests and certificate is given in one month from then on. In this context, the TS 18001 certificate will be awarded in early May 2008.

Vestel White Goods fulfills all of its responsibilities as a good corporate citizen, taking utmost care on all issues related to minimizing the environmental impact of its activities and only bringing environmentally friendly products to the market. Since June 2006, all of the Company's products have been manufactured in compliance with the EU Restriction of the Use of Hazardous Substances (RoHS) Directive and the Company complies with the use limits specified in that directive for six restricted substances (lead, mercury, cadmium, hexavalent chromium (chromium VI or Cr6+), polybrominated biphenyls (PBB), and polybrominated diphenyl ether (PBDE)) in products. With due care for the public desire to live in a healthier environment, Vestel White Goods started to offer the domestic market products that are compliant with the European Union's Restriction of Hazardous Substances (RoHS) Directive, with the Company covering all costs brought by this implementation, even though the related regulation has not yet taken effect in Turkey.

In parallel with RoHS, Vestel White Goods also complies with the EU Directive on Waste of Electrical and Electronic Equipment (WEEE), under which every manufacturer is held responsible for the safe disposal/recycling of its own waste electrical and electronic equipment. Providing coordination with the related state authorities, Vestel White Goods carries out all necessary preparations for the WEEE regulation to be implemented in the most effective manner.

Working with a sense of responsibility for the global environment since the day of its foundation, Vestel White Goods has worked to the principle of avoiding the use of any chemicals in its products and production processes which deplete the ozone layer or lead to global warming. Through this approach, the Company ensures that it works with gases which are ozone friendly and add as little as possible to global warming in its production of refrigerators and air conditioning units.

Priority is also given to the manufacture of class A+ or class A products at Vestel facilities to ensure the most efficient possible use of natural resources and electricity, and intensive research and development activities are undertaken to ensure products use the minimum possible levels of electricity, water, detergent, and gas.



Vestel White Goods' sensitive approach to the environment, occupational safety, and employee health issues and its practices are also a reflection of the Vestel Group's corporate values. The Company implements its policies in parallel with the Group's Occupational Health and Safety Policy.

Vestel White Goods works on the basis that total quality and positive approach towards occupational health and safety forms the basis of an effective and efficient management. It therefore attaches importance to evaluation and management of potential impacts of risks on employees, subcontractors, visitors, and other personnel in the working fields. The objective is to provide protection from hazardous and harmful conditions against personal health which may arise during activities taking place at Vestel White Goods, and to create a healthier environment. Occupational health and safety forms the indispensable priority for all employees and an inseparable part of their jobs. Within this scope, the aim concerning occupational

health and safety is to eliminate, to the greatest extent possible, work-related accidents and fire risks which may arise during the Company's activities, to create a safe working environment in all Vestel White Goods' facilities and to be distinguished as an exemplary corporation with an occupational health and safety system which meets global standards, by raising the awareness of all employees on occupational health and safety.

In line with this objective, Vestel White Goods

- Fulfills all requirements of laws, regulations, and administrative provisions; complies with the regulations of those organizations of which it is a member; and continuously ensures that international standards, new technologies, and employees' suggestions are incorporated into its policies and practices concerning such issues.
- Identifies and assesses its occupational health and safety risks, and develops and implements plans aimed at preventing work-related accidents and diseases.

- Ensures that its personnel at every level are aware of their responsibilities for occupational health and safety, and provides continuous training on health and safety risks so as to inculcate correct habits and behavior.

- Taking all steps to eliminate, or reduce to a minimum, unsafe conditions and activities within the workplace in order to prevent or reduce work-related accidents; in addition, frequently reviewing working conditions and taking appropriate measures when problems are identified; ensuring that such measures are provided with the resources they need to be effective; and reviewing occupational health and safety policies and practices in light of changing conditions and requirements are all basic operational principles of the Company.
- Adheres to the principle of "the right person for the right job" in its efforts to prevent or minimize work-related accidents.

Providing efficient communication, knowledge sharing, continuous cooperation and commitment to policies, Vestel White Goods raises its facilities' fire safety and continuously improves occupational health and safety performance.



## Corporate Governance Compliance Report

### CONTENTS

#### 1- STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

#### PART I- SHAREHOLDERS

- 2- Investor Relations Unit
- 3- Shareholders' Exercise of their Right to Obtain Information
- 4- Information about General Meetings
- 5- Voting Rights and Minority Rights
- 6- Dividend Distribution Policy and Timing
- 7- Transfer of Shares

#### PART II- PUBLIC DISCLOSURE AND TRANSPARENCY

- 8- Company Disclosure Policy
- 9- Disclosure of Material Events
- 10- The Corporate Website and its Content
- 11- Disclosure of the Company's Ultimate Controlling Shareholder(s)
- 12- Public Disclosure of Those who may Have Access to Insider Information

#### PART III- STAKEHOLDERS

- 13- Keeping Stakeholders Informed
- 14- Stakeholder Participation in Management
- 15- Human Resources Policy
- 16- Relations with Customers and Suppliers
- 17- Social Responsibility

#### PART IV- BOARD OF DIRECTORS

- 18- Structure and Composition of the Board of Directors, and Independent Members
- 19- Qualifications of Board Members
- 20- Mission, Vision and Strategic Goals of the Company
- 21- Risk Management and Internal Control Mechanism
- 22- Authorities and Responsibilities of Board Members and Executives
- 23- Principles of Activity of the Board of Directors
- 24- Prohibition on Doing Business or Competing with the Company
- 25- Code of Ethics
- 26- Number, Structure and Independency of Committees Established by the Board of Directors
- 27- Financial Benefits Provided to the Board of Directors



## Corporate Governance Compliance Report

### 1- STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

In parallel with the activities related to Corporate Governance commenced in 2005 at Vestel White Goods Inc., corporate governance mechanisms were started to be run across the Company in line with the said principles. In the first phase of these activities, a series of amendments were made to the company's articles of incorporation so as to be able to offer an egalitarian, accountable, responsible and transparent structure to the shareholders. These amendments served to grant the rights, which are enforced by very few companies although envisaged by the Corporate Governance Principles, to minority shareholders, while radical changes were made to the management structure in pursuance of "better governance". Following the revisions made to the articles of incorporation, Corporate Governance practices were carried on with the establishment of Corporate Governance mechanisms at the Company. While the Board of Directors was vested in greater efficiency with independent members, it was aimed to further increase the efficacy in management by the committees set up under the Board of Directors. In addition, the Company's disclosure policy was spelled out and put into writing, and presented to the participants at the general meeting. A website has been developed so as to achieve maximum, simultaneous, accurate and complete public disclosure in line with Corporate Governance Principles.

Brought largely to completion by the end of 2006, these efforts were followed in 2007 by additional work undertaken with a view to further increasing the compliance of Vestel White Goods Inc., which are summarized below:

- Elected to serve as a member on the Audit Committee at the time of its establishment, Cem Köksal, who was a member of the Executive Committee, left his post in 2007. Currently, the Audit Committee is formed by Ekrem Pakdemirli, the independent Board member who serves as the chairman of the Committee, and Cem Bodur, Vestel Electronics Inc. non-executive Board member who serves as a member on the Audit Committee.
- A new performance appraisal system has been introduced for the Vestel Group employees, which is based on individual performance but also relates to results obtained by the department and the Company, and which aims to contribute to the employees' individual and the organization's corporate development.
- Major progress was attained in 2007 in relation to the strengthening of the Internal Control System of the Vestel Group of Companies. The Internal Audit Department was reorganized so as to increase the existing audit resources, thus enhancing the effectiveness of auditing at the Vestel Group of Companies. Establishing the framework of the duties, authorities and responsibilities of the Internal Audit Department in line with the International Internal Audit Standards, the Internal Audit Charter was revised, and approved by the Board of Directors. The number of the Audit Committee meetings was increased as compared with the previous year. The Chief Auditor of the independent audit company was invited to one of the meetings and his opinions were sought regarding the internal control system of the Vestel Group of Companies.

In the implementation of Corporate Governance Principles, certain principles that do not conform to the Company's structure and that are regarded as potential obstacles against its activities were excluded. These principles and the reasons for opting not to comply therewith are summarized below:

- Cumulative voting: The Company does not make use of the cumulative voting method. However, the representation to be provided by cumulative voting on the Board of Directors is achieved by the presence of independent members on the Board.
- Individual right to request appointment of a special auditor in the articles of incorporation: The right to request appointment of a special auditor is stipulated by Article 356 of the Turkish Commercial Code (TCC). Due to the fact that this right is vested in the shareholders by legislation and takes place among "optional" principles in the Corporate Governance Principles, it is not separately covered in the Company's articles of incorporation.
- The Company's articles of incorporation contain no provisions stipulating that material decisions such as "demergers and share exchanges, buying, selling, or leasing substantial amounts of tangible/intangible assets, or donations and grants, or giving guarantees such as suretyship, mortgage in favor of third parties" are required to be taken at a general meeting. The underlying reason is that the nature of the business in which the Company is involved requires it to buy, sell, and lease quite frequently. Having to hold a general meeting every time such a transaction takes place is considered to be impossible and so no such article has been included in the articles of incorporation. This practice is refrained from in order to ensure that deals are made quickly and to prevent opportunities from being missed.

During the implementation of Corporate Governance Principles, the Company's Board of Directors, senior management and all employees supported the activities and participated in the relevant efforts. With this huge support Vestel White Goods Inc. was able to establish its approach to management which is responsible, accountable, transparent and equitable towards its shareholders no matter what the size of their stakes in the Company may be.



Ahmet Nazif Zorlu  
Chairman of the Board



Cem Köksal  
Board Member

## Corporate Governance Compliance Report

### PART I- SHAREHOLDERS

#### 2- INVESTOR RELATIONS UNIT

Vestel White Goods Inc. carries out its relations with shareholders through Vestel Group of Companies Investor Relations and Corporate Finance Department. Contact information for this department are as follows:

Department Director: Figen Çevik  
Address: Vestel Şirketler Grubu Zorlu Plaza 34310 Avcılar – İstanbul  
Phone: (212) 286 03 20 (direct)  
Email: figen.cevik@vestel.com.tr

The principal activities carried out by the Corporate Finance and Investor Relations Department and the conferences attended in 2007 on behalf of Vestel White Goods Inc. are summarized below:

- UBS Investors' Conference, London
- Visits to corporate investors in Frankfurt, Copenhagen and Stockholm in conjunction with TEB Investment
- HSBC Investors' Forum, İstanbul
- UBS Investors' Conference, İstanbul
- TEB Investment Investors' Conference, Paris
- İş Investment Investors' Conference, İstanbul
- Vestel City plant tour organization for analysts
- About 30 one-on-one meetings
- During the reporting period about 50 queries were received by Vestel White Goods Inc. Of these, 70% were by e-mail and about 30% by telephone.
- All these queries were responded to verbally and in writing by phone, email and post. The responses were made in a clear, intelligible and detailed manner to the satisfaction of investors within the framework of the Company's public disclosure policy and in such a way as not to reveal any confidential information.

#### 3- SHAREHOLDERS' EXERCISE OF THEIR RIGHT TO OBTAIN INFORMATION

• During 2007, queries have been received from investors and stakeholders in a variety of topics. The distribution of these queries on the basis of their contents is presented below:

- 20% - share prices (10 queries)
- 20% - various questions (10 queries)
- 60% - operational and financial performance (30 queries)

All of these queries were responded to as quickly and in as much detail as possible.

- The company website was developed in early 2007 and for the purpose of maximizing the ability of shareholders to exercise their important right to obtain information, all of the information set out in relation to the website by the CMB's Corporate Governance Principles were posted on the website. The Investor Relations and Corporate Finance Unit is responsible for the updating and monitoring of the website.
- Vestel White Goods website and disclosure of material events have been the tools used in 2007 for the disclosure of developments that might have an impact on the shareholders' exercise of their rights. More effective disclosure has been enabled upon establishment of the Company's new website in 2007.
- A request to have a special auditor appointed is not provided for in the Company's articles of incorporation. Due to the fact that this right is stipulated by Article 356 of the TCC in respect of the minority shareholders holding 10% stake in the capital, it was deemed unnecessary to make a separate provision for this. The Company received no requests for the appointment of a special auditor in the reporting period.

## Corporate Governance Compliance Report

### 4- INFORMATION ABOUT GENERAL MEETINGS

- Vestel White Goods Inc. held its general meeting for 2006 at 11:00 AM on 18 May 2007 at the address of Zorlu Plaza, Avcılar-İstanbul.
- The invitation for the meeting covering the meeting date and agenda was published in the Turkish Trade Registry Gazette issue 836 dated 25 April 2007 and on Milliyet and Dünya newspapers dated 25 April 2007, and by registered mail to shareholders who had notified their addresses through delivery of share certificates (all of the Company's shares are issued in bearer certificates) within the legally prescribed period of time, as stipulated by the law and the Company's articles of incorporation. To facilitate attendance to the general meeting, announcements were published in the two newspapers with highest circulation in Turkey. In addition, all relevant information regarding the general meeting including the announcement was posted on the corporate website.
- Apart from the shareholders, the stakeholders and media representatives did not attend the general meeting.
- Out of 190,000,000 shares corresponding to the Company's total capitalization of TRY 190,000,000, 138,545,022 shares or 72.92% representing TRY 138,545,022 in capital were present in person at the meeting. No proxy votes were cast.
- Prior to the general meeting, the annual report, financial statements, and the articles of incorporation were made available for the inspection of shareholders at the Company's headquarters and at the head office of Vestel Holding. All this information was also published on the corporate website together with the general meeting announcement and agenda.
- Shareholders were allowed to ask questions at the general meeting. All questions coming from shareholders were responded to in detail. Shareholders introduced no motions during the meeting.
- The Company's articles of incorporation contain no provisions requiring material decisions such as demergers or buying, selling, or leasing substantial amounts of assets and property to be taken at a general meeting. The reason for this is the fact that the nature of the business in which the Company is involved requires it to buy, sell, and lease quite frequently. Having to hold a general meeting every time such a transaction takes place is not deemed to be possible and so no such article has been included in the articles of incorporation. This practice is refrained from in order to ensure that deals are made quickly and to prevent opportunities from being missed.
- The minutes of the general meeting were made available for the examination of shareholders at the Company's own headquarters and at those of Vestel Holding. Additionally, all announcements, documents, and other materials related to general meetings are now accessible to shareholders and to all other stakeholders at the Company's website.

### 5- VOTING RIGHTS AND MINORITY RIGHTS

- Vestel White Goods Inc.'s articles of incorporation provide no privileges for the voting rights of any class or shareholder.
- The Company does not have any subsidiaries. For this reason, there are no cross-shareholding interests and therefore no need to disclose their impact on general meeting votes.
- The Company's articles of incorporation were amended so as to incorporate the arrangements relating to minority shareholders (5%) as contained in the CMB's Corporate Governance Principles.
- Minority shareholders and stakeholders are not represented in the management. However, two independent members serve on the Board of Directors to ensure equal representation of minority shareholders primarily, and of all shareholders and stakeholders.
- The Company's articles of incorporation contain no provisions governing the cumulative voting method. The Company believes that the effect of cumulative voting on the Board of Directors is achievable by the presence of independent members on the board.

### 6- DIVIDEND DISTRIBUTION POLICY AND TIMING

- The Company's articles of incorporation provide no privileges concerning the distribution of profits. Each share of stock is entitled to an equal dividend.
- In accord with the dividend distribution policy established in the Board of Directors meeting held on 19 March 2007, the Company decided to distribute dividends that are equal to minimum 25% of the attributable profit in cash or in the form of bonus shares to the shareholders, including 2006-year profits. The amount of dividends to be distributed shall be proposed depending on national and global economic conditions and the Company's growth plan by the Board of Directors each year at the general meeting. The said policy was presented for the information of the shareholders at the 2006 general meeting convened on 18 May 2007.
- During the Company's 2006 general meeting, the profit distribution proposal covered in item 8 of the agenda was explained to the participants, which was unanimously approved at the general meeting, and the profit distribution was carried out within the legally prescribed period of time.

## Corporate Governance Compliance Report

### 7- TRANSFER OF SHARES

- The Company's articles of incorporation contain no provisions restricting the transfer of shareholding interests. Article 7 specifically states that "there are no restrictions on the transfer of shares in the Company to any third party within the framework of the provisions of the Turkish Commercial Code".

## PART II- PUBLIC DISCLOSURE AND TRANSPARENCY

### 8- COMPANY DISCLOSURE POLICY

- Vestel White Goods Inc.'s public disclosure policy has been formulated in line with CMB Corporate Governance Principles. The policy has been approved by the Board of Directors and enforced. The Disclosure Policy has been presented for the information of shareholders and participants at the 2006 annual general meeting convened on 18 May 2007. This disclosure policy has been published on the corporate website.

The issues addressed by the Company's public disclosure policy are summarized below:

- The clarity, timeliness, and truthfulness of public disclosures.
  - The frequency and the ways in which information may be publicly disclosed.
  - Contents of the meetings to be held with, and disclosures to be made to, investors
  - Content of the disclosure on general meetings
  - Disclosure of material events
  - Disclosures to be made to the media
  - Arrangements concerning insider trading
  - Disclosure on dividend distribution
  - Persons authorized to make disclosures
  - Contents of disclosure sources (website and annual reports)
  - Periods during which disclosure is prohibited
  - Disclosures to be made regarding future matters
- The Board of Directors has formulated and approved the Company's public disclosure policy. The Board of Directors is responsible for the review, effectiveness and development of public disclosure policy. The Investor Relations and Corporate Finance Department monitors and follows up on public disclosure policy.

### 9- DISCLOSURE OF MATERIAL EVENTS

- A total of 13 material event disclosures were made in 2006 pursuant to CMB regulations. Neither CMB nor ISE requested any additional information concerning such disclosures.
- Vestel White Goods Inc.'s shares are not quoted on any overseas stock exchange.
- No delays occurred in any material event disclosures made to date, and all such disclosures were made in time.
- The Investor Relations Unit is responsible for making material event disclosures.

### 10- THE CORPORATE WEBSITE AND ITS CONTENT

- Vestel White Goods Inc.'s corporate website was created in early 2007 for the purpose of assuring intelligible, clear and equitable public disclosure to shareholders, stakeholders and the public at large.
- The corporate website contains the basic information whose disclosure is stipulated in article 1.11.5 of section II of CMB Corporate Governance Principles.
- The information posted on the website is constantly updated.
- The website is accessible at [www.vestel.com.tr](http://www.vestel.com.tr)

## Corporate Governance Compliance Report

### 11-DISCLOSURE OF THE COMPANY'S ULTIMATE CONTROLLING SHAREHOLDER(S)

The shareholder structure of Vestel White Goods Inc. is as follows:

SHAREHOLDERS	% SHAREHOLDING INTEREST	SHARE VALUE (TRY)	NUMBER OF SHARES
Vestel Electronics Inc.	68.526312	130,199,992.0	130,199,992.0
Ahmet Nazif Zorlu	0.000001	1.0	1.0
Olgun Zorlu	0.000001	1.0	1.0
Şule Zorlu	0.000001	1.0	1.0
Ömer Yüngül	0.000001	1.0	1.0
Bekir Cem Köksal	0.000001	1.0	1.0
Enis Turan Erdoğan	0.000001	1.0	1.0
Ekrem Pakdemirli	0.000001	1.0	1.0
Recep Yılmaz Argüden	0.000001	1.0	1.0
Quoted on the ISE	31.473684*	59,800,000.0	59,800,000.0
<b>TOTAL</b>	<b>100.000000%</b>	<b>190,000,000.0</b>	<b>190,000,000.0</b>

\* Vestel Electronics holds a stake of 4.1%.

The Company has no non-corporate ultimate controlling shareholders.

### 12- PUBLIC DISCLOSURE OF THOSE WHO MAY HAVE ACCESS TO INSIDER INFORMATION

- Vestel White Goods Inc. achieved compliance with the Capital Markets Law and applicable legislation with respect to insider trading, and also formulated an insider trading policy to be implemented across the Company.
- Individuals who may have access to insider information about the Company are listed below.

Ahmet Nazif Zorlu	Chairman of the Board of Directors
Prof. Ekrem Pakdemirli	Vice Chairman of the Board of Directors
Olgun Zorlu	Board Member
Dr. Yılmaz Argüden	Board Member
Ömer Yüngül	Board Member & Member of the Executive Committee
Enis Turan Erdoğan	Board Member & Member of the Executive Committee
Cem Köksal	Board Member & Member of the Executive Committee
Şerif Arı	Statutory Auditor
Ahmet Günaydın Hızarcı	Statutory Auditor
İzzet Güvenir	Member of the Executive Committee
Levent Hatay	Member of the Executive Committee
Cengiz Ultav	Member of the Executive Committee
İhsaner Alkım	Member of the Executive Committee
Necmi Kavuşturan	Member of the Executive Committee
Özer Ekmekçiler	Member of the Executive Committee
Nedim Sezer	General Manager
Alp Dayı	Assistant General Manager for Financial Affairs
Samim Hünakıncı	Finance Officer
Cem Kadirgan	Financial Affairs Officer
Figen Çevik	Corporate Finance and Investor Relations Director
Serhat Tolga Dönmez	General Manager for Refrigerator Factory
Hakan Akıncı	General Manager for A/C Factory
Cevdet Yavuz	General Manager for Cooking Devices Factory
Erdal Haspolat	General Manager for Dishwasher Factory
Kemal Özgür	General Manager for Washing Machines Factory
Aykut Kemal Ögünmüş	Accounting Manager
Arif Şirin	Control Budget Planning Manager

## Corporate Governance Compliance Report

Halil Turan	Technology Development and Industrial Design Manager
Coşkun Özkan	Internal Audit Manager
Şenol Toygar	Business Evaluation Officer
Aykut Halit	Grant Thornton Independent Auditors
Emre Halit	Grant Thornton Independent Auditors
Fahrünnisa Arı	Arılar Independent Auditors

### PART III- STAKEHOLDERS

#### 13- KEEPING STAKEHOLDERS INFORMED

- Stakeholders in the company can be classified as employees, suppliers, financing sources and the public. The Company's overseas sales are handled by Vestel Foreign Trading Inc. (VFT), a Vestel Group company, and domestic sales by Vestel Durable Goods Marketing (VM), again a Vestel Group company.
- Vestel White Goods takes on customer visits predominantly in the domestic market via VM and VFT. Based on the assessments arising from these face-to-face contacts, customer satisfaction can be directly observed and complaints can be addressed on location. As and when necessary, improvement work is undertaken, and in line with the customer complaints received via these companies or directly by Vestel White Goods, improvement work is carried out. In addition to these, periodic meetings are held with VDT and VM to discuss the actions taken to satisfy customer expectations and to maximize the level of quality. At certain periods, customer satisfaction surveys are administered at these two companies, and with end-consumers via these companies.
- Stakeholders are periodically informed about company-related issues that may be of concern to them. Employees are informed by emails and also by the Intranet. Furthermore, periodic interdepartmental meetings and periodic meetings for the employees are held. Stakeholders are kept informed within the framework of the Company's disclosure policy.

#### 14- STAKEHOLDER PARTICIPATION IN MANAGEMENT

- There is no model designed to involve stakeholders in the management. However, making up one of the major component of stakeholders, the employees are represented by three members that serve on the management as well as on the Executive Committee of Vestel Group. In addition, senior executives are invited to Board of Directors meeting to present information.
- Two independent members serving on the Board of Directors represent the shareholders and other stakeholders in the management.
- The member of the Executive Committee responsible for Human Resources represents the group of employees at the Executive Committee of Vestel Group.

#### 15- HUMAN RESOURCES POLICY

- The Company's human resources policy is set down in writing and covers all issues related to hiring, promotion, dismissal, compensation, career planning, performance measurement system, reflection of performance results on compensation, and training policies.
- The Human Resources Unit is organized as Administrative Affairs and Human Resources Unit. The unit is responsible for the formulation, development, and monitoring of HR policies. In addition, Zorlu Holding HR Department monitors and supports HR-related work. Zorlu Holding HR Officer also serves on the Executive Committee of Vestel Group. This enables continuous information flow from the employees to the management about all matters.

The HR policy addresses the following matters:

- Criteria for hiring, promotion and dismissal are set down in writing. Details regarding hiring criteria are spelled out in the recruitment regulation, and those on promotion are in the promotion regulation. There are two types of promotion mechanisms at the company: vertical and horizontal.
- A new performance appraisal system has been introduced during the report period for the Vestel Group employees, which is based on individual performance but also relates to results obtained by the department and the Company, and which aims to contribute to the employees' individual and the organization's corporate development. By the revised version, measurement methods became more objective.
- Employees are kept informed periodically by Intranet and email systems. Each unit holds internal meetings at certain periods. These meetings are production meetings (every morning at the factories), every Monday (departmental meetings), happy hour gatherings (on Fridays), quality management meetings (bimonthly), budget meetings (monthly) and R&D new product meetings (monthly).



## Corporate Governance Compliance Report

- Employees are offered comprehensive training programs. The training process is handled centrally for all Vestel Companies and the whole process is carried out on the intranet. The training programs are designed to provide them with the opportunity to move forward in their careers. The employees are given the chance to select training programs in line with their career planning and aspirations.
- Employees are provided with orientation programs. The program for each department and position is devised individually, and presents differences in terms of duration and content.
- An employee satisfaction survey (expectation-findings survey) is administered in order to measure employee satisfaction level. The survey is carried out annually and its results are evaluated duly.
- The Company formulated performance criteria to enhance efficiency and measure the performances of employees. Due to the presence of different function groups in the Company, separate criteria have been identified and applied for each group. Performance criteria are developed in two different groups of criteria: subjective and objective. Reflection of performance measurement outcomes on compensation is also incorporated into this system.
- All employees are treated equally and without any discrimination whatsoever (on the basis of ethnicity, language, religion, race, gender, etc.) in all matters involving training, career development, promotion, etc.
- There were no complaints from employees concerning discrimination. Measures are taken to prevent any practices that might cause discrimination among employees and all employees are treated equally without any distinctions being made among them.

### 16- RELATIONS WITH CUSTOMERS AND SUPPLIERS

- The only customers of Vestel White Goods Inc. are Vestel Foreign Trading Inc. and Vestel Durable Goods Marketing Inc. which undertake the marketing and sales of the Company's products. Therefore, the marketing and sales activities of goods and services are under the responsibility of these two companies that are under the Group umbrella.

### 17- SOCIAL RESPONSIBILITY

- Within the scope of social responsibilities, Vestel White Goods Inc. joins the activities carried out by its parent company Vestel Electronics and Zorlu Holding. The Zorlu Group, which also covers Vestel Group of Companies, signed the United Nations Global Compact in 2007, an initiative that represents a major step taken towards leveraging the principles and values espoused ever since its foundation to global social responsibility platform.
- As a responsible corporate citizen, Vestel White Goods fulfills its liabilities concerning reducing the environmental impact arising from its activities, and introducing products that are compatible with the nature. Since June 2006, the Company adheres to the RoHS (Restriction of the Use of Certain Hazardous Substances) directive in the manufacturing of all of its products. Accordingly, the use of six heavy metals (lead, mercury, cadmium, chrome+6, PBB, PBDE) posing threat to living things and the environment has been limited in the products. Displaying its sensitivity to ensure that the Turkish people living in healthier environments, Vestel White Goods bore the costs resulting from this implementation and started supplying the domestic market with products that conform to the RoHS directive, before this regulation went into force in our country.
- Work in relation to WEEE (Waste of Electrical and Electronic Equipment directive) is in progress in parallel with RoHS efforts. According to this directive, each brand is responsible for the collection and recycling of the wastes of its own products. Our Company is carrying out the necessary preparations with a view to adhering to the WEEE directive in the most effective manner in coordination with the authorized governmental bodies.
- In accordance with its global environmental responsibility, our Company made it a principle ever since its foundation not to use in the products and production processes the chemicals that deplete the ozone layer or lead to global warming by creating greenhouse effect. In keeping with this philosophy, gases with very low ODP (ozone depletion potential) and GWP (global warming potential) levels are being used in the production of our refrigerators and air conditioners.

In addition, priority is given to the production of Class A and A+ products at Vestel plants with a view to contributing to the effective use of natural resources and electricity, and research and development activities are carried out heavily for products that consume the resources such as electricity, water, detergent, gas. etc. less.

Vestel White Goods' policy in relation to the environment, occupational health and safety is as follows:

- Satisfies its legal obligations and administrative conditions towards employees and the rules of organizations to which it is a member,
- Achieves constant improvement through incorporation of international standards, new technologies and employees' suggestions in its practices,

## Corporate Governance Compliance Report

- Devises and implements plans that will prevent potential occupational accidents and diseases by undertaking occupational health and safety risk analysis,
- Offers constant training to employees to instill the correct behavioral habits with regard to potential health and safety risks
- Generates the operational principle to review the policy according to changing conditions so as to eliminate or minimize unsafe elements and unsafe acts at workplaces with a view to prevent or reduce occupational accidents; to frequently review working conditions and to take necessary actions with regard to problematic areas; and to secure funds for such actions,
- Espouses the principles of fitness of work to the worker and of the worker to the work in order to prevent or reduce accidents.

### PART IV- BOARD OF DIRECTORS

#### 18- STRUCTURE AND COMPOSITION OF THE BOARD OF DIRECTORS AND INDEPENDENT MEMBERS

Name	Position	Age	Term of office		Educational Classification	Previous background Experience
Ahmet Nazif Zorlu	Chairman	63	1-3 years	Non-executive	Primary school	-
Ekrem Pakdemirli	Deputy Chairman	68	1-3 years	Independent	University	- Member of the Parliament - Deputy Prime Minister - Faculty member of Bilkent, Başkent and Ege Universities - Deputy Rector with Dokuz Eylül University
Olgun Zorlu	Board Member	43	1-3 years	Non-executive	University	Served successively in various capacities in Zorlu Group companies
Ömer Yüngül	Board Member	52	1-3 years	Executive	University	Vestel White Goods (General Manager)
Enis Turan Erdoğan	Board Member	52	1-3 years	Executive	University	Ekinciler Holding
Recep Yılmaz Argüden	Board Member	49	1-3 years	Independent	University	- Chief Consultant to the Prime Minister - Chairman of Erdemir
Bekir Cem Köksal	Board Member	40	1-3 years	Executive	University	Vestel Electronics Financial Affairs Officer

- Four of the board's seven members are non-executive members and three are executive members.
- The chairman of the board and the chief executive officer are different individuals. The chairman of the board is Ahmet Nazif Zorlu and the chief executive officer is Nedim Sezer.
- Board members Ekrem Pakdemirli and Yılmaz Argüden are independent members who satisfy CMB corporate governance principles pertaining to independence criteria. Nothing occurred during the reporting period that changed the independent status of the independent members.
- No restrictions are imposed on board members' undertaking one or more duties outside the company.

#### 19- QUALIFICATIONS OF BOARD MEMBERS

- The minimum qualifications required of members of the Board of Directors coincide with those stipulated in articles 3.1.1, 3.1.2, and 3.1.5 of section IV of the CMB's corporate governance principles.
- The minimum qualifications required of members of the Board of Directors are spelled out in Article 8 of the Company's articles of incorporation and are implemented.
- To date there has been no need for a training or orientation program for board members. If such a program does become necessary, it will be carried out by the Corporate Governance Committee.

## Corporate Governance Compliance Report

### 20-MISSION, VISION AND STRATEGIC GOALS OF THE COMPANY

- The mission, vision, goals and core values of the Vestel Groups are publicly disclosed on the corporate website.

Mission: To conquer the world with technology products

Vision: To be the world's most powerful technology and production group in the sector

- The Board of Directors approves the strategic goals formulated by company management. Ideas pertaining to the Company's strategic goals may be suggested by both board members and company managers. The board is certain to consult management on the goals it formulates. Goals formulated by management are first debated among management and then submitted to the Board of Directors, which approves them at its discretion. Managers are also invited to attend meetings at which strategic goals are discussed. Work to implement these goals as quickly as possible is begun immediately. Performance in achieving these goals is measured at quarterly intervals and on the basis of the Company's year-end results.
- At least once a year the Board of Directors convenes to conduct an annual review and assessment of the degree to which the Company has accomplished its objectives and of its activities and performance.

### 21- RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

- The Company's Board of Directors has created a risk management and internal control mechanism within the Company to measure existing and potential risks and to deal with them. The Company's internal control mechanism has been formulated employing the SAP system.
- The Vestel White Goods Inc. Board of Directors is responsible for the creation and reliable operation of a risk management and internal control mechanism that will minimize the impact of risks on the Company.
- The Company's internal control system oversees all matters related to finance, operations, and compliance and it assesses the measurement of risk at regular intervals and determines the level that it is at. The entire mechanism is also reviewed at regular intervals and any defects that might impair its effectiveness are corrected as soon as possible. In the conduct of these activities, Vestel also employs its SAP system as an effective operational program.

### 22- AUTHORITIES AND RESPONSIBILITIES OF BOARD MEMBERS AND EXECUTIVES

- The authorities and responsibilities of board members are spelled out in article 11 of the Company's articles of incorporation.

### 23- PRINCIPLES OF ACTIVITY OF THE BOARD OF DIRECTORS

- In principle, agendas for board meetings are determined by the chairman and other members. However, requests coming from company management are taken into consideration in determining meeting agendas.
- As stipulated in article 10 of the articles of incorporation, the Board of Directors must meet at least once a month and twelve times a year. The board met a total of 12 times during 2007. The overall rate of attendance at these meetings was 90%. To increase attendance at meetings, meeting dates were set and notified to the members at the start of the year. In addition, in order to encourage attendance at meetings the following rule was added to the articles of incorporation: "A member of the Board who does not take part in three consecutive meetings shall be deemed to have resigned his seat."
- Invitations to meetings are made by mail, fax, and e-mail. In line with corporate governance principles, a secretariat that has been set up within the Vestel Group notifies board members of meetings at least a week (seven days) in advance of the meeting date, providing them with the agenda and documents related to the matters on the agenda.
- In principle, in matters where difference of opinions are voiced by the members at a Board meeting, reasonable and detailed justifications for dissenting votes must be entered into the record. In addition, justifications for dissenting votes relating to matters in which independent members voiced different opinions are publicly disclosed. However, to date there has never been an instance of difference of opinions either on the part of independent or other members.
- Board members are personally present at board meetings that will vote on the issues stipulated in article 2.17.4 of section IV of CMB's corporate governance principles as requiring the actual attendance of board members at meetings.
- No board members, including the chairman, have preferential voting rights or the right to veto board decisions. Each member, including the chairman, possesses an equal vote.

## Corporate Governance Compliance Report

### 24- PROHIBITION ON DOING BUSINESS OR COMPETING WITH THE COMPANY

- One of the items included on the agenda of each year's general meeting and voted on by the shareholders pursuant to articles 334 and 335 of the Turkish Commercial Code is concerned with Vestel Board of Directors members doing business and competing with the Company. In addition, article 11 of the Company's articles of incorporation stipulates that such approval can be decided with the consent of 2/3 of the attendants at the general meeting.
- No board member did any business with the Company in 2007, nor were there any matters that might lead to competition with the Company or any conflict of interest.

### 25- CODE OF ETHICS

- Vestel White Goods' code of ethics has been written up and published on the corporate website within the framework of its public disclosure policy. The employees have been informed on the code of ethics. Utmost care is given to ensure that the code of ethics formulated for the Company, its board members, and its employees is complied with.

### 26- NUMBER, STRUCTURE, AND INDEPENDENCY OF COMMITTEES ESTABLISHED BY THE BOARD OF DIRECTORS

- The Vestel White Goods Inc. Board of Directors has set up a corporate governance and appointments committee and an audit committee in line with Capital Markets Board corporate governance principles.
- No committee member serves on more than one committee.

The principles relating to the Audit Committee are as follows:

- The Audit Committee was set up by a Board of Directors resolution dated 23 March 2006 pursuant to article 3 of CMB Communiqué X:19. This committee is responsible for the effective oversight of all financial and operational activities.
- The Audit Committee is structured in accordance with Capital Markets Board corporate governance principles and consists of at least two members.
- The head of the committee has been selected from among the Company's independent board members and attention is also given to the possession of specific qualifications. The head of the Audit Committee should have previously served in a similar position, should have the knowledge and experience needed to analyze financial statements, should be versed in accounting standards, and otherwise be highly qualified.
- The head of the Audit Committee is Ekrem Pakdemirli, an independent board member. The other member is Cem Bodur (non-executive member of the Board of Directors and member of the Audit Committee at Vestel Electronics).
- The Audit Committee meets at least four times a year (once in each quarter) and this is stipulated in the articles of incorporation (Article 35).
- The minutes and decisions of the Audit Committee are recorded and archived by the secretariat. The Audit Committee meets before the announcement of financial statements in each fiscal year.

The committee carries out its activities in accordance with detailed working principles that have been written up. The activities of the Audit Committee in 2007 were as follows:

- Monitoring the Company's financial and operational activities,
- Overseeing existing and potential risks,
- Oversight and approval of the financial statements' compliance with laws and their transparency,
- Monitoring the effectiveness and performance of the independent audit,
- Oversight of the internal audit function and its efficiency,
- Holding meetings with independent auditors,
- Monitoring the effectiveness and adequacy of the internal control system,
- Assessment of the findings obtained on the internal control system and reporting thereof to the Board of Directors,
- Examination and approval of the reports on internal control and internal audit.

## Corporate Governance Compliance Report

Corporate Governance and Appointments Committee:

- The Corporate Governance and Appointments Committee was set up by a Board of Directors resolution dated 23 March 2006 pursuant to the CMB Communiqué on Corporate Governance Principles. This committee is responsible for monitoring the Company's compliance with corporate governance principles and for making recommendations to the Board of Directors concerning company appointments.
- The Committee consists of 2 individuals selected from amongst the Board members. The head of the Corporate Governance Committee is Yılmaz Argüden, who has been elected from amongst non-executive members. The other member is Olgun Zorlu.
- The Corporate Governance and Appointments Committee is required to meet at least three times a year.
- The committee carries out its activities in accordance with detailed working principles that have been written up. The activities carried out by the Committee in 2007 consisted of:
  - Establishing corporate governance principles throughout the Company,
  - Developing recommendations pertaining to the structure and effectiveness of the Board of Directors,
  - Structuring the Investor Relations Unit and coordinating its activities.

### 27- FINANCIAL BENEFITS PROVIDED TO THE BOARD OF DIRECTORS

- The attendance fees to be paid to the members of the Board of Directors and to the statutory auditors are determined every year at the general meeting.
- As of June 2007, the members of the Vestel White Goods Board of Directors were being paid TRY 55,000 (gross) a year in total, which is commensurate with precedents in the sector. The statutory auditors were being paid TRY 2,412 a year each. The amounts for the year 2008 will be decided at the 2007 ordinary general meeting. No other benefits are granted to the Board members.
- There are no performance measurement and performance-based rewarding scheme for the Board members.
- The Company has extended no loans or credit to any Board member or manager, nor has it lent money under the name of personal loans through a third party or given any guarantees such as suretyship in their favor.

## Profit Distribution Policy and Proposal

In line with a resolution passed at a meeting of the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. held at the company headquarters on 19 March 2007, it was decided to distribute at least 25% of the company's net distributable profits (including its 2006-year profit) to shareholders in accordance with the dividend policy specified by the board either as a cash payment or in the form of shares of stock. The amount of dividend to be paid is proposed by the Board of Directors at the ordinary general meeting of shareholders that is held every year on the basis of national and international economic conditions and the company's growth plans.

### Profit distribution proposal for the 1 January 2007-31 December 2007 fiscal year

The Board of Directors of the firm of Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi was convened by chairman Ahmet Nazif Zorlu at the company's headquarters on 2 May 2008. The items on the agenda were discussed and the following resolutions were passed.

2007 net profit	TRY 70,736,410.21
5% legal reserve	TRY 2,931,628.79
Distributable profit	TRY 70,736,410.21

It is unanimously resolved by the members of the Board of Directors taking part in the meeting that:

1. A proposal is to be made to the general assembly of shareholders on the subject of paying out, as a cash dividend, the amount of TRY 51,500,861 remaining after a legal reserve has been set aside as required by law and an extraordinary reserve has been set aside from 100% of the TRY 70,736,410.21 in distributable profit.
2. The date for payment of these dividends be decided by the general assembly of shareholders.

## Statutory Auditor's Report Summary

TO THE GENERAL ASSEMBLY OF VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ

Title of Association : VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ  
Center : Zorlu Plaza, Avcılar – İstanbul  
Capital : TRY 190,000,000  
Field of Activity : Refrigerator, Air-Conditioner, Laundry and Cooking Home Instruments production.

Auditor(s) name, period in office,  
being partner or company's personnel : Şerif Arı – 1 Year  
Ahmet G. Hızarcı – 1 Year  
not partner nor personnel

Number of Board Meetings  
and Audit Commission meetings : 4

Content of Audit, audit dates and result : Audits have been performed monthly on previous temporary Balance Sheet accounts. It has been concluded that account books are in compliance with the rules of Tax Procedure Law.

Number and results of counting's which has been  
performed on association's cashier desk in  
accordance with Turkish Trade Law's 353rd  
article's 1st anecdote's 3rd definition : Cashier's desk counting has been performed at following dates; 25.07.2007,  
22.11.2007, 02.01.2007, 28.01.2007, stocks are in compliance with the records.

Audit dates and results that has been performed in  
accordance with Turkish Trade Law's 353rd  
article's 1st anecdote's 4th definition : There are no securities delivered by mortgage or guarantee or bailment to  
company according to the monthly audits

Complaints or frauds perceived, and  
legal proceedings : There are no complaints or frauds perceived .

I have audited the accounts and transactions of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. at the period of 01.01.2007-31.12.2007 in  
accordance with Turkish Trade Law, association's primary agreement, other regulations and general accounting principles.

In my opinion, the financial statements present fairly, in all material respects, the financial position of association as of 31 December  
2007 and the dividend distribution proposal is in accordance with general laws and association's primary agreement.

I present approval of the Balance Sheet and The Income Statement and acquittance of Board of Directors.

06.03.2008



Şerif ARI  
Auditor



Ahmet G. HIZARCI  
Auditor



## Resolution of the Board of Directors

RESOLUTION DATE : 02.05.2008

RESOLUTION NO : 2008/7

PARTICIPANTS : Ahmet Nazif Zorlu  
Ekrem Pakdemirli  
Olgun Zorlu  
Ömer Yüngül  
Enis Turan Erdoğan  
Bekir Cem Köksal

### MEETING AGENDA:

The Board of Directors of VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ convened at the company's headquarters under the chairmanship of Mr. Ahmet Nazif Zorlu and discussed the subjects on the agenda and adopted the below-mentioned resolutions.

The Board of Directors who convened for the meeting decided unanimously to accept the 2007 Annual Report, which has been presented to the Board of Directors and is attached hereto, and to make the report available to shareholders.

### BOARD OF DIRECTORS



Ahmet Nazif ZORLU  
Chairman



Ekrem PAKDEMİRLİ  
Vice Chairman



Olgun ZORLU  
Board Member



Ömer YÜNGÜL  
Board Member



Enis Turan ERDOĞAN  
Board Member



Bekir Cem KÖKSAL  
Board Member

Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi  
Financial Statements at 31 December 2007  
Together with Auditor's Report

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Independent Auditor's Report

To the Shareholders and Board of Directors of  
Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.

We have audited the accompanying financial statements of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the "Company"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement 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.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vestel Beyaz Eşya Sanayi Ve Ticaret A.Ş. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş.  
Member Firm of Grant Thornton International

Aykut Halit  
Partner

İstanbul, 06.03.2008

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Balance Sheets at 31 December 2007 and 2006

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

Assets	Note	2007	2006
<b>Current assets</b>			
Cash and cash equivalents	4	74.355.224	12.901.538
Trade receivables	5	233.228.507	345.042.374
Inventories	6	153.746.534	131.119.480
Other assets	7	17.768.472	18.521.604
<b>Total current assets</b>		<b>479.098.737</b>	<b>507.584.996</b>
<b>Non-current assets</b>			
Trade receivables	5	232.606	--
Property, plant and equipment	8	337.957.260	333.244.995
Intangible assets	9	6.205.035	1.531.332
Deferred tax asset	14	2.385.206	3.163.330
<b>Total non-current assets</b>		<b>346.780.107</b>	<b>337.939.657</b>
<b>Total assets</b>		<b>825.878.844</b>	<b>845.524.653</b>

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

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Balance Sheets at 31 December 2007 and 2006

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

Liabilities and equity	Note	2007	2006
<b>Current liabilities</b>			
Borrowings	10	23.597.430	34.464.304
Trade payables	11	207.707.332	258.098.548
Taxation on income	14	--	1.287.503
Provisions	12	6.294.422	5.841.913
Other liabilities	13	5.705.803	5.972.507
<b>Total current liabilities</b>		<b>243.304.987</b>	<b>305.664.775</b>
<b>Non-current liabilities</b>			
Borrowings	10	62.368.846	58.888.365
Reserve for retirement pay	15	3.150.070	2.691.147
Deferred tax liability	14	12.596.024	16.826.938
<b>Total non-current liabilities</b>		<b>78.114.940</b>	<b>78.406.450</b>
<b>Equity</b>			
Share capital	16	205.720.137	205.720.137
Share premium		109.030.821	109.030.821
General reserves		189.707.959	146.702.470
<b>Total equity</b>		<b>504.458.917</b>	<b>461.453.428</b>
<b>Commitments and contingencies</b>	<b>17</b>		
<b>Total liabilities and equity</b>		<b>825.878.844</b>	<b>845.524.653</b>

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

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Income Statements for the Years Ended 31 December 2007 and 2006

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

	Note	2007	2006
Revenue	18	1.178.536.079	1.122.199.644
Cost of sales	19	(1.098.457.966)	(962.411.886)
<b>Gross profit</b>		<b>80.078.113</b>	<b>159.787.758</b>
Research and development expenses		(10.398.020)	(12.551.964)
Selling expenses		(30.926.943)	(28.131.951)
General and administrative expenses		(16.112.592)	(17.687.563)
Other income, net	20	7.027.052	8.133.090
<b>Operating profit</b>		<b>29.667.610</b>	<b>109.549.370</b>
Financing income	21	87.014.524	44.500.334
Financing expense	21	(34.485.729)	(82.168.263)
<b>Profit before taxation</b>		<b>82.196.405</b>	<b>71.881.441</b>
Taxation charge			
Current		(11.907.441)	(7.087.630)
Deferred		3.452.790	(1.404.170)
<b>Taxation on income</b>	<b>14</b>	<b>(8.454.651)</b>	<b>(8.491.800)</b>
<b>Net profit for the year</b>		<b>73.741.754</b>	<b>63.389.641</b>
Basic and fully diluted earnings per share	3	0,39	0,36

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



## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Statements of Changes in Equity for the Years Ended 31 December 2007 and 2006

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

	Share capital	Share premium	General reserves	Total equity
Balance at 01 January 2006	153.720.137	--	83.312.829	237.032.966
Increase in share capital	52.000.000	109.030.821	--	161.030.821
Net profit for the year	--	--	63.389.641	63.389.641
Balance at 31 December 2006	205.720.137	109.030.821	146.702.470	461.453.428
Dividends paid	--	--	(30.736.265)	(30.736.265)
Net profit for the year	--	--	73.741.754	73.741.754
Balance at 31 December 2007	205.720.137	109.030.821	189.707.959	504.458.917

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

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Cash Flow Statements for the Years Ended 31 December 2007 and 2006

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

	Note	2007	2006
<b>Profit before tax</b>		<b>82.196.405</b>	<b>71.881.441</b>
Adjustment to reconcile profit before tax to net cash provided from operating activities:			
Depreciation expense	8	40.369.112	34.514.426
Amortization charge	9	982.468	1.166.891
Provision for retirement pay	15	1.654.102	1.160.626
Provision for diminution in value of inventories	6	882.904	487.263
Unearned interest on receivables		(7.215.862)	8.156.928
Unearned interest on payables		(824.956)	(731.918)
Interest income	21	(3.223.024)	(4.196.941)
Interest expense	21	8.523.859	18.821.014
Profit on sale of property plant and equipment		(137.086)	(1.109.480)
Loss on sale of property plant and equipment		85.352	51.599
<b>Operating profit before changes in working capital</b>		<b>123.293.274</b>	<b>130.201.849</b>
Trade receivables		118.797.123	(209.534.722)
Inventories		(23.509.958)	(30.018.347)
Other assets		753.132	(9.967.195)
Trade payables		(49.566.260)	80.719.279
Other liabilities		(1.009.374)	(43.627.525)
Taxes paid		(13.194.944)	(6.595.932)
<b>Net cash provided by (used in) operating activities</b>		<b>155.562.993</b>	<b>(88.822.593)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(45.899.488)	(49.808.230)
Purchase of intangible fixed assets	9	(5.010.707)	(103.424)
Proceeds from sale of property plant and equipment		224.381	1.177.731
<b>Net cash used in investing activities</b>		<b>(50.685.814)</b>	<b>(48.733.923)</b>
<b>Cash flows from financing activities</b>			
Changes in borrowings, net		(7.693.455)	(5.428.703)
Increase in share capital		--	161.030.821
Dividends paid		(30.736.265)	--
Interest received		3.223.024	4.196.941
Interest paid		(8.216.797)	(17.717.929)
<b>Net cash provided by (used in) financing activities</b>		<b>(43.423.493)</b>	<b>142.081.130</b>
<b>Net increase in cash and cash equivalents</b>		<b>61.453.686</b>	<b>4.524.614</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>12.901.538</b>	<b>8.376.924</b>
<b>Cash and cash equivalents at end of year</b>		<b>74.355.224</b>	<b>12.901.538</b>

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

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for the Year Ended 31 December 2007

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

### 1. ORGANIZATION AND NATURE OF ACTIVITIES

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the "Company" or "Vestel Beyaz Eşya") was incorporated in 1997 under the Turkish Commercial Code and was registered in Istanbul, Turkey. The registered office address of the Company is located at Ambarlı, Petrol Ofisi Dolum Tesisleri Yolu, Zorlu Plaza, Avcılar /Istanbul-Turkey.

The Company is a member of the Vestel Group of Companies which are under the control of the Ahmet Nazif Zorlu family. The Company sells all of its products to Vestel Dış Ticaret A.Ş. ("Vestel Foreign Trade"), which sells them outside of Turkey and Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. ("Vestel Domestic Marketing"), which sells them to customers in Turkey both of which is members of the Vestel Group of Companies and are not owned or controlled by the Company.

The Company started working actively in 1999 and is engaged in the manufacture of refrigerators, freezers, room air conditioning units, washing machines and cookers. The Company's production facilities are located in Manisa industrial site with total area of 395.000 square meters.

The company is registered to Capital Market Board and its shares have been quoted to Istanbul Stock Exchange since 21 April 2006.

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

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

#### Measurement currency, 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.

#### Comparable financial information and reclassification of prior period financial statements

The balance sheets with the accompanying notes as of 31.12.2007 and 2006 and statement of income, cash flow and changes in equity with the accompanying notes for the twelve months period ended 31.12.2007 and 2006 are presented as comparatively.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

For the compatibility of the current financial statements these financial statements are reclassified if necessary.

Other income of YTL 3.073.055 explained under note 19 to the financial statements for the year ended 31 December 2006 has been reclassified under note 19 under "Other domestic sales" to enable comparability between the current and the previous year financial statements

#### 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Foreign currency translations and transactions

Transactions are recorded in New Turkish Lira, which is the Company's functional currency. Transactions in foreign currencies during the periods have been translated at the exchange rates prevailing at the 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 financing income or expense accounts as appropriate.

As of 31 December 2007 and 2006, the foreign exchange rates used by the Company are as follows:

	2007	2006
US Dollar	1,1647	1,4056
EURO	1,7102	1,8515

#### Property, plant and equipment depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Year
Land	Nil
Land improvements	8.5-25
Buildings	25-50
Leasehold improvements	5
Plant and machinery	5-20
Motor vehicles	5
Furniture and fittings	5-10

The carrying values of property, plant and equipment are reviewed for impairment periodically and 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 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.

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### Intangible assets

Expenditure on intangible assets is amortized using the pro-rata basis over their useful lives, not exceeding 5 years.

### 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 a pro-rata basis over a period of 5 years which in the estimated period over which the technology is expected to lead the market and have commercial value.

The carrying values of capitalized research and development expenditure are reviewed for impairment periodically and when events or changes in circumstances indicate that the carrying value may not be recoverable.

### Other intangible assets

Expenditures on acquired patents and licenses are capitalized and amortized on a pro-rata basis over their estimated useful life, not exceeding a period of 5 years.

### Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

### 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.

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded in the amount of 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.

### Financial asset

### Financial instruments and financial risk management

The main risks arising from the Company's financial instruments are interest rate risk, 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 Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### Liquidity risk

Liquidity risk arises from the fact that the Company may not receive financial instruments from its counterparties at the expected time. This risk is managed by maintaining a balance between continuity of funding and flexibility through the use of overdrafts, finance leases and other funds.

#### Foreign currency risk

The Company is exposed to foreign exchange risk through the impact of rate changes at the translation of USD Dollar and Euro denominated assets and liabilities to YTL (note 23). These risks are monitored and limited by the analysis of foreign currency position.

#### Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The majority of the trade receivables are from related parties. Domestic sales are made through Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. ("Vestel Domestic Marketing") and their receivables are secured by taking sufficient collaterals from the dealers. Overseas sales are made through Vestel Dış Ticaret A.Ş. ("Vestel Foreign Trade") and their receivables are insured by Turkish Eximbank and export credit agencies.

#### 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.

The estimated fair values of financial instruments have been determined by the Company, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The following methods and assumptions are used in the estimation of the fair value of the financial instruments for which it is practicable to estimate fair value:

#### Financial assets

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying value.

Cash and cash equivalents presented in the cash flow statements include cash and bank deposits which have a maturity of 3 months or shorter.

The carrying values of the trade receivables net of provisions for uncollectible receivables are considered to approximate their fair values.

The carrying value of the financial assets is considered to approximate their fair values.

#### Financial liabilities

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. Trade payables are considered to approximate their carrying values.

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 Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### 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.

### Warranty provision

This provision reflects the costs and expenses for which the Company responsible for servicing its products sold which malfunction due to production defects. Technical service costs which may be incurred in the future with respect to the sales in the current year are estimated by the Company's management on the basis of past experience.

### Contingent assets and contingent liabilities

Transactions that may give rise to contingencies and commitments are those for which the outcome and the performance will be ultimately confirmed only on the occurrence or non-occurrence of certain future events, unless the expected performance is not very likely. Accordingly, contingent losses are recognized in the financial statements if a reasonable estimate of the amount of the resulting loss can be made. Contingent gains are reflected only if it is probable that the gain will be realized.

### Leases

**Finance Lease** - Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. 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. Capitalized leased assets are depreciated in accordance with the depreciation policy noted above.

### Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lesser are classified as operating leases. Lease payments on operating lease are recognized as an expense on a straight-line basis over the lease term.

### 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 principal owners, management and members of the Company's Board of Directors and their families.

### Government incentives and subsidies

These are reflected in the financial statements when the Company has complied with all of the requirements and reasonable assurance is formed that incentive or assistance will be obtained.

Liabilities to Governmental departments which may be forgone by the Authorities are accepted as Government incentives when reasonable assurance is formed that such liabilities will not be paid because the Company has complied with all the requirements related to the liability.

### 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.



## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### Employee benefits

Under Turkish Labor Law, the Company is 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, is called up for military service or dies.

#### Revenue recognition

Revenue is recognized at the moment goods are invoiced on the basis of physical delivery by the Company. Revenue is shown net of value added and sales taxes, discounts and returns.

#### 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.

#### 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 (based on normal operating capacity) that have been incurred in bringing the inventories to their present location and condition but excludes borrowing cost. Cost is calculated by using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

#### 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 taxation. Estimations have been made on basis previous experience and other appropriate data supplied by the management.

#### 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.

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### Cash and cash equivalents

Cash and cash equivalents presented in the cash flow statements include cash and bank deposits which have a maturity of 3 months or shorter.

### Earnings per share

The calculation of the basic and diluted earnings per share is based on net profit for the related year ended divided by the weighted average number of ordinary shares outstanding during the year.

Turkish companies may increase their share capital by the issue of bonus shares from distributions made from accumulated prior period earnings and revaluation fund reserves. In the calculation of basic earnings per share these bonus shares are considered as shares issued and the weighted average number of ordinary shares outstanding during the year or the period is adjusted retrospectively to take into account the bonus share issues.

As of 31 December 2007 and 2006, the computation of the basic and diluted earnings per share is as follows:

	2007	2006
Shares outstanding at beginning of year	190.000.000	138.000.000
New shares issued	--	52.000.000
<b>Shares outstanding at end of year</b>	<b>190.000.000</b>	<b>190.000.000</b>
Net profit attributable to shareholders	73.741.754	63.389.641
Weighted average number of ordinary shares in issue	190.000.000	177.000.000
<b>Basic and diluted earnings per share</b>	<b>0,39</b>	<b>0,36</b>

### 4. CASH AND CASH EQUIVALENTS

	2007	2006
Cash in hand	35.535	23.076
Cash at banks		
- Demand deposit	443.181	452.693
- Time deposit	73.876.508	12.425.769
	<b>74.355.224</b>	<b>12.901.538</b>

As of 31.12.2007, the maturity of time deposits was 07.01.2008 and the interest rate varied between 4% and 5,3% per year for foreign currency and 18,25-18,65% per YTL (31.12.2006: 02.04.2007 interest rate varied between 3,5% and 5,5% per year for foreign currency and 19,75% per year for New Turkish Lira).

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### 5. TRADE RECEIVABLES

	2007	2006
Current accounts		
- Third parties	753.534	85.917
- Related parties, note 22	95.206.215	134.094.978
Notes receivable		
- Related parties, note 22	142.150.967	223.048.191
Other	6.816	18.902
	238.117.532	357.247.988
Unearned interest on receivables (-)	(4.889.025)	(12.205.614)
	<b>233.228.507</b>	<b>345.042.374</b>
<b>Non-current trade receivables from third parties</b>	<b>232.606</b>	<b>--</b>

#### 6. INVENTORIES

	2007	2006
Raw materials	101.688.112	84.172.075
Work in process	4.861.539	7.774.695
Finished goods	40.205.419	29.775.588
Merchandise	6.624	3.279.561
Spares and supplies	175.175	391.148
Goods in transit	8.582.886	6.616.730
	155.519.755	132.009.797
Allowance for diminution in value (-)	(1.773.221)	(890.317)
	<b>153.746.534</b>	<b>131.119.480</b>

Movement of allowance for diminution in value of inventories is as follows:

Opening balance as of 1 January	890.317	403.054
Charge for the year, net	882.904	487.263
<b>Closing balance at 31 December</b>	<b>1.773.221</b>	<b>890.317</b>

As of 31.12.2007, inventories were insured for YTL 186.352.000 (31.12.2006: YTL 161.644.000).

#### 7. OTHER ASSETS

	2007	2006
Prepaid expenses	1.502.091	1.522.249
VAT receivable	15.511.959	16.942.366
Due from personnel	127.109	39.371
Prepaid taxes and funds	516.389	--
Other	110.924	17.618
	<b>17.768.472</b>	<b>18.521.604</b>

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### 8. PROPERTY, PLANT AND EQUIPMENT

	01.01.2007	Additions	Disposals	Transfers	31.12.2007
<b>Cost</b>					
Land	6.844.298	--	--	--	6.844.298
Land improvements	2.693.174	--	--	--	2.693.174
Buildings	58.165.852	230.740	--	4.057.359	62.453.951
Leasehold improvements	867.653	200.741	--	3.908	1.072.302
Plant and machinery	360.972.366	2.271.069	(403.625)	53.993.437	416.833.247
Motor vehicles	556.342	44.081	(22.450)	--	577.973
Furniture and fixtures	12.411.922	1.601.729	(3.102)	813.897	14.824.446
Construction in progress	28.335.382	41.551.128	--	(59.514.065)	10.372.445
	<b>470.846.989</b>	<b>45.899.488</b>	<b>(429.177)</b>	<b>(645.464)</b>	<b>515.671.836</b>
<b>Accumulated depreciation</b>					
Land improvements	982.943	160.026	--	--	1.142.969
Buildings	11.506.514	2.254.162	--	--	13.760.676
Leasehold improvements	179.351	221.500	--	--	400.851
Plant and machinery	119.769.096	35.478.638	(246.042)	--	155.001.692
Motor vehicles	166.448	112.003	(9.728)	--	268.723
Furniture and fixtures	4.997.642	2.142.783	(760)	--	7.139.665
	<b>137.601.994</b>	<b>40.369.112</b>	<b>(256.530)</b>	<b>--</b>	<b>177.714.576</b>
<b>Net book value</b>	<b>333.244.995</b>				<b>337.957.260</b>
	<b>01.01.2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>31.12.2006</b>
<b>Cost</b>					
Land	6.844.298	--	--	--	6.844.298
Land improvements	2.685.299	7.875	--	--	2.693.174
Buildings	57.742.996	401.389	--	21.467	58.165.852
Leasehold improvements	387.645	135.908	--	344.100	867.653
Plant and machinery	323.044.128	3.306.632	(313.155)	34.934.761	360.972.366
Motor vehicles	424.780	131.562	--	--	556.342
Furniture and fixtures	10.514.705	1.512.126	(1.168)	386.259	12.411.922
Construction in progress and advances given	19.790.195	44.312.738	--	(35.767.551)	28.335.382
	<b>421.434.046</b>	<b>49.808.230</b>	<b>(314.323)</b>	<b>(80.964)</b>	<b>470.846.989</b>
<b>Accumulated depreciation</b>					
Land improvements	823.094	159.849	--	--	982.943
Buildings	9.297.740	2.208.774	--	--	11.506.514
Leasehold improvements	64.116	115.235	--	--	179.351
Plant and machinery	89.797.066	30.166.430	(194.400)	--	119.769.096
Motor vehicles	61.767	104.681	--	--	166.448
Furniture and fixtures	3.238.258	1.759.457	(73)	--	4.997.642
	<b>103.282.041</b>	<b>34.514.426</b>	<b>(194.473)</b>	<b>--</b>	<b>137.601.994</b>
<b>Net book value</b>	<b>318.152.005</b>				<b>333.244.995</b>

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

The Company's policy is to trace all material and significant fixed asset additions under construction in progress and transfer to the related fixed asset accounts when the construction process is completed. Construction-in-progress balance represented investment made to increase its second refrigerator, washing machine, cooker and dishwasher factories respectively.

Leased assets included in the table above comprise plant and machinery amounting to YTL 24.016.281 net of accumulated depreciation. (2006: YTL 29.123.802).

As of 31 December 2007, fixed assets were insured for YTL 292.596.685 (2006: YTL 394.736.853).

#### 9. INTANGIBLE ASSETS

	01.01.2007	Additions	Transfers	31.12.2007
<b>Cost</b>				
Rights	6.624.798	--	--	6.624.798
Development costs	5.234.882	4.881.264	645.464	10.761.610
Other intangible assets	882.136	129.443	--	1.011.579
	<b>12.741.816</b>	<b>5.010.707</b>	<b>645.464</b>	<b>18.397.987</b>
<b>Accumulated amortization</b>				
Rights	6.498.726	104.865	--	6.603.591
Development costs	4.373.978	628.533	--	5.002.511
Other intangible assets	337.780	249.070	--	586.850
	<b>11.210.484</b>	<b>982.468</b>	<b>--</b>	<b>12.192.952</b>
<b>Net book value</b>	<b>1.531.332</b>			<b>6.205.035</b>
	01.01.2006	Additions	Transfers	31.12.2006
<b>Cost</b>				
Rights	6.621.120	3.678	--	6.624.798
Development cost	5.234.882	--	--	5.234.882
Other intangible assets	701.426	99.746	80.964	882.136
	<b>12.557.428</b>	<b>103.424</b>	<b>80.964</b>	<b>12.741.816</b>
<b>Accumulated amortization</b>				
Rights	6.275.185	223.541	--	6.498.726
Development cost	3.609.205	764.773	--	4.373.978
Other intangible assets	159.203	178.577	--	337.780
	<b>10.043.593</b>	<b>1.166.891</b>	<b>--</b>	<b>11.210.484</b>
<b>Net book value</b>	<b>2.513.835</b>			<b>1.531.332</b>

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

Rights mainly comprise computer software development costs and software licenses. Research and development expenses principally comprise internally generated expenditure on research and development costs on refrigerator and room air conditioning unit projects where it is reasonably anticipated that the costs will be recovered through future commercial activity.

#### 10. BORROWINGS

	2007	2006
<b>Current</b>		
New Turkish Lira bank loans	4.600	61.283
Foreign currency bank loans	22.710.408	32.419.964
Finance lease liabilities, net	882.422	1.983.057
	<b>23.597.430</b>	<b>34.464.304</b>
<b>Non-current</b>		
Foreign currency bank loans	62.367.990	57.846.159
Finance lease liabilities, net	856	1.042.206
	<b>62.368.846</b>	<b>58.888.365</b>

The Company obtained various loans from non-Turkish financial institutions with a maturity of 5 years in years between 2003-2007 for financing investments in production machinery and equipment. As of 31.12.2007, the Company's borrowings under these facilities included a short term payable of YTL 18.487.399 (31.12.2006: YTL 15.823.399) and long term payable of YTL 60.444.014 (31.12.2006: YTL 51.523.738). The principal amount of these loans is repayable at six months intervals and the last repayment date is December 2015. The annual interest rate is between Euribor + 0,3% and 1%.

The Company's borrowings as of 31.12.2007 also included borrowings under a EUR 9.000.000 facility obtained during June 2003 for financing working capital. The loan matures in May 2009. As of 31 December 2007, the remaining principal amount outstanding is EUR 3.375.000 (YTL 5.771.925). The annual interest rate is Euribor +3,25%.

As of the balance sheet dates, the maturity breakdown of bank borrowings are summarized below:

	2007	2006
Due in one year	22.715.008	32.481.247
One to two years	19.662.528	19.484.411
Two to three years	15.244.145	16.517.146
Three to four years	11.567.632	11.733.716
Four to five years	6.206.504	7.753.432
Over five years	9.687.181	2.357.454
	<b>85.082.998</b>	<b>90.327.406</b>

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

Finance lease liabilities - minimum lease payments:

	2007	2006
<b>Finance lease installments:</b>		
Due in one year	902.454	2.132.983
Due between one to four years	657	1.068.454
Over four years	299	239
Future finance charges on finance leases	(20.132)	(176.413)
	<b>883.278</b>	<b>3.025.263</b>
<b>The present value of finance lease liabilities:</b>		
Due in one year	882.422	1.983.057
Due between one to four years	588	1.042.009
Over four years	268	197
<b>Total</b>	<b>883.278</b>	<b>3.025.263</b>

#### 11. TRADE PAYABLES

	2007	2006
Current accounts		
- Third parties	205.912.049	240.312.589
- Related parties, note 22	3.928.754	18.808.199
Notes receivable		
- Third parties	--	286.275
	209.840.803	259.407.063
Unearned interest on payables (-)	(2.133.471)	(1.308.515)
	<b>207.707.332</b>	<b>258.098.548</b>

As of 31 December 2006, trade payables includes USD 20.750.000 (YTL 29.166.200) provided by HSBC Bank for the purchase of compressors in the form of murabaha financing and paid back on 15.03.2007.

#### 12. WARRANTY PROVISION EXPENSE

	2007	2006
Warranty provision expense	6.294.422	5.841.913
Movement of warranty expense provision is as follows:		
Opening balance as of 01 January	5.841.913	3.404.517
Charge for the year, net	452.509	2.437.396
Closing balance as of 31 December	6.294.422	5.841.913



## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### 13. OTHER LIABILITIES

	2007	2006
Income tax and social security payables	3.803.063	5.532.025
Advances received	211.269	--
Due to personnel	1.454.481	207.659
Other	236.990	232.823
	<b>5.705.803</b>	<b>5.972.507</b>

#### 14. TAXATION ON INCOME

The corporation tax rate on the profits for the calendar year 2007 is 20% (2006: 30%). Taxable profits are calculated by modifying accounting income for certain exclusions and allowances for tax purposes from the profit disclosed in the statutory income. No other taxes are paid unless profits are distributed.

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

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

Companies were allowed to deduct 40% of the value of fixed assets (exceeding YTL 6.000) purchased after 24 April 2003 (investment allowances) from their taxable profits as investment incentive. Such investment deduction is also not subject to income tax withholding. The investment deductions not used in any year because of insufficient profits may be carried to future periods.

Investment allowances related to fixed assets purchased or to be purchased under Investment Incentive Certificates granted or applied for before 24 April 2003, may be based on up to 100% of the investment value in fixed assets, but these are subject to tax at 19,8%. Investment allowances have been cancelled as from 1 January 2006 but investment allowances earned prior to this date may be used up to 31 December 2008; any balance unused after this date may not be carried forward.

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

The Turkish Tax Procedural Law does not include a procedure for formally agreeing tax assessments. Tax returns must be filed within three and a 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 Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

A reconciliation of the Company's tax expense is as follows:

	2007	2006
Profit before tax	82.196.405	71.881.441
Income not subject to tax	(13.018.804)	(14.530.702)
Tax effect of permanent differences and valuation allowances, net	(6.147.655)	(3.201.787)
Research and development expenses	(1.786.755)	(3.985.846)
Expenses not deductible for tax purposes	3.802.748	4.279.599
Investment incentive allowances	--	(18.129.801)
40% deductible and not subject to withholding		
Investment incentive allowances 100% deductible and	--	(23.549.719)
subject to withholding tax at 19,8%		
Effect on deferred tax balances due to the change in income tax rate		
from 30% to 20% (effective 01.01.2007)	(22.772.680)	--
Income subject to taxation	42.273.259	12.763.185
Tax calculated at a tax rate of 20% (2006: 30%)	8.454.651	3.828.956
Withholding tax on Investment incentives at 19.8%	--	4.662.844
<b>Income tax expense</b>	<b>8.454.651</b>	<b>8.491.800</b>
Taxes included in the balance sheet are shown below:		
Corporation and income taxes	11.907.441	7.087.630
Prepaid taxes (-)	(11.907.441)	(5.800.127)
<b>Corporation and income taxes payable</b>	<b>--</b>	<b>1.287.503</b>
Deferred tax asset	(2.385.206)	(3.163.330)
Deferred tax liability	12.596.024	16.826.938
	<b>10.210.818</b>	<b>14.951.111</b>

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### Deferred taxation

The Company 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 movement of deferred taxation is given below:

	Cumulative temporary difference		Deferred tax	
	2007	2006	2007	2006
<b>Deferred tax asset</b>				
Warranty expense provision	6.294.422	5.841.913	1.258.884	1.752.574
Retirement pay provision	3.150.070	2.691.147	630.014	807.344
Unearned interest on receivables	113.141	--	22.628	--
Allowance for diminution in value of inventories	1.773.221	890.317	354.644	267.095
Finance lease liabilities	129.119	4.239	25.824	1.272
Other	466.066	1.116.819	93.212	335.045
			<b>2.385.206</b>	<b>3.163.330</b>
<b>Deferred tax liability</b>				
Temporary differences arising from restating non-monetary assets	60.836.303	54.781.274	12.167.261	16.434.382
Unearned interest on payables	2.133.471	1.308.515	426.694	392.556
Other	10.346	--	2.069	--
			<b>12.596.024</b>	<b>16.826.938</b>
<b>Deferred tax liability, net</b>			<b>10.210.818</b>	<b>13.663.608</b>

Deferred income taxes are calculated using a principal tax rate of 20% (2006:30%).

A reconciliation of the deferred tax expense is as follows:

	2007	2006
Opening balance as of 1 January	13.663.608	12.259.438
Deferred tax charge (income) for the year	(3.452.790)	1.404.170
<b>Closing balance as of 31 December</b>	<b>10.210.818</b>	<b>13.663.608</b>

### 15. RESERVE 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 31 December 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.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

In the accompanying 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 principal actuarial assumptions used were as follows:

	2007	2006
Discount rate	11%	11%
Average yields	6%	6%

Movements of the reserve for retirement pay during the years are as follows:

Opening balance as of 1 January	2.691.147	2.291.625
Charge for the year	1.654.102	1.160.626
Disposal	(1.195.179)	(761.104)

**Closing balance** **3.150.070** **2.691.147**

Number of personnel employed at year end	2.993	2.953
Number of sub-contracted personnel employed at year end	1.966	1.200

**Total** **4.959** **4.153**

Cost of personnel employed	57.090.812	54.395.196
Key personnel salaries and other short term benefits	1.961.937	1.475.872
Cost of sub-contracted personnel	22.473.574	15.301.401

**Total** **81.526.323** **71.172.469**

#### 16. SHARE CAPITAL

The authorized and paid-in capital of the Company was YTL 190.000.000 consisting of 190.000.000 ordinary shares of par value YTL 1 each at 31 December 2007 and 2006.

As of the balance sheet dates the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding %		Shareholding amount	
	2007	2006	2007	2006
Vestel Elektronik Sanayi ve Ticaret A.Ş.	72,6%	72,6%	137.999.993	137.999.993
Shares held by public	27,4%	27,4%	52.000.000	52.000.000
Other	0,0%	0,0%	7	7

Share capital	190.000.000	190.000.000
Inflation adjustment of share capital	15.720.137	15.720.137

**Restated share capital** **205.720.137** **205.720.137**

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### 17. COMMITMENTS AND CONTINGENCIES

#### a) Contingent asset

As of the balance sheet dates letters of guarantee obtained from customers and suppliers is shown below:

	2007	2006
Letters of guarantee	4.484.395	11.043.101
Cheques and notes	6.543.762	6.028.809
Mortgages	1.000.000	--

#### b) Contingent liabilities

- As of 31.12.2007, the Company has contingent liabilities amounting to YTL 5.511.498 (31.12.2006 : YTL 10.275.565) in respect of bank loans, letters of credit and other guarantees arising in the ordinary course of business.
- Due to the export and investment incentive certificates obtained for tax purposes, the Company has committed to realize exports amounting to USD 306.235.351 (31.12.2006: USD 172.179.960) as of 31.12.2007.
- The payment of VAT on certain export sales may be postponed and later cancelled by the tax office subject to clearance of certain routine formalities in due course. Responsibility of the Company continues until such clearance however no liability has arisen in the past and no liability is reasonably expected for the future. As of 31.12.2007, the amount of VAT is YTL 33.108.018 (31.12.2006: YTL 36.312.091).
- The Company signed credit agreement with Vakıflar Bankası for USD 100 million. Group companies and the majority shareholders of the Company were beneficiaries of and guarantors to the agreement.
- Vestel Elektronik Sanayi ve Ticaret A.Ş. (majority shareholder of the Company) is a guarantor for a loan of EUR 9.000.000 obtained by the Company in June 2003 (note 6).
- The Company is the guarantor in favour of Vestel Elektronik Sanayi ve Ticaret A.Ş. for bank borrowings amounting to YTL 30.000.000 and USD 50.000.000.
- The Company has given payment guarantee to various suppliers in favour of Vestel Holland B.V.
- The Company is the guarantor for a murabaha agreement obtained from HSBC Bank Plc centred in London (Including HSBC Amanah Finance located in Dubai and HSBC Bank A.Ş. located in İstanbul) in favour of Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. ("Vestel Pazarlama") amounting to USD 80.000.000. As of 31.12.2007 Vestel Pazarlama used USD 60.000.000 in relation to this agreement.
- In accordance with the board of directors' decision dated 22 June 2007, the Company is the guarantor for the bank loans have been borrowed by Vestel Elektronik Sanayi ve Ticaret A.Ş. from Türkiye Garanti Bankası A.Ş. amounted to YTL 13.000.000 and USD 60.000.000.
- A lawsuit has been initiated against the Company by a company which is engaged in the production of household appliances for the invalidity of the patent certificate. The Company has initiated a counter law suit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The law-suit is still pending and at the stage of expert evaluation. The Company does not believe that this litigation will have a material adverse effect on the results of operation or financial condition of the Company.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

- The value of executive proceeding lawsuits opened against the Company YTL 3.161, consumer lawsuits YTL 18.517 and the value of lawsuits which have been finalized in favour of the Company amounted YTL 213.539.
- As of the balance sheet dates operational lease commitments are shown below:

	2007	2006
Less than one year	139.181	9.960
More than one year and less than four years	199.803	--
	<b>338.984</b>	<b>9.960</b>

#### 18. REVENUE

	2007	2006
<b>Total sales - VOLUME</b>		
Refrigerator	2.368.052	2.242.833
Air conditioning unit	266.552	237.449
Washing machine	1.539.023	1.423.953
Cooker	560.033	364.624
Dishwasher	50.722	--
<b>Total sales - YTL</b>		
Domestic sales	367.821.163	423.345.012
Overseas sales	799.949.693	694.602.533
Other domestic sales	11.567.604	4.853.834
Gross sales	1.179.338.460	1.122.801.379
Sales returns and discounts (-)	(802.381)	(601.735)
	<b>1.178.536.079</b>	<b>1.122.199.644</b>

Gross sales per geographical segment is given below:

Turkey	379.388.767	428.198.846
Europe	642.761.464	580.657.965
Other	157.188.229	113.944.568
	<b>1.179.338.460</b>	<b>1.122.801.379</b>

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### 19. COST OF SALES

	2007	2006
<b>Total production - VOLUME</b>		
Refrigerator	2.359.729	2.174.527
Air conditioning unit	280.843	214.913
Washing machine	1.579.037	1.451.017
Cooker	579.822	390.513
Dish washer	54.222	--
<b>Cost - YTL</b>		
Direct materials used	963.642.335	834.881.727
Direct labour	57.375.287	50.452.320
General overhead	45.169.565	38.152.836
Depreciation and amortization charge	37.936.099	33.300.676
<b>Cost of goods produced</b>	<b>1.104.123.286</b>	<b>956.787.559</b>
<b>Changes in semi-finished goods</b>		
Opening inventory	7.774.695	5.610.385
Closing inventory	(4.861.539)	(7.774.695)
<b>Changes in finished goods</b>		
Opening inventory	29.775.588	36.175.536
Closing inventory	(40.205.419)	(29.775.588)
<b>Cost of goods sold</b>	<b>1.096.606.611</b>	<b>961.023.197</b>
Purchased during the period	(1.421.582)	4.589.658
Opening merchandise inventory	3.279.561	78.592
Closing merchandise inventory	(6.624)	(3.279.561)
<b>Cost of merchandise sold</b>	<b>1.851.355</b>	<b>1.388.689</b>
<b>Cost of sales</b>	<b>1.098.457.966</b>	<b>962.411.886</b>



## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### 20. OTHER INCOME, net

	2007	2006
Profit on sale of property plant and equipment	137.086	1.109.480
Grant received	9.001.074	6.433.436
Other	678.707	1.864.115
<b>Other income</b>	<b>9.816.867</b>	<b>9.407.031</b>
Idle capacity depreciation expenses	(1.215.976)	(458.540)
Provision for inventories	(882.904)	(487.263)
Loss on sale of property plant and equipment	(85.352)	(51.599)
Other	(605.583)	(276.539)
<b>Other expense</b>	<b>(2.789.815)</b>	<b>(1.273.941)</b>
<b>Other income (expense), net</b>	<b>7.027.052</b>	<b>8.133.090</b>

Grant received is related to reimbursements made by the Directorate for Technology Follow up and Evaluation ("TEYDEB") mainly for automated washing machine development project carried out by the Company.

Idle capacity expenses is related to unused capacity and pre-operation expenses for the new cooker and refrigerator factories which commenced their operations in year 2007 and 2006.

#### 21. FINANCING INCOME AND FINANCING EXPENSE

	2007	2006
Foreign exchange gain	53.952.788	11.878.918
Interest income from bank deposits	3.223.024	4.196.941
Interest income from term sales	14.609.990	16.443.062
Unearned interest on trade payables	15.228.722	11.981.413
<b>Financing income</b>	<b>87.014.524</b>	<b>44.500.334</b>
Foreign exchange loss	(12.993.277)	(34.743.294)
Bank loans interest expense	(8.121.621)	(18.395.761)
Interest expense from term purchases	(732.975)	(3.990.298)
Letters of credit expenses	(4.355.050)	(4.502.446)
Finance lease interest expense	(402.238)	(425.253)
Bank commission expenses	(168.035)	(10.008)
Unearned interest on trade receivables	(7.187.904)	(19.406.423)
Other financial expenses	(524.629)	(694.780)
<b>Financing expense</b>	<b>(34.485.729)</b>	<b>(82.168.263)</b>
<b>Financing income (expense), net</b>	<b>52.528.795</b>	<b>(37.667.929)</b>

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### 22. RELATED PARTY DISCLOSURE

In the course of conducting its business, the Company conducted various business transactions with related parties on commercial terms. These comprised the following:

i) Year end balances with related parties are given below:

	2007	2006
<b>Due from related parties</b>		
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	142.150.967	282.044.108
Vestel Digital Üretim A.Ş.	1.191	826.620
Vestel CIS Limited	2.597.629	3.274.529
Vestel Dış Ticaret A.Ş.	92.606.762	70.928.925
Other related parties	633	68.987
	<b>237.357.182</b>	<b>357.143.169</b>
<b>Due to related parties</b>		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	3.245.286	2.712.636
Vestel Holland BV	239.080	16.020.098
Zorlu Tekstil ve Ürünleri Pazarlama A.Ş.	291.520	--
Zorlu Holding A.Ş.	106.043	65.494
Other related parties	46.825	9.971
	<b>3.928.754</b>	<b>18.808.199</b>

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

ii) Transactions carried out with related parties are given below:

	Sales	Purchases	Financing income	Financing expense
<b>2007</b>				
Vestel Elektronik Sanayi ve Ticaret A.Ş.	1.903.277	5.941.375	48.280	108.497
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	270.384.104	7.086.443	13.018.804	--
Vestel Dış Ticaret A.Ş.	796.141.571	10.896.098	6.637.591	--
Other related parties	3.529.449	121.533	1.174.105	80.154
	<b>1.071.958.401</b>	<b>24.045.449</b>	<b>20.878.780</b>	<b>188.651</b>
<b>2006</b>				
Vestel Elektronik Sanayi ve Ticaret A.Ş.	462.606	2.789.786	745.061	1.014.950
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.	353.397.009	1.806.206	16.246.044	--
Vestel Dış Ticaret A.Ş.	691.300.116	1.486.535	--	6.993.866
Other related parties	5.165.830	977.643	141.021	--
	<b>1.050.325.561</b>	<b>7.060.170</b>	<b>17.132.126</b>	<b>8.008.816</b>

## 23. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

The Company 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 Company's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Company'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 Company 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 Company is exposed to are described below.

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### Credit risk

The Company'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 Company 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.

The Company continuously monitors defaults of customers and other counterparties 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 Company's policy is to deal only with creditworthy counterparties.

The Company 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 Company 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.

#### Interest rates risk

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

The Company 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 Company manages its interest rate risk by applying risk management strategies whereby it 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 Company is able to maintain existing loans on the same terms as before or negotiate new loans on the same terms as existing ones.

#### Foreign currency risk

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

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

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

The Company 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.

	USD	EUR	GBP	YTL equivalent
<b>2007</b>				
Cash and cash equivalents	2.513.266	29.858.334	560	53.992.226
Trade receivables	8.015.813	49.554.519	--	94.084.156
Advances given	2.152.758	613.132	790	3.557.733
<b>Total foreign currency assets</b>	<b>12.681.837</b>	<b>80.025.985</b>	<b>1.350</b>	<b>151.634.115</b>
Current borrowings	609.882	13.380.014	--	23.592.830
Non-current borrowings	735	36.468.243	--	62.368.846
Trade payables	75.200.701	51.591.016	7.267	175.834.115
<b>Total foreign currency liabilities</b>	<b>75.811.318</b>	<b>101.439.273</b>	<b>7.267</b>	<b>261.795.791</b>
<b>Foreign currency position, net</b>	<b>(63.129.481)</b>	<b>(21.413.288)</b>	<b>(5.917)</b>	<b>(110.161.676)</b>
<b>2006</b>				
Cash and cash equivalents	2.170.768	3.607.073	--	9.729.728
Trade receivables	7.318.026	34.489.745	21.669	74.203.720
<b>Total foreign currency assets</b>	<b>9.488.794</b>	<b>38.096.818</b>	<b>21.669</b>	<b>83.933.448</b>
Current borrowings	9.615.517	11.281.366	--	34.403.021
Non-current borrowings	609.993	31.342.673	--	58.888.365
Trade payables	71.454.915	62.267.301	1.490	215.729.044
<b>Total foreign currency liabilities</b>	<b>81.680.425</b>	<b>104.891.340</b>	<b>1.490</b>	<b>309.020.430</b>
<b>Foreign currency position, net</b>	<b>(72.191.631)</b>	<b>(66.794.522)</b>	<b>20.179</b>	<b>(225.086.982)</b>

# Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

## Notes to Financial Statements for The Year Ended 31 December 2007

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

### Liquidity risk

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

The Company 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 360 day lookout period are identified monthly.

### Capital risk management

The Company's capital management objectives are:

- ensure the Company'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 Company 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 Company sets the amounts of capital in proportion to its overall financing structure i.e. equity and financial liabilities. The Company 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 Company may adjust the amount of dividends paid the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's capital to overall or financing ratio developed as follows:

	2007	2006
Total borrowings (note 10)	85.966.276	93352669
Less : Cash and cash equivalents (note 4)	74.355.224	12.901.538
Net debt	11.611.052	80.451.131
Total equity	504.458.917	461.453.428
<b>Overall financing</b>	<b>516.069.969</b>	<b>541.904.559</b>
<b>Capital to overall financing ratio</b>	<b>98%</b>	<b>85%</b>

## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

(All amounts in 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 Company using available market information, management's judgment and appropriate valuation methodologies. The following disclosure of the estimated fair value of financial instruments is made with the requirements of IAS 32. To the extent relevant and reliable information is available from the financial markets in Turkey the fair value of the financial instruments of the Company is based on such market data. The fair values of the remaining financial instruments of the Company can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

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

#### Financial assets

Monetary assets for which fair value approximates carrying value:

- Balances denominated in foreign currencies are translated at year-end exchange rates. The fair value of certain financial assets carried at cost, including cash and due from banks, marketable securities plus the respective accrued interest are considered to approximate their respective carrying values.
- The carrying value of the trade receivables net of provisions for uncollectible are considered to approximate their fair values.



## Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Notes to Financial Statements for The Year Ended 31 December 2007

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

#### 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 Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

### Investor Information

#### Ordinary General Meeting

In line with a resolution passed at a meeting of the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., the Company's ordinary general meeting for 2007 will be held on 28 May 2008 at 11:00 am at the address of Zorlu Plaza, Avcılar-İstanbul.

#### Independent Auditor

Engin Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş.  
Member of Grant Thornton International  
Yıldız Posta Cad.  
Dedeman İşhanı No: 48, Kat: 5  
34349 Gayrettepe – İstanbul

#### Financial Information and Company News

Vestel Beyaz Eşya annual reports, financial statements, auditor's reports, explanations on special events and other information about the Company may be obtained from the Company's investor relations website at [www.vestelyatirimciiliskileri.com](http://www.vestelyatirimciiliskileri.com) as well as from the Vestel Group Investor Relations Department by email or telephone.

#### Investor Relations

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Email: [figen.cevik@vestel.com.tr](mailto:figen.cevik@vestel.com.tr)

#### Share Information

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.'s shares have been trading on the İstanbul Stock Exchange National Market under the symbol VESBE since April 2006.

As of 31 December 2007, Vestel White Goods' market value was on the order of USD 642 million. The trading volume of the Company's shares on ISE was worth about USD 3.5 million in 2007.

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.

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