OFFERING CIRCULAR

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş.

Offering of 52,000,000 Shares

This Offering Circular contains information regarding the global offering of up to 52,000,000 of our common shares, nominal value YTL 1 each ("Shares"), of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. ("Vestel White Goods"), a joint stock company organised under the laws of the Republic of Turkey. The global offering consists of (i) a public offering of up to 15,600,000 newly issued Shares in Turkey and (ii) an international offering of up to 36,400,000 newly issued Shares in the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and outside of the United States to institutional investors in offshore transactions in reliance on Regulation S under the Securities Act.

In addition, our shareholder Vestel Elektronik Sanayi ve Ticaret A.Ş. ("Vestel Electronics" or the "Selling Shareholder") has granted to the Manager (as defined below) and the underwriters of the domestic offering an option which, due to applicable Turkish law requirements, is exercisable, in whole or in part, only by DenizYatırım Menkul Kıymetler A.Ş. ("DenizYatırım"), subject to consultation with and approval of Deutsche Bank (as defined below), to the extent permitted by applicable laws and regulations, until 30 days after the commencement of trading of the Shares on the İstanbul Stock Exchange (the "ISE"), to purchase up to an aggregate of 7,800,000 additional Shares solely for the purpose of covering over-allotments in the global offering, if any.

Prior to the global offering, Vestel Electronics owns 35.0% of our total issued and outstanding Shares. Immediately prior to the completion of the global offering, Vestel Electronics will purchase from all other shareholders of Vestel White Goods, at a price equal to the offer price in the global offering, all of the Shares owned by such other shareholders. Following the completion of the global offering, Vestel Electronics will own 72.6% of our total issued and outstanding Shares (68.5% if the over-allotment option is exercised in full).

As of the date of this Offering Circular, we have 138,000,000 Shares outstanding. The Shares offered in the global offering will represent 27.4% of our total issued and outstanding Shares after the completion of the global offering (assuming the over-allotment option is not exercised). Following the completion of the global offering, we will have up to 190,000,000 Shares outstanding.

No public trading market currently exists for any of our securities. We have applied for listing of the Shares on the ISE under the symbol "VESBE." We expect trading of the Shares to commence on or about April 21, 2006.

Investing in our securities involves risks. See "Risk Factors" beginning on page 9.

Offer Price: YTL 3.20

THE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") AND TO INSTITUTIONAL INVESTORS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DISCUSSION OF CERTAIN RESTRICTIONS ON TRANSFERS OF THE SHARES, SEE "TRANSFER RESTRICTIONS."

The Shares in the international offering are offered by Deutsche Bank AG, London Branch, together with any Deutsche Bank affiliates and/or subsidiaries (collectively, "Deutsche Bank"), and Bender Menkul Değerler A.Ş. ("Bender Securities" and, together with Deutsche Bank, "Deutsche Bank Bender"), when, as and if delivered to and accepted by Deutsche Bank Bender ("the Manager"), and subject to its right to reject orders in whole or in part. The Manager expects to deliver the Shares by means of book-entry registration with accounts maintained by Merkezi Kayıt Kuruluşu A.Ş. (the "Central Registry"), the custody centre for the ISE, against payment in İstanbul, Turkey on or about April 20, 2006.

Sole Global Co-ordinator and International Bookrunner

Deutsche Bank and Bender Securities

Domestic Bookrunner

DenizYatırım

The date of this Offering Circular is April 13, 2006.

NOTICE TO INVESTORS

In this Offering Circular, "we," "our" and "us" refer to Vestel White Goods. The term "Vestel Group" refers to Vestel Electronics and its subsidiaries, including us. References to the "Selling Shareholder" in this Offering Circular are to Vestel Electronics. The term "Zorlu Group" refers to Zorlu Holding A.Ş. and its subsidiaries. The term "Vestel Foreign Trade" refers to Vestel Dış Ticaret A.Ş. and, if the context so requires, its local affiliated companies and the term "Vestel Domestic Marketing" refers to Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş.

This Offering Circular is being furnished by us in connection with an offering exempt from registration under the Securities Act and applicable state securities laws in the United States solely for the purpose of enabling an investor to consider the purchase of the Shares offered hereby. Delivery of this Offering Circular to any other person or any reproduction of this Offering Circular, in whole or in part, without our consent and the consent of Deutsche Bank, is prohibited.

The information contained in this Offering Circular has been provided by us and other sources identified herein. The international offering is being made solely on the basis of this Offering Circular. Any decision to purchase the Shares in the international offering must be based solely on the information contained in this Offering Circular. In making an investment decision, you should rely on your own examination of us and the terms of the international offering, including the merits and risks involved. See "Risk Factors." We have not authorised any person to give any information or make any representation not contained in this Offering Circular in connection with the international offering and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Selling Shareholder or the Manager. No representation or warranty, express or implied, is being made by the Manager as to the accuracy or completeness of information contained herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by us, the Manager or any of our respective affiliates or advisors as to the past, present or future. You should not assume that the information contained in this Offering Circular is accurate as of any date other than the date on the cover of this Offering Circular.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase Shares by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offering or sale of the Shares in certain jurisdictions is restricted by law. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Offering Circular may come are required by us, the Selling Shareholder and the Manager to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers and sales of the Shares and the distribution of this Offering Circular is set out under "Transfer Restrictions."

Neither we, the Selling Shareholder nor the Manager are making any representation to any offeree or purchaser of the Shares regarding the legality of an investment therein by such offeree or purchaser. The Shares have not been and will not be registered under the Securities Act, and are being offered and sold outside the United States in accordance with Regulation S, and within the United States in accordance with Rule 144A. See "Transfer Restrictions."

The Manager will be acting for us and the Selling Shareholder and no one else in connection with the international offering and will not regard any other person as its client in relation to the international offering and will not be responsible to anyone other than us and the Selling Shareholder for providing the protections afforded to its clients or for providing advice in relation to the international offering or any transaction or arrangement referred to in this Offering Circular.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Shares offered hereby under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

The Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority nor have any of the foregoing authorities passed upon or endorsed the merits of the international offering of the Shares or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

The global offering will be registered with the Turkish Capital Markets Board, (the "CMB"), pursuant to the provisions of Law No, 2499, as amended, of the Republic of Turkey (the "Capital Markets Law"). Such registration does not constitute a guarantee by the CMB or any other public authority with respect to the Shares or us. Neither this Offering Circular nor any other offering material related to the international offering of Shares may be used in connection with any general offering of Shares to the public within the Republic of Turkey without the prior approval of the CMB.

Any offer of securities to the public that may be deemed to be made pursuant to this Offering Circular in any member state of the European Economic Area (the "EEA") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any member state, the "Prospectus Directive") is only addressed to qualified investors in that member state within the meaning of the Prospectus Directive.

This Offering Circular has been prepared on the basis that all offers of Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of Shares. Accordingly, any person making or intending to make any offer within the EEA of the Shares should only do so in circumstances in which no obligation arises for Vestel White Goods or the Manager to produce a prospectus for such offer. Neither Vestel White Goods nor the Manager has authorised, nor do they authorise, the making of any offer of the Shares through any financial intermediary, other than offers made by the Manager which constitute the final placement of the Shares contemplated in this Offering Circular.

In connection with the global offering, the Selling Shareholder has granted the Manager and the underwriters of the domestic offering an over-allotment option, which, due to applicable Turkish law requirements, is exercisable, in whole or in part, only by DenizYatırım, subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, until 30 days after commencement of trading of the Shares on the ISE, to purchase up to an aggregate of 7,800,000 additional Shares solely for the purposes of covering over-allotments in the global offering, if any. Any existing Shares sold by the Selling Shareholder pursuant to the exercise of the over-allotment option will be sold on the same terms and conditions as the Shares being sold in the global offering.

In connection with the global offering, DenizYatırım, subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, may over-allot or effect transactions with a view to supporting the market prices of the Shares in Turkey at levels higher than those which might otherwise prevail for a limited period after the offer price is announced. However, there is no obligation on DenizYatırım to do this and any such activities or transactions would not constitute a guarantee of any share price. Such transactions may be effected on the ISE and, if commenced, may be discontinued at any time and must be brought to an end 30 days after the commencement of trading of the Shares on the ISE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

We maintain our books of accounts and prepare our statutory financial statements in New Turkish Lira in accordance with accounting principles required by the Turkish Commercial Code, Turkish tax legislation and the Capital Markets Law. We are required to calculate and pay taxes and calculate, declare and pay dividends by reference to income reported in our statutory financial statements.

This Offering Circular includes our audited financial statements as of and for the three years ended December 31, 2003, 2004 and 2005 (the "IFRS Financial Statements"). The IFRS Financial Statements are presented in New Turkish Lira and have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board and the International Accounting Standards and Standing Interpretations Committee. Our IFRS Financial Statements have been restated in accordance with IAS 29 ("*Financial Reporting in Hyper-Inflationary Economies*") to reflect the effect of the changes in the Turkish wholesale price index ("WPI") and consequently have been set out in constant New Turkish Lira (inflation-adjusted) as of December 31, 2005, the date of the most recent financial statements included in this Offering Circular. See Note 2 to our IFRS Financial Statements. Unless otherwise indicated, references to New Turkish Lira with respect to our IFRS Financial Statements are to constant New Turkish Lira as of the relevant date.

The financial and statistical information derived from financial information presented in this Offering Circular is extracted or derived from our book of accounts, adjusted as necessary to conform to our audited IFRS Financial Statements included elsewhere in this Offering Circular. Our IFRS Financial Statements were audited by Arkan & Ergin Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş., member firm of Grant Thornton International ("Grant Thornton"), our independent auditors in Turkey, whose report thereon is also included elsewhere in this Offering Circular.

IFRS differ in certain significant respects from accounting principles generally accepted in the United States ("U.S. GAAP"). For a description of certain significant differences between IFRS and U.S. GAAP, see "Summary of Certain Significant Differences between IFRS and U.S. GAAP." This summary is not complete and investors should consult their own advisors in this regard.

In the tables included herein the amounts listed and the totals thereof may not sum due to rounding.

References to "Turkey" or the "Republic" are to the Republic of Turkey, references to the "Government" are to the Government of Turkey and references to the "Treasury" are to the Treasury Department of the Government. References to the "Central Bank" are to the Central Bank of the Republic of Turkey. References to "CIS" are to the Commonwealth of Independent States and includes the countries of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

CURRENCY PRESENTATION

In this Offering Circular, references to "Turkish Lira," "Lira" and "TL" are to Turkish Lira. References to "New Turkish Lira" and "YTL" are to New Turkish Lira, references to "U.S. dollars," "dollars" and "$" are to United States dollars and references to "euro" and "EUR" are to the euro, the currency of 12 European Union ("EU") countries (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland). As of January 1, 2005, the currency of Turkey was redenominated and New Turkish Lira is the new currency of Turkey. YTL 1 equals TL 1,000,000. At a date to be determined by the Central Bank of Turkey, the word "new" will be eliminated from the name "New Turkish Lira" and the currency will again be called "Turkish Lira." Both currencies were valid until December 31, 2005 and, effective from January 1, 2006, only the New Turkish Lira is valid. Unless otherwise indicated, all amounts in this Offering Circular are in New Turkish Lira.

EXCHANGE RATE INFORMATION

For your convenience, this Offering Circular presents translations of certain New Turkish Lira amounts into euro and U.S. dollars at the official New Turkish Lira bid rate announced by the Central Bank ("the Central Bank exchange rate"). These translations are for convenience only and are not intended to comply with the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*, as applied to financial statements of entities in highly inflationary economies. The Federal Reserve Bank of New York does not report a noon buying rate for New Turkish Lira. Unless otherwise indicated, the Central Bank exchange rate used in this Offering Circular is YTL 1.5875 = EUR 1.00 and YTL 1.3418 = $1.00, the respective Central Bank exchange rate on December 31, 2005. The Central Bank exchange rate on April 12, 2006 was YTL 1.6221 = EUR 1.00 and YTL 1.3360 = $1.00. We do not make any representation that the New Turkish Lira, euro or U.S. dollar amounts in this Offering Circular have been, could have been or could be converted into any currency at any particular rate or at all. You should read "Exchange Rates" for historical information regarding the exchange rates between the New Turkish Lira and the euro and U.S. dollar. For a discussion of the effects on us of fluctuating exchange rates, see "Risk Factors—Risks Relating to Our Business—Exchange rate fluctuations may negatively affect our operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Results of Operations—Exchange Rates."

AVAILABLE INFORMATION

For so long as any of our Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time we are neither subject to the reporting requirements of Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended ("the Exchange Act"), nor exempt from the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder, we will provide upon request to the registered holder of any Shares and to each prospective purchaser designated by any such registered holder, information required by Rule 144A(d)(4) to facilitate resales of the Shares pursuant to Rule 144A.

MARKET AND INDUSTRY INFORMATION

This Offering Circular contains historical market data and industry forecasts which have been obtained from industry publications, market research and other publicly available information. Certain market share and brand data provided in this Offering Circular have been extracted from information provided by: AC Nielsen Araştırma Hizmetleri A.Ş. ("AC Nielsen"); The Worldwide Market for Major Home Appliances, 2004 Edition, prepared by IMS Research ("IMS Research"); The Economist Intelligence Unit, Country Data, Annual Time Series, February 2006 (the "Economist Intelligence Unit"); Datamonitor, Household Appliances in Europe, July 2005 ("Datamonitor"); and The Turkish White Goods Producers Association ("Turkish White Goods Association"). Data provided by the Turkish White Goods Association is based on data voluntarily provided to that organisation only by certain Turkish white goods manufacturers which are members of the Association and therefore excludes data regarding any other companies, including importers. We believe there is no other independent third party data regarding the Turkish white goods market. We have not independently verified the information in industry publications or market research, although we believe them to be reliable. Neither we, the Selling Shareholder nor the Manager represent that this information is accurate.

The information contained herein under the headings "Risk Factors," "Exchange Rates" and "The Turkish Securities Market" includes extracts from summaries of information and data publicly released by official sources in the Republic of Turkey. We believe such information to be reliable but we cannot independently verify it. References to "SIS" in this Offering Circular are to periodic news bulletins from the Turkish State Institute of Statistics.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements, including but not limited to:

- expectations about the adequacy of funding sources and liquidity;
- statements as to our ability to improve our market position in Turkey and elsewhere in the world;
- statements as to how we intend to use the net proceeds of the global offering;
- expectations regarding our ability to take advantage of market opportunities and to expand our customer base;
- expectations as to increased outsourcing activity by European white goods industry participants;
- the nature and level of future capital expenditures;
- expectations regarding our relationship with other companies in the Vestel Group, with the Zorlu Group and with persons controlling such groups;
- expectations regarding our financial performance for 2006 and thereafter;
- estimates of the impact of inflation on our results of operations;
- estimates of the impact of currency exchange rates on our results of operations;
- expectations of when we will be able to commence production of new white goods products and our future production capacity; and
- statements regarding our expected financial results for the three months ended March 31, 2006, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Current Trading and Prospects."

These statements may be found in "Summary," "Risk Factors," "Use of Proceeds," "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Offering Circular. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "would," "expect," "intend," "estimate," "should," "anticipate," "could," "believe" or "continue."

The forward-looking statements contained in this Offering Circular are based on the beliefs of our management, as well as the assumptions made by and information currently available to our management. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this Offering Circular, including, without limitation, in conjunction with the forward-looking statements included in this Offering Circular and specifically under "Risk Factors." If any of these risks and uncertainties materialise, or if any of our underlying assumptions prove to be incorrect, our actual results of operations or financial condition could differ materially from that described herein as anticipated, believed, estimated or expected.

All subsequent written and oral forward-looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements. Subject to the requirements of the ISE or as required by applicable law, we do not intend, and we do not assume any obligation, to update any forward-looking statement contained in this Offering Circular.

ENFORCEABILITY OF CIVIL JUDGEMENTS

We are a joint stock company organised under the laws of the Republic of Turkey. All of our directors, principal shareholders and officers reside outside the United States, and all or a significant portion of the assets of such persons may be, and all of our assets are, located outside the United States. As a result, it may not be possible for a shareholder to effect service of process within the United States upon us or such persons.

The courts of the Republic of Turkey will not enforce a judgement obtained in a court established in a country other than the Republic of Turkey unless:

- there is in effect a treaty between such country and the Republic of Turkey providing for reciprocal enforcement of court judgments;
- there is a provision in the laws of such country that provides for the enforcement of judgements of the Turkish courts; or
- there is "de facto" enforcement in such country of judgements rendered by Turkish courts.

There is no treaty between the United States and Turkey providing for reciprocal enforcement of judgements. Accordingly, there is uncertainty as to the enforceability in Turkish courts of judgements obtained in U.S. courts. Moreover, there is uncertainty as to the ability of a shareholder to bring an original action in Turkey based on the U.S. federal securities laws.

In addition, the courts of Turkey will not enforce any judgement obtained in a court established in a country other than Turkey if:

- the court rendering the judgement did not have jurisdiction to render such judgment;
- the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed;
- the judgement in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey;
- the judgement is clearly against public policy rules of Turkey;
- the judgement is not final and binding with no further recourse for appeal under the laws of the country where the judgement has been rendered; or
- the judgement is not of a civil nature.

U.S. INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF TREASURY DEPARTMENT CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY

This summary highlights selected information from this Offering Circular and may not contain all of the information that is important to you. You should carefully read the entire Offering Circular, including the statements in "Risk Factors" and our IFRS Financial Statements and the notes thereto, before making an investment decision.

Overview

We design and manufacture a broad range of refrigerators and freezers, washing machines, air conditioners and cookers principally for residential use. We operate as an original design manufacturer ("ODM") or an original equipment manufacturer ("OEM") to retailers, distributors and other manufacturers of products for sale primarily in Europe, Turkey, the Middle East and North Africa. We also manufacture white goods for sale under the Vestel, Regal and SEG brands in Turkey, under the Vestel and Regal brands in certain North African and Middle Eastern countries and under the SEG brand in Germany. Our 275,600 square metre manufacturing complex is located in Manisa, Turkey. We expect to expand our product offering and begin producing dishwashers in the first half of 2007. We have increased our total annual production capacity from 2,750,000 units as of December 31, 2003 to 3,450,000 units as of December 31, 2004 and 5,450,000 units as of December 31, 2005.

We sell all the products we manufacture to Vestel Foreign Trade and Vestel Domestic Marketing, wholly owned subsidiaries of our parent company, Vestel Electronics. Vestel Foreign Trade and Vestel Domestic Marketing also market and sell other products produced by the Vestel Group such as televisions, computers and DVD players and they, along with certain of their affiliated companies, are responsible for providing all of our after-sales services. We licence the "Vestel" and "Regal" trademarks from Vestel Electronics and Vestel Domestic Marketing, respectively.

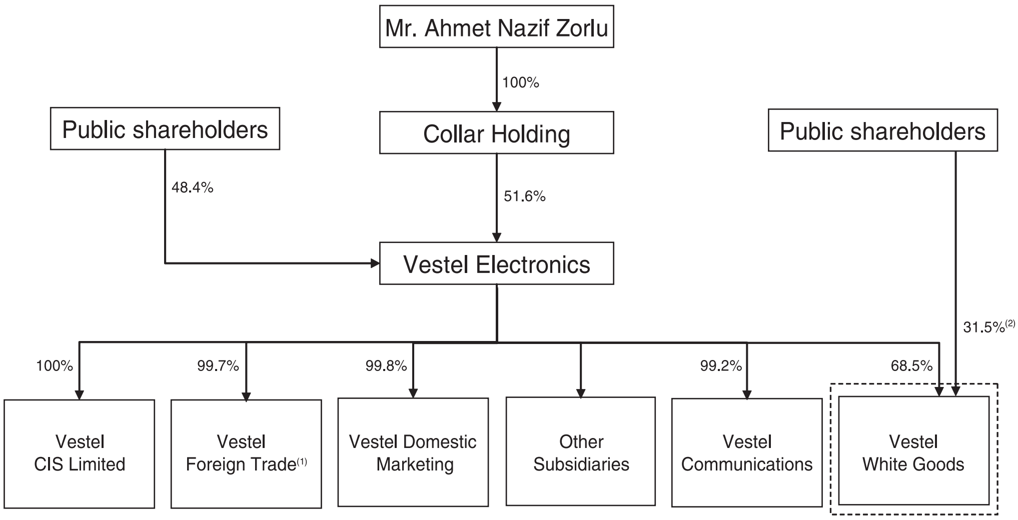
Vestel Foreign Trade is responsible for the marketing and sale of our products outside of Turkey. Vestel Foreign Trade and its local affiliated companies market and sell our products (i) to retailers such as Metro, Conforama and Carrefour for resale under their private label brands, or under our SEG brand, (ii) to distributors who sell the products to retailers under brand names owned by the distributors, and (iii) to manufacturers such as Whirlpool, Fagor Brandt and Smeg for resale under brand names owned by the manufacturers. In 2003, 2004 and 2005, 59.3%, 53.1% and 55.2%, respectively, of our net sales were derived from the sale of white goods to Vestel Foreign Trade.

Vestel Domestic Marketing markets and sells our products in Turkey to approximately 1,200 points of sale under the Vestel brand name and to six wholesalers under the Regal brand name. Vestel Domestic Marketing also markets and sells a small amount of our products to retail chain stores for resale in Turkey under the stores' private label brand names or under the SEG brand name. According to AC Nielsen, Vestel was among the top ten recognised name brands in Turkey in 2004. In 2003, 2004 and 2005, 40.6%, 46.8% and 44.7%, respectively, of our net sales were derived from the sale of white goods to Vestel Domestic Marketing.

As of the date of this Offering Circular, Vestel Electronics, which is indirectly controlled by Mr. Ahmet Nazif Zorlu, owns 35.0% of our total issued and outstanding Shares. Immediately prior to the completion of the global offering, Vestel Electronics will purchase, at the offer price in the global offering, from members of the Zorlu family and Zorlu Holding, the remaining Shares in us that it does not then own. Accordingly, following the completion of the global offering, Vestel Electronics will own 72.6% of our total issued and outstanding Shares (68.5% if the over-allotment option is exercised in full).

For the years ended December 31, 2003, 2004 and 2005, our operating income was YTL 67,282,084, YTL 102,353,466 and YTL 58,279,919, respectively. As of December 31, 2005, we had total assets of YTL 587,802,427 and 2,978 employees.

The chart below sets forth our expected structure after giving effect to the share purchase by Vestel Electronics and the global offering:



(1) Includes foreign marketing companies.
(2) Assuming exercise of the over-allotment option in full.
Note: Direct and indirect shareholdings combined.

Strategy

We believe that, over the next several years, many European white goods industry participants will increasingly seek to outsource the manufacturing of their products. We believe that this is primarily driven by low growth in the European white goods market combined with rising manufacturing and selling, general and administrative costs and overheads. We intend to increase our sales to European markets by taking advantage of this trend based on our competitive manufacturing advantage and existing customer relationships of the Vestel Group. In addition, we intend to continue to improve our market share in the Turkish white goods market and seek to explore new markets where the penetration of white goods is currently low. We intend to implement this strategy by taking the following actions:

- ***Expand our product offering***. We expect to expand our sales, particularly to existing customers, by leveraging our economies of scale and offering a broader range of products. We began offering cookers in the fourth quarter of 2005 and expect to start offering built-in refrigerator freezers in the third quarter of 2006. We expect to begin producing quieter and larger washing machines, quieter and more energy efficient frost-free refrigerators and an expanded range of cookers in 2006. In addition, we expect to begin producing dishwashers in the first half of 2007.
- ***Provide increasingly differentiated products to customers***. We design and manufacture our products to meet the exact specifications of our customers, as well as local consumer preferences. Our products are customised to meet the electrical, regulatory and other requirements of the country into which they are being sold. We believe that this represents a significant competitive advantage compared to our Asian competitors, which generally manufacture and ship generic products that require specific features to be added in higher cost European destinations, prior to being sold to end-users. In 2005, we sold more than 10,000 varieties of refrigerators, washing machines and air conditioners based on more than 100 production platforms, reflecting our ability to manage production of a number of differentiated products in an efficient manner.
- ***Continue to reduce manufacturing costs***. We continue our efforts to reduce our operating costs, and we intend to continue to explore further cost reduction measures in the future. Our research and development team of more than 130 persons continuously seeks to implement improvements in product design and manufacturing processes to further decrease manufacturing costs. We have a dedicated employee based in Asia who serves an important role in our procurement of lower cost raw materials and components from that region. We believe that our focus on cost reduction will help us to partially offset the effects of inflation and rising commodity prices.
- ***Continue to exploit our position as primarily an OEM and ODM manufacturer and designer of white goods products for the European market***. We do not sell our Vestel or Regal branded products in Europe, and we sell relatively small amounts of our SEG brand only in Germany. We believe that we are not viewed as a "competitor" by manufacturers such as AB Electrolux ("Electrolux") and Whirlpool Corporation

("Whirlpool") because we do not compete with their brands in Europe and, therefore, they may be more willing to contract with us as an OEM/ODM. We believe that, as a result, we can expand our sales to customers in Europe as they increasingly seek to outsource manufacturing to lower-cost countries.

Competitive Strengths

We believe that we possess a number of strengths that provide us with a competitive advantage over other white goods manufacturers:

- ***Modern state-of-the-art production facilities***. Our modern 275,600 square metre manufacturing complex in Manisa, Turkey includes two refrigerator plants, a combined air conditioner-cooker plant and a washing machine plant. Our first refrigerator plant was completed and the production lines installed in 1999 and our second refrigerator plant was completed and the production lines installed in 2005. Our air conditioner and cooker production lines were installed in 2000 and 2005, respectively. Our washing machine plant was completed and the production lines installed in 2003. We regularly maintain and upgrade our production facilities in order to ensure that they are kept in optimal working order.
- ***Logistical advantages***. All of our production facilities are located in Manisa, Turkey, which is 30 miles from the port city of İzmir. This provides us with logistical advantages in terms of transporting our finished products to export markets. Compared with our Asian competitors, we are closer to our European markets, which provides us with a significant competitive advantage when shipping bulky items such as refrigerators. In addition, we benefit from the customs union between Turkey and the European Union, which allows us to export white goods to EU countries free of customs duties in certain cases.
- ***Proximity to local suppliers of raw materials and components***. Since 1999, over 20 of our suppliers (many of which manufacture components for us based on our specifications) have established operations in Manisa. In 2005, we purchased 34.5% of our raw materials and components from suppliers that were located in Manisa. In order to optimise our manufacturing flexibility, we have established a website on which these suppliers can access our production plans and inventory reports in real time. Based on this information, our local suppliers provide just-in-time-deliveries to our production lines and can make multiple deliveries per day, providing us the flexibility to quickly modify our production plans to meet the needs of our customers.
- ***Access to affordable labour force and flexible working practices***. İzmir is Turkey's third largest city and, combined with Manisa, has a population of approximately 4.6 million people. Accordingly, we have access to a large and affordable labour force and have a significant advantage in terms of labour costs as compared to our European Union competitors. According to the Economist Intelligence Unit, in 2005 the average hourly cost for a blue collar worker in the European Union was $25.76 compared to $2.41 in Turkey. In addition to this significant difference in hourly cost, the typical working week in the European Union is 35 to 40 hours compared to 45 hours in Turkey.
- ***Strong market position in the Turkish white goods market***. We are one of the leading designers and manufacturers of white goods for the Turkish market. According to the Turkish White Goods Association, we increased our market share in the Turkish refrigerator market from approximately 11.9% in 2002 to approximately 19.4% in 2005 and in the Turkish washing machine market from approximately 5.5% to approximately 16.7% over the same period.
- ***Well positioned to develop our presence in white goods markets with low market penetration rates***. We believe that the white goods markets in Turkey, the Middle East and North Africa have higher growth prospects compared to the relatively mature market in Western Europe. For example, according to IMS Research, the penetration rate in 2004 for washing machines in France and Germany was 95.0% compared to 70.5% in Turkey and 15.0% in the Middle East and North Africa. According to the same source, growth in demand for white goods products in North Africa and the Middle East is expected due to low penetration rates, an improving economic outlook driven by improving political and economic stability and a young, growing population. We believe that we are well positioned to benefit from these factors.
- ***As a member of the Vestel Group, we enjoy a number of significant advantages***. We are a member of the Vestel Group and derive a number of advantages from this relationship. First, we benefit from the use of the strong "Vestel" brand in Turkey. Second, our marketing, sales and distribution functions are performed by other Vestel Group companies that have a network of sales offices in Europe and an efficient distribution network in Turkey. Third, other companies in the Vestel Group provide us with financing, guarantee certain of our obligations and provide us with information technology and legal services. Fourth, we can negotiate with suppliers and service companies as part of the Vestel Group, which we believe enhances our bargaining power with these third parties.

The Offering

Company	Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. ("Vestel White Goods") is offering 52,000,000 Shares.
Selling Shareholder	Vestel Elektronik Sanayi ve Ticaret A.Ş. ("Vestel Electronics") is offering 7,800,000 Shares pursuant to the over-allotment option.
The International Offering	Up to 36,400,000 Shares are being offered in the international offering. The Shares are being offered and sold to institutional investors: • in the United States only to QIBs in reliance on Rule 144A; and • outside the United States and Turkey to institutional investors in reliance on Regulation S.
The Domestic Offering	Up to 15,600,000 Shares are being offered in the domestic offering. The domestic offering was open from April 11, 2006 to April 12, 2006 and was conducted pursuant to an underwriting and consortium agreement with a syndicate of Turkish financial institutions led by DenizYatırım.
Shares Outstanding	After the completion of the global offering, our share capital will be increased to YTL 190 million, divided into 190,000,000 Shares, each Share having a nominal value of YTL 1. All of the 52,000,000 Shares offered in the global offering will be newly issued Shares. Prior to the global offering, Vestel Electronics owns 35.0% of our total issued and outstanding Shares. Immediately prior to the completion of the global offering, Vestel Electronics will purchase from all other shareholders of Vestel White Goods, at a price equal to the offer price in the global offering, all of the Shares owned by such other shareholders. Following the completion of the global offering, Vestel Electronics will own 72.6% of our total issued and outstanding Shares (68.5% if the over-allotment option is exercised in full).
Over-Allotment Option	In connection with the global offering, the Selling Shareholder has granted to the Manager and the underwriters of the domestic offering an over-allotment option, which, due to applicable Turkish law requirements, is exercisable, in whole or in part, only by DenizYatırım subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, until 30 days after the commencement of trading of Shares on the ISE, to purchase up to an aggregate of 7,800,000 additional Shares, solely for the purpose of covering over-allotments in the global offering, if any.
Offer Price	The offer price of the Shares is YTL 3.20 per Share.
Stabilisation	In connection with the global offering, DenizYatırım may engage in transactions with the objective of stabilising, maintaining or otherwise affecting the market price of the Shares. In accordance with the regulations of the CMB, stabilising activities may only be carried out for a maximum period of 30 days following the commencement of trading of the Shares on the ISE and orders can be given only in the case of a decline in the price of the Shares. In connection with such stabilisation activities and during the stabilisation period, DenizYatırım subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, may stabilise or maintain the price of the Shares by bidding for or purchasing the Shares in the open market. No representation is made as to the magnitude or effect of any such stabilising or other transactions. DenizYatırım is not obligated to engage in these activities and may, upon notice to the ISE, discontinue any of these activities at any time. Any such activities or transactions would not constitute a guarantee of any share price. See "Plan of Distribution—Stabilisation and Market-Making."

Use of Proceeds	We expect the net proceeds from the sale of Shares by us in the global offering to be approximately YTL 157,408,000, after deducting discounts, commissions and estimated expenses related to the global offering. We intend to use the net proceeds we receive from the global offering primarily to repay certain trade payables and other short-term debt, to finance capital expenditures for planned manufacturing capacity and for general corporate purposes. To the extent the over-allotment option is exercised, we will not receive any proceeds from the sale of Shares by the Selling Shareholder. See "Use of Proceeds."
Lock-up Agreements	We and the Selling Shareholder have agreed, subject to certain exceptions, not to offer or sell any Shares or securities convertible into or exchangeable for Shares for a period of 180 days following the closing of the international offering without the prior written consent of Deutsche Bank. See "Plan of Distribution—Lock-up Agreements."
Transfer Restrictions	The Shares will be subject to certain restrictions on transfer as described under "Transfer Restrictions."
Disclosure of Beneficial Interests in Shares	Persons becoming direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey are required to notify the CMB, the ISE and the public company of such acquisition and, thereafter, to notify the ISE and the public company of their transactions in the shares or voting rights of such public company when the total number of the shares or voting rights traded falls below or exceeds such thresholds. The names, domiciles and the numbers of shares or voting rights purchased or sold by such persons should be included in a notice sent to CMB and the ISE. Although CMB regulations require that only persons who purchase 5% or more of the shares in a public offering be disclosed to the CMB and the ISE by the Manager, as a matter of market practice, the Manager will disclose the following information regarding all such persons to the CMB and the ISE: • name, • field of activity, • nationality, and • whether the person has purchased or holds the Shares on behalf of a client or as depositary. See "Description of Our Share Capital."
Dividends	Holders of the Shares will be entitled to receive dividends paid, if any, on the Shares. We do not expect to distribute any dividends in the short term and we cannot assure you that in any given year a dividend will be declared at all. See "Dividends and Dividend Policy" and "Taxation."
Voting Rights	Holders of Shares are entitled to one vote per Share. See "Description of Our Share Capital—Voting Rights."
Taxation	For a discussion of certain tax considerations relevant to an investment in our Shares, see "Taxation."
Proposed Listing and Trading	We have applied for listing of the Shares on the ISE under the symbol "VESBE." No public trading market currently exists for any of our securities. Trading of the Shares on the ISE is expected to commence on or about April 21, 2006.

Settlement and Delivery of the Shares	Payment for the Shares is expected to be in New Turkish Lira in same-day funds. If you do not maintain a custody account in Turkey, you are required to open a custody account with a recognised Turkish depositary in order to make payments of New Turkish Lira and receive Shares. You must provide details of such custody accounts to Deutsche Bank no later than April 13, 2006. The Shares will be delivered to your Turkish custody account on or about the closing date by means of book-entry registration, subject to timely and satisfactory provision of account details. See "Plan of Distribution—Settlement."
Identification Number for the Shares	ISIN: TREVEST00017
Risk Factors	You should read "Risk Factors" for a discussion of factors that you should consider carefully before deciding to invest in the Shares.

Summary Financial and Other Data

The following summary financial and other data as of and for the three years ended December 31, 2003, 2004 and 2005 has been extracted from the IFRS Financial Statements and is qualified in its entirety by reference to, the IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

Our IFRS Financial Statements have been restated for the changes in the general purchasing power of the New Turkish Lira as of December 31, 2005 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 date of the most recently presented balance sheet, which for the purposes of this Offering Circular is December 31, 2005, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the WPI published by the SIS. See Note 2 to our IFRS Financial Statements.

The IFRS Financial Statements as of and for the three years ended December 31, 2003, 2004 and 2005 have been audited by Grant Thornton. See "Presentation of Financial and Certain Other Information."

You should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

	Year ended December 31,		
	2003	2004	2005
		(YTL)	
Income Statement Data			
Net sales	448,953,377	731,263,359	810,072,731
Cost of sales	(377,126,248)	(611,262,404)	(721,566,385)
Gross profit	71,827,129	120,000,955	88,506,346
Operating income	67,282,084	102,353,466	58,279,919
Monetary gain	9,690,379	4,849,716	3,923,800
Financing expense, net	(7,661,302)	(16,885,760)	(1,471,982)
Income before tax	69,311,161	90,317,422	60,731,737
Taxation on income	(7,744,924)	(17,598,890)	(11,064,012)
Net income	61,566,237	72,718,532	49,667,635

	As of December 31,		
	2003	2004	2005
	(YTL, except shares outstanding)		
Balance Sheet Data			
Trade receivables	26,312,101	137,194,256	143,664,580
Inventories	48,748,743	85,158,101	101,588,396
Other current assets	2,946,018	4,025,044	8,554,409
Trade payables	74,319,589	183,894,855	178,111,187
Other payables and accrued expenses	3,889,092	5,621,998	54,680,841
Share and Per Share Data			
Weighted average number of shares outstanding	138,000,000	138,000,000	138,000,000
Earnings per share[1]	0.45	0.53	0.36
Dividends per share[2]	—	—	—

	For the year ended December 31,		
	2003	2004	2005
Operating Data and Financial Ratios			
Working capital[3]	(201,819)	36,860,548	21,015,357
Return on average equity[4]	n/a	48.2%	23.4%
Debt to equity ratio[5]	57.9%	41.3%	41.2%
Net debt to equity ratio[6]	55.8%	39.9%	37.7%
Gross margin[7]	16.0%	16.4%	10.9%
Operating margin[8]	15.0%	14.0%	7.2%
Net margin[9]	13.7%	9.9%	6.1%

	For the year ended December 31,		
	2003	2004	2005
		(number of units)	
Other Data			
Refrigerator production	1,133,771	1,415,188	1,718,091
Refrigerator export sales	904,956	1,068,666	1,316,687
Refrigerator domestic sales	222,980	348,515	377,778
Total refrigerator sales	1,127,936	1,417,181	1,694,465
Washing machine production	58,209	712,858	1,020,850
Washing machine export sales	27,141	383,472	730,325
Washing machine domestic sales	22,201	309,960	285,253
Total washing machine sales	49,342	693,432	1,015,578
Air conditioning unit production	177,111	287,379	369,497
Air conditioning unit export sales	114,705	161,925	148,145
Air conditioning unit domestic sales	62,842	117,937	184,250
Total air conditioning unit sales	177,547	279,862	332,395
Cookers production	—	—	76,982
Cookers export sales	—	—	1,156
Cookers domestic sales	—	—	71,285
Total cookers sales	—	—	72,441

Notes:

(1) Earnings per share has been calculated on the basis of the weighted average number of shares outstanding during the relevant period after giving retroactive effect to any rights issues and bonus issues.

(2) We have not declared dividends for any of the three years ended December 31, 2005.

(3) Working capital means current assets less cash and cash equivalents minus current liabilities less current borrowings and taxation on income.

(4) Return on average equity is net income divided by average shareholders' equity. Average shareholders' equity is calculated as the simple average of the period beginning and period ending shareholders' equity.

(5) Debt comprises current and non-current borrowings.

(6) Net debt comprises current and non-current borrowings less cash and deposits with banks.

(7) Gross margin means gross profit as a proportion of net sales, expressed as a percentage.

(8) Operating margin means income from operations as a proportion of net sales, expressed as a percentage.

(9) Net margin means net income as a proportion of net sales, expressed as a percentage.

RISK FACTORS

Prior to making an investment decision, you should carefully consider all information in this Offering Circular including the risks described below. The risks and uncertainties described below are those that we currently believe could materially affect us and any investment you make in our company. If any of these events occur, the trading price of the Shares could decline. Additional risks and uncertainties that do not currently exist or that we are unaware of may also become important factors that adversely affect us and your investment.

You should also refer to the other information set out in this Offering Circular, including our IFRS Financial Statements and the notes thereto.

Risks Relating to Our Relationships with the Vestel Group and the Zorlu Group

We are controlled by a shareholder whose interests may not be aligned with our interests or those of other holders of our Shares

Currently, Vestel Electronics, Zorlu Holding and certain members of the Zorlu family hold 100% of our outstanding Shares. Immediately prior to the completion of the global offering, Zorlu Holding and the other shareholders will sell to Vestel Electronics, at a price equal to the offer price in the global offering, all of our outstanding Shares that they own. Accordingly, following the completion of the global offering, Vestel Electronics will own 72.6% of our outstanding Shares (68.5%, if the over-allotment option is exercised in full). See "Principal and Selling Shareholders."

Vestel Electronics is listed on the ISE and is 51.6% owned by Collar Holding. Collar Holding is 100% owned by Mr. Ahmet Nazif Zorlu, who also owns 15.0% of Zorlu Holding. Accordingly, after the completion of the global offering, Mr. Ahmet Nazif Zorlu, through his indirect ownership and control of Vestel Electronics, will continue to have the power to elect all of our directors. The interests of Mr. Ahmet Nazif Zorlu, including his affiliates such as Collar Holding and Vestel Electronics, may differ from those of our other shareholders. As a result of his indirect ownership of a substantial percentage of our outstanding Shares and his ability to appoint our board of directors, Mr. Ahmet Nazif Zorlu, including his affiliates such as Collar Holding and Vestel Electronics, may prevent us from making certain decisions or taking certain actions that would benefit us or protect the interests of our other shareholders. This may also have the effect of delaying, deferring or preventing a change in control or distribution of dividends and discourage bids for our Shares and may adversely affect the value of our Shares. In Turkey, the rights of minority shareholders and the fiduciary duties of directors and majority shareholders may differ from those in other countries such as the United States and the United Kingdom. See "The Vestel Group" and "Zorlu Holding."

In addition, two of the current seven members of the Board of Directors of our parent company Vestel Electronics are independent directors and the remaining five are employees and officers of the Zorlu Group, two of whom are members of the Zorlu family. Accordingly, our strategy and activities have been, and are likely to continue to be, aligned with the overall interests, strategies and financial resources of the Zorlu family.

We have entered into a number of related party transactions which are material to our business and there can be no assurance that conflicts of interest with other Vestel Group and Zorlu Group companies will not arise in the future

We and other companies controlled by the Vestel Group and the Zorlu Group have a number of arrangements and engage in various transactions as affiliated companies. We believe that these arrangements and transactions, taken as a whole, are based on arm's length principles to accommodate our respective interests in a manner that is fair and beneficial to both parties. However, because of the scope of the various relationships between us and our affiliates, we cannot assure you that each of the agreements and transactions, if considered separately, has been or will be effected on terms no less favourable to us than could have been obtained from unaffiliated third parties.

All of our products are sold to Vestel Foreign Trade and Vestel Domestic Marketing, which are responsible for the sale and marketing of our products to third parties. In the normal course of our business, we enter into a number of other transactions with other Vestel Group companies pursuant to which these companies provide us with, among other things, product trademark licensing, sales and marketing services, after-sales services, information technology, leases of property, temporary employees, human resources services and legal services. Zorlu Holding and Vestel Group companies have provided guarantees to secure many of our debt obligations to third parties, and we have provided similar guarantees for their benefit. In addition, Vestel Foreign Trade has provided us with financing from time to time. Although we believe that our transactions with members of the Vestel Group and the Zorlu Group are on commercially reasonable terms, there can be no assurance that conflicts of interest may not arise in the future, including in relation to, or as a result of, new business opportunities. These conflicts may result in us not being able to expand our sales to new geographic markets or to introduce attractive new products in a timely manner or at all. In addition, if any of the Vestel Group companies were to cease providing us with any of these services, or were to increase the cost of these services, we may have difficulty locating alternative providers of such services on the same terms and conditions (including price) in a timely manner. Any conflicts of interest with other Vestel Group or Zorlu Group companies could have a material adverse effect on our business, financial condition and results of operations. See "Related Party Transactions."

We have no sales or marketing capabilities of our own and rely on other Vestel Group companies for these services

All sales and marketing of our products are carried out by Vestel Foreign Trade and Vestel Domestic Marketing. We have no separate sales and marketing capabilities. We have no control over Vestel Foreign Trade or Vestel Domestic Marketing and no right to direct the strategy they adopt or the manner in which they market or sell our products. Vestel Foreign Trade and Vestel Domestic Marketing also sell and market consumer electronics and digital products for other Vestel Group companies and sell and market white goods not designed or manufactured by us. Although they have agreed to purchase certain minimum amounts of our products, there can be no assurance that Vestel Foreign Trade and Vestel Domestic Marketing will focus their selling and marketing efforts on our products in particular, or that they will not focus on selling other white goods products not produced by us. We have no direct relationship with the customers of Vestel Foreign Trade and Vestel Domestic Marketing. Vestel Foreign Trade and Vestel Domestic Marketing have each agreed to provide sales and marketing services to us pursuant to inter-company agreements and to the extent they or either of them breach their agreements, although we would have a cause of action against the breaching party, we would not have immediate access to any other marketing and sales services. In addition, because Vestel Foreign Trade, Vestel Domestic Marketing and we are all indirectly controlled by Mr. Ahmet Nazif Zorlu, the terms and conditions of these agreements could be amended in a manner that is not favourable to us or could be terminated by mutual agreement of the parties. While it may be possible to establish or gain access to new marketing channels for our products and sales services, this would take time and cause disruption in the sales of our products. Any significant disruption of the sales and marketing of our products would have a material adverse effect on our business, financial condition and results of operations. See "Related Party Transactions—Sales and Marketing."

Vestel CIS Limited will soon commence production of white goods products for sale in Russia and the CIS, and after such time, we do not intend to sell our products in these markets

Vestel CIS Limited ("Vestel CIS"), which is a wholly owned subsidiary of Vestel Electronics, is expected to commence production of refrigerators and washing machines at its new factory in Alexandrov, Russia in April 2006. Vestel CIS has agreed with us that it will produce white goods products only for sale in Russia and any country that is a member of the CIS. Less than 2.0% of our sales were to these countries in 2005. When Vestel CIS commences production we expect that our sales to these countries will cease. There can be no assurance that Vestel Electronics as our controlling shareholder will not use its control over us to control the markets into which we and Vestel CIS may sell our respective products. In addition, because Vestel CIS and we are all indirectly controlled by Mr. Ahmet Nazif Zorlu, the terms and conditions of any agreement between us and Vestel CIS could be amended in a manner that is not favourable to us or could be terminated by mutual agreement of the parties. If Vestel CIS were to sell its products in our markets or we were to be precluded from selling our products in certain markets for the benefit of other Vestel Group Companies, this could have a material adverse effect on our business, financial condition and results of operations. See "Related Party Transactions—Non-Competition Agreement."

We do not own the trademarks we use and a failure by the owners to protect the trademarks could have a material adverse effect on our business, financial condition and results of operations

Vestel Electronics has registered the trademark "Vestel" and Vestel Domestic Marketing has registered the trademark "Regal" in Turkey with the Turkish Patent Institute. Vestel Electronics and Vestel Domestic Marketing have licensed to us the use of the trademarks "Vestel" and "Regal," respectively, for the design, manufacture and sale of white goods products. In addition, we have been licensed the use of the trademark SEG for the design, manufacture and sale of refrigerators and freezers. We rely on the owners of these trademarks to maintain and protect their trademarks, but they have no obligation to us to do so. If they fail to protect these trademarks against infringement or misappropriation, the competitive position in Turkey of the brands of white goods products sold by us could suffer and the volume of such products could decrease, which could have a material adverse effect on our business, financial condition and results of operations. While the trademarks we use have been registered in most of the countries outside of Turkey where we sell a significant amount of our products using such trademarks, we cannot assure you that the failure to register such trademarks in all of the countries where we use such trademarks will not have a material adverse effect on our business, financial condition and results of operations. See "Related Party Transactions—Intellectual Property."

Risks Relating to Our Business

If we fail to maintain our competitive position, our business, financial condition and results of operations would be adversely affected

We face considerable competition in all our markets. In the European market we compete with other OEMs and ODMs, such as Antonio Merloni Spa ("Antonio Merloni"), Arçelik A.Ş. ("Arçelik") and AB Snaige, ("Snaige"). In the Turkish market our Vestel and Regal branded products compete with those of brand manufacturers such as Arçelik, Bosch und Siemens Hausgeräte GmbH ("BSH") and Indesit Company S.P.A. ("Indesit"). We believe that several of our competitors including Arçelik are seeking to consolidate through strategic acquisitions. Many of our competitors have significantly greater name recognition, larger customer bases and greater financial and other resources than we do, and have direct control over their marketing and sales activities. There can be no assurance that our competitors will not in the future engage in more extensive development efforts, launch successful promotional campaigns for their product offerings, adopt more aggressive pricing policies to our detriment or make more attractive offers to our existing and potential white goods customers. Although we believe that we are currently able to compete effectively in our domestic and export markets, we cannot assure you that we will continue to be able to do so or that we will be capable of maintaining or further increasing our current market shares. Our failure to compete successfully in the white goods market would have a material adverse effect on our business, financial condition and results of operations. See "Business—Competition" for more information on our competitors in all of the markets in which we operate.

We have a short operating history and may not be able to successfully manage our rapid expansion

We were incorporated in 1997 and first commenced production of refrigerators and freezers in 1999, air conditioners in 2000, washing machines in 2003 and cookers in 2005. As a result, we have a very short operating history, which makes it difficult for you to evaluate our future prospects and may increase the risk of your investment. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a mature market.

We have experienced rapid expansion of our manufacturing capacity and sales of our products. Our ability to manage growth will depend on, among other things, how effectively we develop our production facilities for dishwashers and other future products, develop additional production lines for existing products and expand our supply systems. The increasing size of our business may place heavy demands on our business support systems, third party suppliers and our management as well as on Vestel Foreign Trade and Vestel Domestic Marketing, the companies that sell and market our products. There can be no assurances that we will be able to develop these systems or that we will be able to keep pace with the anticipated expansion of our operations. We may not be able to successfully address these risks and difficulties or manage growth effectively, which could have a material adverse effect on our business, financial condition and results of operations.

Our business is particularly sensitive to changes in consumer demand as a result of changes in macroeconomic conditions

The white goods market is particularly sensitive to the general macroeconomic conditions of the economy and in particular to the local gross national product ("GNP") in each of our markets. In 2004 and 2005, 48.9% and 49.4%, respectively, of our net sales were derived from sales to customers in Europe and 46.8% and 44.7%, respectively, from sales to customers in Turkey. A decline in consumer demand in any of our principal markets, whether as a result of general economic conditions in those markets or otherwise, may have a material adverse effect on our business, financial condition and results of operations. In particular, the occurrence of a significant downturn in the economies where our products are sold, rising energy prices and international geopolitical and military instability could threaten consumer confidence, which could adversely affect consumer demand for white goods products and, as a result, our business and results of operations.

We are subject to pressure on our profit margins primarily due to fluctuating raw materials and component costs

In 2003, 2004 and 2005, components and raw materials accounted for 86.4%, 87.1% and 90.1%, respectively, of our cost of sales. Our principal materials are steel and plastics which are used in all of our products and accounted for more than 59.8% of our cost of sales in 2005.

From time to time in the past the costs of these raw materials and components have fluctuated significantly. While the cost of our raw materials and components have remained relatively stable over the last four months, we expect prices for commodities such as steel and plastics to continue to increase. Our ability to maintain or improve margins depends on our ability to pass along any increased costs to our customers. If we are unable to pass along some or all of our increased costs, whether as a result of competitive pressures or otherwise, or if we experience delays in our ability to pass along some or all of our increased costs, this could have a material adverse effect on our business, financial condition and results of operations.

We also may be subject to pricing pressure if our costs increase as a result of having to comply with any new laws or regulations.

We receive a considerable proportion of our supply of raw materials and components from a limited number of suppliers; problems or delays in accessing raw materials at competitive prices could have a material adverse affect on our business, financial condition and results of operations

In 2005, we obtained approximately 30% of our supply of raw materials and components from our top ten suppliers. We do not maintain long-term agreements with our suppliers but instead enter into non-binding framework agreements. We generally seek to rely on at least two suppliers as the principal sources of specific raw materials and purchased components. When only one or two suppliers are used, alternative sources are generally available, although costs may be incurred in transitioning to a new supplier where the contract with a supplier is abruptly terminated. The unexpected transition from one supplier to another may, in certain circumstances, cause a delay in the supply of raw materials or components to us. When practical, we establish multiple sources for the purchase of raw materials and components in an effort to ensure competitive pricing, supply flexibility and protection from supply disruption. Any significant disruption or delay in the supply of raw materials and components to us could have a material adverse effect on our business, financial condition and results of operations.

Exchange rate fluctuations may negatively affect our operations

We report our financial results in New Turkish Lira. We have foreign currency denominated revenues, expenses, assets and liabilities. As a consequence, movements in exchange rates can affect our profitability, the comparability of our results between periods and the carrying value of our assets and liabilities.

In 2005, 24.3%, 41.8% and 33.9% of the costs for our components and raw materials were paid for in U.S. dollars, New Turkish Lira and euros, respectively. Of our total net sales in 2005, 14.7%, 44.7% and 40.4% were generated in U.S. dollars, New Turkish Lira and euros, respectively. We also have other costs which are denominated in currencies other than New Turkish Lira. As a result, we are exposed to foreign exchange rate risk to the extent that the aggregate amount of our expenses or liabilities are not equal to our aggregate revenues or assets in the same currency.

Our revenues from sales to Vestel Foreign Trade are primarily denominated in euro. As a result, the appreciation of the New Turkish Lira has a negative effect on our recorded revenues from exports. As we depend heavily on exports, further New Turkish Lira currency appreciation could have a negative influence on our margins. A significant depreciation of the New Turkish Lira increases our financial expenses with respect to our debt obligations that are denominated in U.S. dollars or the euro but decreases our cost of sales as a percentage of net sales, while a significant appreciation of the New Turkish Lira decreases our financial expenses and increases our cost of sales as a percentage of net sales. In addition, fluctuations in currencies may result in valuation adjustments in our assets and liabilities which could affect our reported results of operations.

Our revenues from sales to Vestel Domestic Marketing are denominated in New Turkish Lira but are determined by reference to a price list in euro, with the New Turkish Lira exchange rate adjusted on a monthly basis. Accordingly, a depreciation of the New Turkish Lira against the euro could have a negative effect on our domestic sales.

We do not enter into any currency hedging contracts.

Vestel Foreign Trade does not enter into long-term sales agreements with its customers, which makes it more difficult for us to forecast production volumes and increases the risks of important customers terminating their orders with little notice

Vestel Foreign Trade, whose sales accounted for 55.2% of our total sales in 2005, does not maintain long-term sales agreements with its customers. Vestel Foreign Trade generally receives orders from its customers, and we in turn receive orders from Vestel Foreign Trade, on a month to month basis. Because Vestel Foreign Trade does not have a guaranteed long-term commitment to purchase a fixed amount of our products, it may be more difficult for us to plan our long-term production volumes and we may from time to time experience low levels of production capacity utilisation. In addition, customers could terminate their relationships with Vestel Foreign Trade Group with little or no notice which would have a material adverse effect on our business, financial condition and results of operations. See "Business—Sales—International Market."

Our production facilities are concentrated in one location

All of our production facilities are located in Vestel City, which is in an organised industrial zone in Manisa, Turkey. Our operations would be subject to significant interruption if the Manisa facility were to experience a major accident or were forced to shut down or curtail production due to unforeseen events, such as extended power outages, industrial accidents or IT problems. In addition, Manisa is in a first degree earthquake risk zone and an earthquake affecting our production facilities would have a material adverse effect on our business and results of operations. No assurance can be given that in the event of the destruction of a material part of our production facilities we could arrange alternative production facilities quickly or without incurring substantial additional expense. In addition, any other natural disaster or event that impacts our ability to access the labour market in or near Manisa, would have a material adverse effect on our business, financial condition and results of operations.

We may be subject to significant product recalls or product liability actions that could adversely affect our business, financial condition and results of operations

Under laws in many countries regulating consumer products, we may be forced to recall or repurchase some of our products under certain circumstances. For example, as a manufacturer of consumer products in Turkey, we are subject to the Consumer Protection Act. Under certain circumstances, the Ministry of Industry and Commerce, consumers or consumers organisations could require us to repurchase or recall one or more of our products. Any repurchase or recall of our products could be costly to us and could damage our reputation. If we were required to remove, or if we voluntarily removed, our products from the market, our reputation could be damaged and we might have large quantities of finished products that could not be sold. Accordingly, there can be no assurance that a product recall would not have a material adverse effect on our business, results of operations and financial condition.

We also face exposure to product liability claims in the event that one of our products is alleged to have resulted in property damage, personal injury or other adverse effects. We have obtained insurance in amounts we believe to be reasonable for product liability matters which may occur in the normal course of business. However, there can be no assurance that product liability claims will not have a material adverse effect on our business, financial condition and results of operations.

We are subject to strict environmental regulations

Our operations are subject to numerous Turkish and local environmental and health and safety laws and regulations, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous and toxic materials, the construction and operation of our plants and standards relating to the discharge of pollutants to air, soil and water. See "Business—Environmental Regulations and Proceedings."

We believe our operations are in substantial compliance with currently applicable environmental and health and safety laws and regulations. We cannot assure you, however, that this will continue to be the case in the future. To the extent we are found to have violated any such laws or regulations, we may be liable to third parties that incur damages as a result of our actions which are harmful to the environment.

In recent years, we have been subject to stricter environmental standards under Turkish legislation, and we expect this development to continue. As discussed below under "—Compliance with EU directives regulating environmental impacts associated with electrical and electronic equipment may have a negative impact on our business and results of operations," some of the EU directives also have a direct or indirect effect on our operations. In addition, as a candidate for EU membership, Turkey has committed itself to implementation of EU environmental legislation by the date of accession. Therefore, Turkey has an obligation to make the necessary adaptations to its legislation which may lead to stricter regulation of environmental matters in Turkey. We may be required to commit substantial financial and other resources to comply with these stricter environmental standards and this could have a material adverse effect on our business, financial condition and results of operations.

Compliance with EU directives regulating environmental impacts associated with electrical and electronic equipment may have a negative impact on our business and results of operations

The EU has adopted two directives specifically regulating environmental impacts associated with electrical and electronic equipment, including white goods. EU Directive 2002/95/EC *"On the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment"* (the "RoHS directive") will ban placement in the EU market of electrical or electronic equipment containing lead, mercury, cadmium, hexavalent chromium and both poly-brominated biphenyls or polybrominated diphenyl ethers flame retardants from July 1, 2006. The RoHS directive allows low maximum concentration values of the restricted substances tolerated in homogeneous materials and lists a number of exemptions for specific applications where the restricted substances can continue to be used. Further requests for exemptions are under consideration at the EU level on an ongoing basis. Under the RoHS directive, we are not directly responsible for compliance, insofar as we do not sell white goods into the EU under our own brand. Our customers for whom we manufacture white goods for sale in the EU under their own brands will be responsible for complying with the obligations set by the RoHS directive and they are likely to pass on compliance obligations to us. Enforcement authorities within each EU member state will carry out market surveillance and conduct checks on products. Our customers should be able to demonstrate compliance by submitting technical documentation or other information to the national enforcement authorities upon request. Our customers may thus require us to produce materials declarations or certificates of compliance for our products. Should any of the products we produce for our customers fail to comply with RoHS requirements, our customers, or we ourselves, may face severe consequences ranging from potential loss of sales resulting from non-compliant products to civil and criminal penalties. As a result, we could lose some or all of our customers operating in the EU. Where we import white goods directly into the EU under the SEG brand name, we will be responsible for ensuring compliance of these products with the RoHS requirements. We believe that our products are currently RoHS compliant but any failure to continue to produce products that are RoHS compliant could have a material adverse impact on our business, financial conditions and the results of operations.

The Waste Electrical and Electronic Equipment ("WEEE") directive 2002/96/CE imposes responsibility upon EU member states to ensure that manufacturers and importers of electrical and electronic equipment finance the costs of collection, treatment, recovery and environmentally sound disposal of such equipment after its useful life. As in the case of the RoHS directive, we are not directly responsible for complying with the requirements of the WEEE directive, insofar as we do not sell white goods into the EU under our own brand. In such a case, our customers will be held responsible for complying with the obligations set by the WEEE directive. However, our customers may require us to re-design some of our products to reduce their cost of compliance with the WEEE directive, which may increase our production costs and have an adverse effect on our business, financial condition and results of operations. Furthermore, the WEEE directive allows EU member states to impose stricter requirements when assessing environmental effects. Some aspects of the national implementing legislation for the WEEE directive thus vary between the members states. Since some EU member states have not yet fully implemented the WEEE directive into their national legislation, some specific requirements and impacts of the directive in these member state will not be known until such implementation occurs. Further, because a small amount of our SEG branded products are sold in Germany, under the WEEE directive, we are subject to obligations with respect to the collection, recovery and treatment of waste electrical products. The SEG products we have sold in Germany and for which we are responsible under the WEEE directive are in the early part of their respective useful lives. To date the costs associated with these obligations have not been material. While we do not expect such costs to be material in the future, we cannot be sure that this will be the case. Increased compliance requirements with WEEE obligations in the future could have a material adverse impact on our business, financial condition and results of operations.

Our success depends on attracting and retaining highly skilled individuals in our senior management

Our success depends partly upon the efforts and abilities of our management team and our ability to attract and retain highly skilled personnel. Our management team has significant experience in our business and has made an important contribution to our growth and success. The loss of the services of any of these individuals could have a material adverse effect on our operations. We do not issue stock options to our management and have no employment or non-competition agreements with our management. In addition, we do not maintain a specific bonus scheme in order to provide incentives to or reward our management. Although we have been successful in attracting highly skilled people in the past, competition for such individuals is intense. There can be no assurance that we will continue to be successful in attracting and retaining such individuals in the future.

Proposed changes in the Turkish corporate tax law will have an adverse effect on our net income if adopted

We have traditionally benefited from certain Turkish corporate tax incentives and as a result our effective corporate tax rate (actual taxes paid as a percentage of income before tax) in 2003, 2004 and 2005 was 0%, 13.7% and 1.3%, respectively. Under the draft corporate tax code (the "Draft Corporate Tax Code") that is expected to be issued by the end of April 2006 with a retroactive effective date of January 1, 2006, the corporate tax rate will be reduced from the current rate of 30% to 20%. In addition, under the Draft Corporate Tax Code, we will not be able to earn new tax credits. We may be able to utilise a portion of our existing tax credits under the Draft Corporate Tax Code. Our overall effective tax rate in 2006 and thereafter is expected to increase and we cannot assure you that this increase will not have a material adverse effect on our business, financial condition and results of operations. See "Taxation—The Republic of Turkey—Corporate Taxation."

A change in the amount or the application of the special consumption tax imposed on sales of white goods in Turkey could adversely affect our business

A special consumption tax is imposed on the sale of white goods in Turkey, in addition to the 18% value-added tax that is imposed on all products. The special consumption tax amounts to 6.7% of the transfer price of refrigerators, washing machines and electric cookers from us to Vestel Domestic Marketing. Although the Minister of Finance stated in April 2005 that there would be no increase in the special consumption tax rate imposed on white goods at this time, there can be no assurance that the tax rate will not be increased in the future. If the Turkish government increases the amount of the special consumption tax or changes the way in which the tax is applied, our financial results could be adversely affected.

We do not expect to pay dividends in the short term to holders of our Shares

Our ability to pay dividends is contingent on us achieving adequate profits and on the business judgement of our board of directors on the soundness of issuing dividends. Even if we generate adequate profits, we may not issue dividends, above the minimum required to be distributed by the CMB, if our board of directors believes that shareholder value may be increased more effectively by using any such profit for other purposes, for example through the planned expansion of our factories, or in investment in expanding, adding or upgrading our production lines. Other than any dividends required to be paid by the rules and regulations of the CMB, we do not expect to pay dividends to holders of our Shares. In addition, our Loan Agreement dated June 2, 2003 with Black Sea Trade and Development Bank restricts us from declaring or paying dividends in excess of 50% of our net profit without the consent of Black Sea Trade and Development Bank. See "Dividends and Dividend Policy."

Our success is dependent on our ability to quickly adapt new technologies into our production process

We focus on the adaptation of new technologies developed by third parties into our production processes. The introduction of new technologies may require us to invest in new equipment for our production facilities. We may be required to commit substantial financial and other resources to the implementation of new technologies and we may not be able to pass on such costs to customers. Any failure to adapt quickly to new technologies could result in decreased consumer demand for our products, which would have a material adverse effect on our business, financial condition and results of operations.

Risk Factors Relating to Turkey

Even though in recent years Turkey has undergone a significant political and economic transformation which has increased stability and led to economic growth, Turkey is generally considered by international investors to be an emerging market. In general, investing in the securities of issuers such as us that have operations primarily in emerging markets like Turkey involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or other similar jurisdictions. Summarised below are a number of risks relating to operating in Turkey and other emerging markets.

Economic developments in Turkey may have a materially adverse effect on our business, financial condition and results of operations in the future

Over the past two decades, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded well to this transformation, it has continued to experience severe macro-economic imbalances, including substantial budget deficits, significant balance of payments deficits, high rates of inflation and high real rates of interest (which are nominal interest rates less inflation) and high unemployment rates.

In May 2000, the Turkish Government began implementing a macroeconomic programme monitored by the International Monetary Fund (the "IMF") with the aim of stabilising the country's financial health. Liquidity crises in the banking sector in November 2000 and February 2001 triggered the most severe economic crisis in Turkey since 1994. In February 2002, the Government and the IMF signed a three-year stand-by agreement, which required the Government to implement certain policy changes and structural reforms. The reforms contributed to economic growth but the economy is still vulnerable to volatility, changes in investor sentiment and political uncertainty. In May 2005, the Government entered into a new three-year stand-by agreement with the IMF. The IMF's support is contingent on Turkey's compliance with the restrictions contained in the stand-by agreement. There can be no assurance that Turkey will be able to meet the conditions of the IMF agreement or that IMF support for Turkey will continue.

Future negative developments in the Turkish economy could impair our business strategies and have a materially adverse effect on our business, financial condition and results of operations.

Political developments in Turkey may have a material adverse effect on our business, financial condition and results of operations in the future

Turkey has been a parliamentary democracy since 1923, although the military has in the past played a significant role in politics and the Government, intervening in the political process through coups in 1960, 1971 and 1980. Unstable coalition Governments have been common, and in the 82 years since its formation, the Republic of Turkey has had 59 Governments with political controversies frequently resulting in early elections. The most recent national elections held on November 3, 2002 resulted in the victory of the Justice and Development Party ("AKP"). AKP, led by Recep Tayyip Erdoğan, received 34.0% of the votes cast and formed a single party Government in the Grand National Assembly ("GNA"). AKP declared that it would continue to implement the current IMF program and the economic policies introduced by the former Government with minor revisions. To date, AKP's economic policies have complied with the IMF program and have relatively stabilised the Turkish economy, as discussed above. The next national election is expected to be held by 2007. A change of Government at the next election could lead to a change in economic policies. Failure to continue to implement the IMF program may have an adverse effect on the Turkish economy and, as a result, on our business, financial condition and results of operations.

The head of state in Turkey is the President of the Republic of Turkey, who is elected by the GNA. The current President, Ahmet Necdet Sezer, the former head of the Constitutional Court, was elected in May 2000 for a seven-year term which will terminate in May 2007. Pursuant to the Constitution, a President cannot be elected twice. The President has had a volatile relationship with the governments formed by the AKP and has vetoed several pieces of legislation passed by the GNA.

The recent appointment of the new chairman of the Turkish Central Bank by the Government was vetoed by the President on March 23, 2006. This veto has raised concerns as to the relationship between the President and the Government and negatively impacted exchange rates for the New Turkish Lira and the performance of the ISE-100. Since March 23, 2006, the dollar has depreciated by 0.49% against the New Turkish Lira and the ISE-100 index has decreased by 4.55%.

Any negative changes in the Government and political environment, including conflicts among senior politicians in Turkey, or the failure of the IMF to complete periodic reviews of the economic programme introduced by the IMF, may all adversely affect the Turkish economy, which in turn could adversely affect our business.

Terrorism within Turkey or conflicts in neighbouring countries may have a material adverse effect on our business, financial condition and results of operations in the future

Political uncertainty within Turkey and in certain neighbouring countries, such as Iran and Iraq, has historically been one of the potential risks associated with investment in Turkish companies. Political instability in the Middle East and elsewhere remains an area of concern.

The four bombings which targeted British and Israeli interests in Istanbul in November and December 2003 appear to have had a limited impact on the Turkish economy. However, if similar attacks occur in the future, Turkey's capital markets, as well as the levels of tourism and foreign investment in Turkey, may suffer. In addition, the bombings in the coastal holiday resorts of Çeşme and Kuşadası in July 2005 and the threat of future terrorism have had and could continue to have an adverse effect on the Turkish economy.

It is possible that further acts of terrorism may be directed in Turkey. While our property and business interruption insurance covers damages to insured property directly caused by terrorism, we cannot be certain that such amounts will be sufficient to cover any losses we may incur. This could have a direct negative impact on our business, financial condition and results of operations.

Turkey has also had problems with terrorist and ethnic separatist groups in past years. The current situation in Iraq and the uncertainty surrounding whether an independent Kurdish state or federation will be formed may contribute to further tension and may result in further terrorist activities by such groups, including activities in Northern Iraq.

Uncertainties relating to European Union membership may adversely affect the Turkish financial markets and result in greater volatility

Turkey has had a long-term relationship with the EU. In 1963, it signed an association agreement with the EU and in 1970 a supplementary agreement was signed providing for a transitional second stage of Turkey's integration into the EU. On December 17, 2004, the European Council agreed to commence negotiations with Turkey and affirmed that Turkey's candidacy will be judged on the same criteria applied to other candidates. Negotiations for Turkey's accession to the EU commenced on October 4, 2005. However, there can be no assurance that Turkey will be able to meet the criteria applicable to become a member state of the EU, that the EU members will deem Turkey's or the Turkish Republic of Northern Cyprus' efforts to reach a settlement satisfactory, or that the EU will maintain its current approach regarding the candidacy of Turkey.

Future earthquakes could damage our facilities and the Turkish economy in general

On August 17, 1999, an earthquake measuring 7.4 on the Richter scale struck the area surrounding İzmit. On November 12, 1999, another earthquake occurred in the city of Düzce, between Ankara and İstanbul, resulting in further financial costs to Turkey. Seismologists classify almost all of Turkey as being in a high risk earthquake zone. Almost 45% of Turkey's population and most of its economic resources are located in a first degree earthquake risk zone (the zone with the highest level of risk of damage from earthquakes). The occurrence of a severe earthquake could affect one or more of our production facilities or those of our suppliers and cause an interruption in our business, which would have an adverse effect on our business. In addition, a severe earthquake could harm the Turkish economy in general, which could adversely affect our business.

The level of inflation in Turkey could adversely affect our business, results of operations and financial condition

The Turkish economy has experienced significant inflationary pressures. Over the five-year period ended December 31, 2000, the Turkish economy experienced annual inflation averaging approximately 65.1% per year as measured by the Turkish wholesale price index. In response, the Government implemented policies intended to combat these persistently high levels of inflation. However, as a result of the financial crises experienced in Turkey in November 2000 and February 2001, the wholesale price index increased to 88.6% at the end of 2001. In line with the stand-by agreements with the IMF in 2000, 2002 and 2005, the Government implemented certain measures to reduce public sector debt and to control inflation. The inflation rate based on the wholesale price index declined from 30.8% at the end of 2002 to 13.9% at the end of 2003, to 13.8% at the end of 2004 and to 4.5% at the end of 2005. The official target for the end of 2006 stands at 5.0%. Although recent Central Bank policies have had some success in reducing inflation, we cannot assure you that they will continue to be successful in the future, especially given the substantial current account deficit Turkey is currently experiencing, global oil prices, global liquidity conditions and the prevailing rigidity in the services sector prices.

If the level of inflation in Turkey were to fluctuate significantly, it is possible that our business, results of operations and financial condition would be adversely affected.

The state of the current account deficit in Turkey could lead to increased inflation which could adversely affect our business, results of operations and financial condition

With the economy expanding, interest rates low, inflation declining and productivity gains at record highs, the Turkish Lira appreciated by almost 47.0% since the end-of 2001 according to the Central Bank's consumer price index based Real Effective Exchange Rate Index. However, given the widening current account deficit and the resulting surge in external financing needs, some Turkish economists are concerned about currency stabilisation. Turkey had a current account deficit of $7.9 billion in 2003 (3.3% of GNP). In 2004, the current account deficit increased to $15.6 billion, accounting for 5.2% of GNP, and in 2005 reached $22.9 billion, or 6.3% of GNP. In a period of uncertainty, the persistent widening of the current account deficit may lead to a sudden adjustment in the New Turkish Lira with inflationary consequences.

Risks Relating to an Investment in the Shares

The pre-emption rights granted to holders of our Shares may be unavailable to U.S. holders of our Shares

In the case of an increase in our capital, holders of Shares are entitled to subscribe for new Shares in proportion to their respective holdings although such pre-emption rights may be restricted by our shareholders. See "Description of Our Share Capital—Pre-emption Rights." To the extent that pre-emption rights are granted, U.S. holders of Shares may not be able to exercise such pre-emption rights unless a related registration statement under the Securities Act is effective or an exemption from the registration requirements thereunder is available.

There has been no prior public market for the Shares and the Shares may experience price and volume fluctuations

Prior to the global offering, there has been no public market for any of our Shares and we cannot assure you that an active market will emerge or can be sustained after the global offering. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected.

The offering price of the Shares will be determined by us, the Selling Shareholder and the Manager and may not be indicative of the market price for the Shares after the listing. The trading price of the Shares could also be subject to significant fluctuations in response to variations in our and our competitors' financial performance, general market conditions and other factors. In addition, international financial markets have from time to time experienced price and volume fluctuations, which have been unrelated to the operating performance or prospects of individual companies. Consequently, a general decline in the market or any decline in the market for similar securities may have a material adverse effect on the trading market for, and the liquidity of, the Shares.

The ISE is smaller and thus less liquid than other major exchanges and may be more volatile, which may adversely affect your ability to trade the Shares

The only trading market for the Shares will be the ISE and we have no plans to list the Shares on any other stock exchange in the near future. The ISE is considerably smaller and less liquid than securities markets in the United States and the United Kingdom. As of December 31, 2005, the total market capitalisation of all the companies listed on the ISE was approximately YTL 216,524 million and a disproportionately large percentage of the market capitalisation and trading volume of the ISE is represented by a small number of listed companies. As of December 31, 2005, the shares of 304 companies were traded on the ISE and the combined market capitalisation of the ten companies with the greatest market capitalisations was approximately 48% of the market capitalisation of all companies trading on the ISE.

The ISE is also a highly volatile market, which is illustrated by its yearly trading volumes and ISE National-100 index figures. Year-on-year changes in trading volumes range from an increase of 1,700% in 1990 to a 20% decrease in 2001, with no demonstrable trend throughout the intervening period. Year-on-year changes in ISE National-100 index figures are similarly volatile, ranging from an increase of 357% in 1989 to a decrease of 57% in 2000, with no demonstrable trend throughout the intervening period.

Trading on the ISE has traditionally been characterised by a high degree of short-term speculative trading, which is at least partially attributable to the relatively underdeveloped institutional investor base in Turkey and to the relatively small size of the retail investor base. The average daily trading volume in 2005 was approximately YTL 1,045 million. The average daily trading volume in the shares of the ten most traded companies on the ISE was approximately YTL 324 million during 2003, YTL 410 million during 2004 and YTL 438 million during 2005. The total average yearly trading value in the shares of the five most traded companies on the ISE was YTL 278 million, which represented approximately 27% of the average daily trading value of all stocks traded on the ISE in 2005.

As is the case for the equity securities of many emerging market issuers, the market value of the Shares may be subject to significant fluctuation, which may not necessarily be related to our financial performance. The quoted price of the Shares is in New Turkish Lira. In addition, dividends, if any, that we pay in respect of the Shares will be paid in New Turkish Lira. Fluctuations in the value of the New Turkish Lira can be expected to affect significantly the value of the Shares and dividend payments upon conversion into other currencies, including the U.S. dollar.

Future sales of substantial amounts of the Shares, or the perception that such sales could occur, could adversely affect the market value of the Shares

Immediately following the completion of the global offering, there will be up to 190.0 million Shares issued and outstanding, 138.0 million of which will be held by the Selling Shareholder (130.2 million if the over-allotment option is exercised). We and the Selling Shareholder have agreed with the Manager not to sell any Shares or securities convertible into or exchangeable for Shares for a period of 180 days following the closing of the international offering. See "Plan of Distribution—Lock-up Agreements." After the end of this period, the Selling Shareholder and we may freely sell Shares. Sales of substantial amounts of the Shares whether by us, the Selling Shareholder or others, or the perception that such sales could occur, could adversely affect the market value of the Shares and could adversely affect our ability to raise capital through future capital increases.

There is only a limited free float of the Shares; this may have a negative impact on the liquidity of and market price for the Shares

After completion of the global offering, up to 52.0 million Shares or 27.4% of our outstanding share capital (59.8 million Shares or 31.5% of our outstanding share capital if the over-allotment option is exercised in full) will be publicly held. The remaining 138.0 million Shares or 72.6% (130.2 million or 68.5% if the over-allotment option is exercised in full) will be held by Vestel Electronics. The limited free float may have a negative impact on the liquidity of the Shares and result in a low trading volume of our Shares, which could adversely affect the then prevailing market prices for the Shares.

CAPITALISATION

The following table sets forth, as of December 31, 2005, (i) our actual cash and cash equivalents, short- and long-term debt and capitalisation and (ii) our cash and cash equivalents, short- and long-term debt and capitalisation as of December 31, 2005, as adjusted to reflect the receipt of the estimated net proceeds from the sale of Shares in the global offering, after deducting the underwriting commissions and expenses and other estimated offering expenses. This table should be read in conjunction with our IFRS Financial Statements and notes thereto included elsewhere in this Offering Circular.

	As of December 31, 2005	
	Actual	As Adjusted
	(YTL)	
Cash and cash equivalents	8,376,929	145,483,784
Short-term debt	20,301,145	—
Long-term debt	77,377,142	77,377,142
Total debt	97,678,287	77,377,142
Shareholders' equity:		
Share capital	153,720,137	311,128,137
Accumulated profit	83,312,834	83,312,834
Total shareholders' equity	237,032,971	394,440,971
Total capitalisation	334,711,258	471,818,113

Between December 31, 2005 and March 27, 2006, our short-term debt increased by approximately YTL 4.0 million and our long-term debt increased by approximately YTL 1.7 million. Except for these increases in short-term and long-term debt, there has been no material change in our capitalisation since December 31, 2005.

USE OF PROCEEDS

We expect that the net proceeds we will receive from the sale of the Shares by us in the global offering will be approximately YTL 157,408,000, after deducting discounts, commissions and estimated expenses related to the global offering.

We intend to use the net proceeds we receive from the global offering primarily to repay certain trade payables and other short-term debt, to finance capital expenditures for planned manufacturing capacity and for general corporate purposes.

To the extent the over-allotment option is exercised, we will not receive any proceeds from the sale of the Shares by the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

In accordance with Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding financial year will be recommended by our board of directors each year for approval by the shareholders at the annual general meeting of shareholders, which must be held within three months following the end of the preceding financial year. Dividends are payable on a date determined at the annual general meeting of shareholders and are required by the CMB to be paid on a date no later than the end of the fifth month following the end of the preceding fiscal year. Distribution of dividends can be made in the form of cash or bonus shares, or a combination of both. Each share entitles its holder to the same amount of dividend.

Net profit is calculated in accordance with our articles of association after deducting expenses, depreciation, required reserves, taxes and any carried forward losses, if any, from the revenues determined at the end of the fiscal period, and distributed as prescribed by the Turkish Commercial Code in the following required order:

- 5% of the net profit is allocated to a first legal reserve until the first legal reserve reaches 20% of our paid-in capital.
- After the deduction of the amount described in the preceding sentence, from the net profit, the amount specified by the CMB is distributed to our shareholders as a first dividend.
- All or part of the remaining net profit may be distributed to our shareholders as a second dividend or retained by us as extraordinary company reserves, all at the discretion of the general meeting of shareholders.
- Upon deduction of dividends equal to 5% of the paid-in capital from the portion which is resolved to be distributed to the shareholders, 10% of the remaining amount is set aside as a second reserve.

The calculations described above are performed using statutory financial statements prepared according to the Turkish Commercial Code and Turkish tax legislation, which may differ from our IFRS accounts significantly due to different depreciation, expense and revenue, and foreign exchange gain and loss recognition standards.

The date and form of distribution of dividends are determined by our shareholders within the framework of the CMB regulations.

According to current CMB regulations, a minimum of 30% of the net profit of public companies must be distributed to shareholders as a first dividend, either in cash or as bonus shares or as a combination of cash and bonus shares. However, the CMB may, from time to time, change the amount of dividends required to be distributed by public companies.

The CMB requires the distribution of a minimum of 30% of distributable profit as the first dividend (described above) for those public companies which have prepared their financial statements for the fiscal year 2005 in accordance with IFRS; however, if profits calculated according to the Turkish Commercial Code are lower than profits according to IFRS, then the Turkish Commercial Code profits are used as the basis for the dividend distribution. This new requirement will not affect our dividend distribution in 2006 because we were not a public company in 2005. However, if the CMB imposes similar requirements with respect to 2006 and because we have elected to apply IFRS for that period, in 2007 we will be required to distribute at least 30% of our distributable profit as the first dividend.

Pursuant to the Capital Markets Law, public companies may distribute interim dividends in accordance with the following criteria:

- interim dividends must be based on quarterly audited financial statements prepared in accordance with the Turkish Taxation Code;
- interim dividends cannot exceed 50% of the net profits for the relevant interim period;
- the aggregate amount of interim dividends in one fiscal year cannot exceed the lesser of (x) 50% of distributable profits for the previous fiscal year, or (y) the extraordinary reserves approved by the general meeting of shareholders;
- any interim dividends previously paid must be deducted from any subsequent interim dividend payments within the same fiscal year;

- the articles of association of the company must permit the distribution of interim dividends and the general meeting of shareholders must authorise the board of directors to declare such distributions for each year that they wish to have interim dividend distributions; and
- holders of privileged classes of shares and any non-shareholders entitled to receive dividends are not allowed to receive interim dividends.

Currently, our articles of association allow us to distribute interim dividend payments to our shareholders. No dividends or additional interim dividends may be distributed until the interim dividends of the previous year are deducted in their entirety from the net profit for a certain period.

Under Turkish law, the statute of limitations in respect of annual or interim dividend payments is a period of five years following the date of the general meeting of shareholders approving the distribution, after which time uncollected dividends are transferred to the Government.

We have not paid any dividends to our shareholders in the past. The timing and amount of any future dividend payments will depend on our existing and future financial condition, results of operations, liquidity needs and other matters that we may consider relevant from time to time, including, without limitation, capital expenditures, operating market conditions and equity market conditions. Other than any dividends required to be paid pursuant to CMB regulations, we do not expect to pay dividends in the short term to holders of our Shares.

To the extent we declare dividends in the future, we will pay those dividends solely in New Turkish Lira. Dividends or other distributions received by a holder of Shares will, under current Turkish regulations, be subject to certain withholding taxes. See "Taxation" for a summary of certain Turkish and U.S. federal tax consequences to holders of Shares. As a result of the continuous fluctuation of rates of exchange between the New Turkish Lira and other currencies, a holder of Shares will be subject to currency fluctuations generally and particularly between the date on which dividends are declared and the date dividends are paid.

Our loan agreement dated June 2, 2003 with Black Sea Trade and Development Bank restricts us from declaring or paying dividends the aggregate amount of which would exceed 50% of our net profits in a financial year. This loan agreement will terminate when all amounts have been repaid under this facility. Currently EUR 7,875,000 (YTL 12,823,650 as of March 29, 2006) is outstanding under this facility. This loan agreement is scheduled to mature in 2009.

EXCHANGE RATES

The Turkish Lira has historically been and continues to be a highly volatile currency. Although until February 2001 it was a stated policy of the Turkish Central Bank to devalue the Turkish Lira in line with the domestic inflation rate, the Turkish Central Bank has since adopted a floating exchange rate policy, resulting in increased volatility in the value of the Turkish Lira.

The following table sets forth the high, low, period average and period end exchange rates for euro announced by the Turkish Central Bank, expressed as the number of Turkish Lira per euro, for the period indicated.

Year ended December 31,	High	Low	Period Average[(1)]	Period End[(2)]
2001	1,496,482	622,059	1,097,145	1,268,115
2002	1,718,945	1,121,588	1,431,496	1,703,477
2003	1,857,985	1,496,686	1,685,166	1,745,082
2004	1,892,890	1,576,029	1,767,961	1,826,800
2005[(3)]	1.8460	1.5804	1.6686	1.5874
2006 (through April 12, 2006)[(3)]	1.6878	1.5495	1.5973	1.6221

Source: Turkish Central Bank

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's euro buying rates on the last business day of each month during the relevant period.

(2) Represents the Central Bank's euro ask rate on the last business day for the relevant period.

(3) New Turkish Lira.

The following table sets forth the high and low exchange rates for euro announced by the Turkish Central Bank, expressed as the number of New Turkish Lira per euro (based on the YTL amounts per euro prevailing therein), for the periods indicated.

	High	Low
2005		
October	1.6381	1.5943
November	1.6129	1.5804
December	1.6123	1.5384
2006		
January	1.6199	1.5920
February	1.5964	1.5510
March	1.6284	1.5495
April (through April 12, 2006)	1.6378	1.6141

The Central Bank exchange rate for euro on April 12, 2006 was YTL 1.6221 EUR 1.00.

The value of the Turkish Lira against the U.S. dollar depreciated by approximately 114.3% and 13.5% in 2001 and 2002, respectively, and appreciated by approximately 14.6% and 3.8% in 2003 and 2004, respectively. In 2005, the Turkish Lira was relatively unchanged against the U.S. dollar compared to 2004.

The following table sets forth the high, low, period average and period end exchange rates for U.S. dollars announced by the Turkish Central Bank, expressed as the number of Turkish Lira per U.S. dollar, for the period indicated:

Year ended December 31,	High	Low	Period Average(1)	Period End(2)
2001	1,636,942	663,739	1,228,499	1,439,567
2002	1,688,410	1,286,543	1,506,603	1,634,501
2003	1,746,390	1,348,023	1,492,479	1,395,835
2004	1,550,710	1,336,300	1,416,812	1,342,100
2005(3)	1.4000	1.2541	1.3408	1.3418
2006 (through April 12, 2006)(3)	1.3562	1.2964	1.3268	1.3360

Source: Turkish Central Bank

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's U.S. dollar buying rates on the last business day of each month during the relevant period.

(2) Represents the Central Bank's U.S. dollar ask rate on the last business day for the relevant period.

(3) New Turkish Lira

The following table sets out the high and low exchange rates for U.S. dollars announced by the Turkish Central Bank, expressed as the number of New Turkish Lira per U.S. dollar (based on the YTL amounts per U.S. dollar prevailing therein), for the periods indicated:

	High	Low
2005		
October	1.3644	1.3417
November	1.3552	1.3370
December	1.3463	1.3156
2006		
January	1.3441	1.3156
February	1.3322	1.3060
March	1.3562	1.2964
April (through April 12, 2006)	1.3417	1.3295

The Central Bank exchange rate for U.S. dollars on April 12, 2006 was YTL 1.3360 = $1.00.

MARKET OVERVIEW

Introduction

This market overview is based on available independent data and, unless otherwise stated, the source of such data is IMS Research. We have provided data as of the most recent dates available. References to white goods in this overview are to refrigerators and freezers, washing machines, dishwashers, air conditioners and dryers, except where otherwise stated. We have been unable to provide data on cooker sales in the European market as such data, for the periods covered, is presently unavailable. See "Market and Industry Information."

The principal markets in which we compete are Europe and Turkey, which together accounted for 94.1% of our sales in 2005. References in this overview to Europe are to the current 25 member states of the European Union, Switzerland and Norway.

Worldwide White Goods Market

The world market for white goods, excluding cookers, was estimated to be worth over $100 billion in 2004. The leading products in the global white goods market are refrigerators, washing machines and air conditioners. Taken together, these products accounted for more than three-quarters of the total global white goods market, excluding cookers, in 2004.

The global white goods market is highly consolidated with 30 to 40 leading white goods manufacturers accounting for a high proportion of the total market. Around one-third of these companies are large multinationals such as BSH, Electrolux, General Electric Company ("General Electric"), Haier Co., Ltd ("Haier"), LG Electronics Inc., ("LG") and Whirlpool. Medium-sized, largely regional, suppliers such as Arçelik, The Candy Group, Indesit, Maytag Corporation, Miele Company Limited ("Miele") and Midea Holding Co., Ltd ("Midea") represent approximately another third. We believe that we would be categorised as being within this latter group. The rest are smaller companies that mainly supply their local markets.

The white goods industry is highly competitive. Most of the leading manufacturers have been involved in the market for many years, and the industry is highly capital intensive.

The market for larger home appliances such as cookers, washing machines and refrigerators tends to be limited by geographical factors because of the high cost of shipping bulky appliances. As a result, these products tend to be manufactured in or near the region in which they are sold. Geographical factors have less impact for smaller products such as air conditioners which can generally be shipped at more economical rates.

The principal factors affecting growth in the global white goods industry include general economic and social development, household growth, product penetration, pricing and the technological development of products.

Europe

According to Datamonitor, the European white goods market was estimated to represent approximately 33% of the global white goods market in 2004. Growth in highly developed white goods markets such as Europe is particularly affected by the replacement rates for existing appliances.

The European white goods market (excluding air conditioners) is dominated by a small number of manufacturers including Electrolux, which is the market leader, BSH, Indesit and Whirlpool, which together account for approximately one-half of the market. The European air conditioner market is dominated by Chinese manufacturers such as Guangdong Kelon Electrical Holdings Company Limited ("Kelon") and Midea.

As a result of high existing penetration rates and pricing pressures, sales of large kitchen appliances experienced slow growth by value in most product segments throughout the period from 2002 to 2004 while showing slightly larger increases by volume in the same period.

The European white goods market for washing machines, dryers, dishwashers, refrigerators, freezers and room air conditioners grew from approximately 50.6 million units in 2002 to an estimated 54.5 million units in 2004. Laundry appliances (washing machines and dryers) accounted for nearly 40% of the total market, and a similar percentage was estimated for refrigeration appliances (refrigerators and freezers).

The following table sets forth the household penetration rates in 2004 for the same products.

	Dishwashers	Dryers	Freezers	Refrigerators	Washing machines	Air conditioners
France	47.8%	27.1%	55.1%	96.2%	95.0%	15.3%
Germany	60.7%	38.0%	58.8%	99.0%	95.0%	4.6%
Italy	35.2%	3.2%	35.7%	97.1%	97.1%	38.0%
Spain	33.4%	14.1%	17.2%	88.0%	97.0%	36.1%
United Kingdom	31.7%	55.0%	47.8%	99.9%	93.4%	5.5%
Rest of Europe (excluding 10 newest EU members)	50.0%	37.1%	58.3%	92.7%	86.8%	16.2%
10 newest EU members	5.0%	9.2%	35.2%	96.3%	79.2%	1.4%

There is a high level of penetration for refrigerators and washing machines in Europe. These are therefore mainly replacement markets, though there is a moderate level of household growth from single person occupancy and an increase in multiple ownership, particularly of refrigerators. There is a lower level of penetration for dishwashers, which is expected to increase as they become established as an affordable core appliance. The markets for dryers and air conditioners is influenced by the different weather patterns in Northern and Southern Europe, with dryer demand higher in the north and air conditioner demand higher in the south. The market for air conditioners in Italy and Spain is expected to experience growth.

In order to compensate for the lack of sales growth, manufacturers are focusing on the development of value-added top of the line products. Consumers have become increasingly sensitive to the design and functionality of white goods products while remaining demanding in terms of lasting quality. Brand loyalty, although still a major consideration, is becoming less important than design and appearance.

Turkey

In 2005, the Turkish market for refrigerators, washing machines, dishwashers and cookers was estimated to be worth approximately $2 billion, according to the Turkish White Goods Association. Relative to Europe, the white goods market in Turkey benefits from higher population growth, lower white goods product penetration and faster increasing growth in household wealth.

White goods demand in Turkey during the period from 1995 through 2005 was volatile, with increases from 1995 to 1997 followed by low or negative growth during the period from 1997 through 2002, followed by significant increases in 2003 and 2004. The pattern of demand has generally followed the health of the Turkish economy. As a result of recent economic reforms, the Turkish economy is expected to outpace the Africa and Middle East average through the second half of the decade.

Turkey has one of the largest white goods industries in the region due to a combination of its sizeable domestic market and well developed export market which has developed due to its position as a low-cost manufacturing environment to serve the European market. Shipments from facilities in Turkey reached 5.5 million units in 2005 for refrigerators, 1.7 million units for cookers and 4.4 million units for washing machines, with exports accounting for approximately 60% of the total.

The following table sets forth the annual unit sales in Turkey for the period from 2002 through 2005 for each of the products which we currently produce.

Product segment	2002	2003	2004	2005
Dishwashers	281,864	261,108	525,645	628,954
Electric ranges	339,399	377,868	598,687	621,727
Refrigerators/freezers	1,088,035	1,361,804	2,003,525	2,107,852
Washing machines	823,925	1,075,589	1,916,831	1,830,601

Source: Turkish White Goods Association Report, January 2006

The following table sets forth the annual unit sales for the period from 2002 through 2005 for the same products which are manufactured in Turkey and exported.

Product segment	2002	2003	2004	2005
Dishwashers	148,875	239,206	268,663	366,152
Electric ranges	996,578	1,189,415	1,325,943	1,102,172
Refrigerators/freezers	2,247,436	3,034,472	3,013,783	3,639,575
Washing machines	988,601	1,550,076	2,219,381	2,680,268

Source: Turkish White Goods Association Report, January 2006

The following table sets out the household penetration rates for each of the years from 2002 through 2004 for the following products in Turkey.

Product segment	2002	2003	2004
Refrigerators	98.0%	98.9%	98.9%
Washing machines	67.5%	69.0%	70.5%
Dryers	1.1%	1.2%	1.3%
Freezers	11.0%	12.0%	12.9%
Dishwashers	19.0%	19.8%	20.3%
Air conditioners	1.6%	1.7%	1.7%

Because there is a high level of penetration for refrigerators in Turkey, the market is now mainly a replacement market. Market penetration for freezers is still quite low and is expected to increase. Washing machine penetration is slowly increasing toward the levels in Europe. Dryer penetration is, however, low mainly because of the arid climate and competition from combination washer/dryers. Dishwashers are popular in Turkey, with a penetration rate of approximately 20%, which is above the regional average, possibly because of local production and promotion by Turkish manufacturers. The penetration of air conditioners is low as they continue to be seen as a non-essential appliance.

BUSINESS

Overview

We design and manufacture a broad range of refrigerators and freezers, washing machines, air conditioners and cookers principally for residential use. We operate as an ODM or an OEM to retailers, distributors and other manufacturers of products for sale primarily in Europe, Turkey, the Middle East and North Africa. We also manufacture white goods for sale under the Vestel, Regal and SEG brands in Turkey, under the Vestel and Regal brands in certain North African and Middle Eastern countries and under the SEG brand in Germany. Our 275,600 square metre manufacturing complex is located in Manisa, Turkey. We expect to expand our product offering and begin producing dishwashers in the first half of 2007. We have increased our total annual production capacity from 2,750,000 units as of December 31, 2003 to 3,450,000 units as of December 31, 2004 and 5,450,000 units as of December 31, 2005.

We sell all the products we manufacture to Vestel Foreign Trade and Vestel Domestic Marketing, wholly owned subsidiaries of our parent company, Vestel Electronics. Vestel Foreign Trade and Vestel Domestic Marketing also market and sell other products produced by the Vestel Group such as televisions, computers and DVD players and they, along with certain of their affiliated companies, are responsible for providing all of our after-sales services. We licence the "Vestel" and "Regal" trademarks from Vestel Electronics and Vestel Domestic Marketing, respectively.

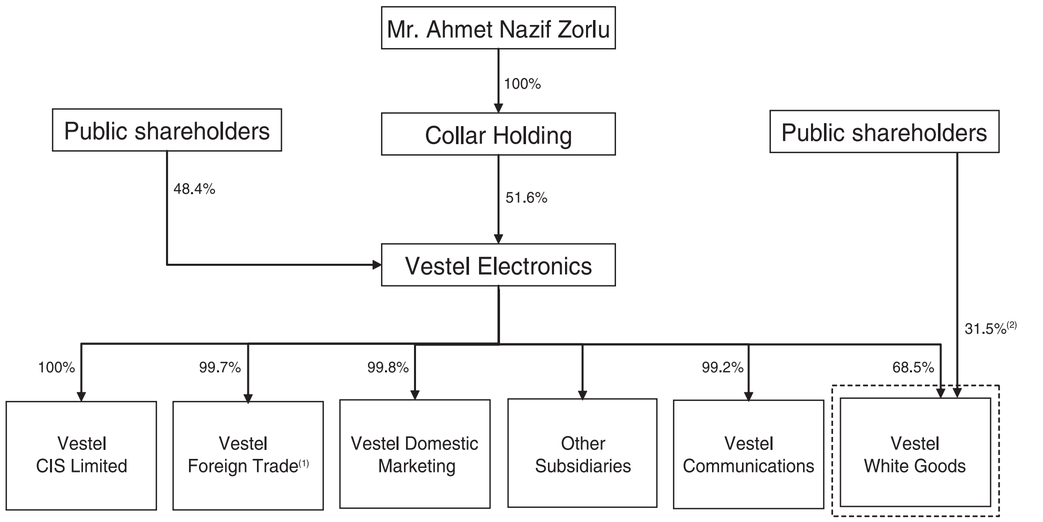
Vestel Foreign Trade is responsible for the marketing and sale of our products outside of Turkey. Vestel Foreign Trade and its local affiliated companies market and sell our products (i) to retailers such as Metro Group ("Metro"), Conforama and Carrefour SA ("Carrefour") for resale under their private label brands, or under our SEG brand, (ii) to distributors who sell the products to retailers under brand names owned by the distributors, and (iii) to manufacturers such as Whirlpool, Fagor Brandt Group-Appliances ("Fagor Brandt") and Smeg for resale under brand names owned by the manufacturers. In 2003, 2004 and 2005, 59.3%, 53.1% and 55.2%, respectively, of our net sales were derived from the sale of white goods to Vestel Foreign Trade.

Vestel Domestic Marketing markets and sells our products in Turkey to approximately 1,200 points of sale under the Vestel brand name and to six wholesalers under the Regal brand name. Vestel Domestic Marketing also markets and sells a small amount of our products to retail chain stores for resale in Turkey under the stores' private label brand names or under the SEG brand name. According to AC Nielsen, Vestel was among the top ten recognised name brands in Turkey in 2004. In 2003, 2004 and 2005, 40.6%, 46.8% and 44.7%, respectively, of our net sales were derived from the sale of white goods to Vestel Domestic Marketing.

As of the date of this Offering Circular, Vestel Electronics, which is indirectly controlled by Mr. Ahmet Nazif Zorlu, owns 35.0% of our total issued and outstanding Shares. Immediately prior to the completion of the global offering, Vestel Electronics will purchase, at the offer price in the global offering, from members of the Zorlu family and Zorlu Holding, the remaining Shares in us that it does not then own. Accordingly, following the completion of the global offering, Vestel Electronics will own 72.6% of our total issued and outstanding Shares (68.5% if the over-allotment option is exercised in full).

For the years ended December 31, 2003, 2004 and 2005, our operating income was YTL 67,282,084, YTL 102,353,466 and YTL 58,279,919, respectively. As of December 31, 2005, we had total assets of YTL 587,802,427 and 2,978 employees.

The chart below sets forth our expected structure after giving effect to the share purchase by Vestel Electronics and the global offering:



(1) Includes foreign marketing companies.
(2) Assuming exercise of the over-allotment option in full.
Note: Direct and indirect shareholdings combined.

History

We were incorporated as a joint stock company in Turkey on November 13, 1997 (trade registry number 380814-328396) under the name Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., by the Zorlu Group to manufacture refrigerators in Turkey. In 1998, Vestel Electronics acquired a 10.0% interest in us, and in 2003 Vestel Electronics purchased a further 25.0% interest in us from the Zorlu family members. We commenced production of refrigerators and freezers in 1999, air conditioners in 2000, washing machines in 2003 and cookers in the fourth quarter of 2005.

Strategy

We believe that, over the next several years, many European white goods industry participants will increasingly seek to outsource the manufacturing of their products. We believe that this is primarily driven by low growth in the European white goods market combined with rising manufacturing and selling, general and administrative costs and overheads. We intend to increase our sales to European markets by taking advantage of this trend based on our competitive manufacturing advantage and existing customer relationships of the Vestel Group. In addition, we intend to continue to improve our market share in the Turkish white goods market and seek to explore new markets where the penetration of white goods is currently low. We intend to implement this strategy by taking the following actions:

Expand our product offering. We expect to expand our sales, particularly to existing customers, by leveraging our economies of scale and offering a broader range of products. We began offering cookers in the fourth quarter of 2005 and expect to start offering built-in refrigerator freezers in the third quarter of 2006. We expect to begin producing quieter and larger washing machines, quieter and more energy efficient frost-free refrigerators and an expanded range of cookers in 2006. In addition, we expect to begin producing dishwashers in the first half of 2007.

Provide increasingly differentiated products to customers. We design and manufacture our products to meet the exact specifications of our customers, as well as local consumer preferences. Our products are customised to meet the electrical, regulatory and other requirements of the country into which they are being sold. We believe that this represents a significant competitive advantage compared to our Asian competitors, which generally manufacture and ship generic products that require specific features to be added in higher cost European destinations, prior to being sold to end-users. In 2005, we sold more than 10,000 varieties of refrigerators, washing machines and air conditioners based on more than 100 production platforms, reflecting our ability to manage production of a number of differentiated products in an efficient manner.

Continue to reduce manufacturing costs. We continue our efforts to reduce our operating costs, and we intend to continue to explore further cost reduction measures in the future. Our research and development team of more than 130 persons continuously seeks to implement improvements in product design and manufacturing processes to further decrease manufacturing costs. We have a dedicated employee based in Asia who serves an important role in our procurement of lower cost raw materials and components from that region. We believe that our focus on cost reduction will help us to partially offset the effects of inflation and rising commodity prices.

Continue to exploit our position as primarily an OEM and ODM manufacturer and designer of white goods products for the European market. We do not sell our Vestel or Regal branded products in Europe, and we sell relatively small amounts of our SEG brand only in Germany. We believe that we are not viewed as a "competitor" by manufacturers such as Electrolux and Whirlpool because we do not compete with their brands in Europe and, therefore, they may be more willing to contract with us as an OEM/ODM. We believe that as a result we can expand our sales to customers in Europe as they increasingly seek to outsource manufacturing to lower-cost countries.

Competitive Strengths

We believe that we possess a number of strengths that provide us with a competitive advantage over other white goods manufacturers:

Modern state-of-the-art production facilities. Our modern 275,600 square metre manufacturing complex in Manisa, Turkey includes two refrigerator plants, a combined air conditioner-cooker plant and a washing machine plant. Our first refrigerator plant was completed and the production lines installed in 1999 and our second refrigerator plant was completed and the production lines installed in 2005. Our air conditioner and cooker production lines were installed in 2000 and 2005, respectively. Our washing machine plant was completed and the production lines installed in 2003. We regularly maintain and upgrade our production facilities in order to ensure that they are kept in optimal working order.

Logistical advantages. All of our production facilities are located in Manisa, Turkey, which is 30 miles from the port city of İzmir. This provides us with logistical advantages in terms of transporting our finished products to export markets. Compared with our Asian competitors, we are closer to our European markets, which provides us with a significant competitive advantage when shipping bulky items such as refrigerators. In addition, we benefit from the customs union between Turkey and the European Union, which allows us to export white goods to EU countries free of customs duties in certain cases.

Proximity to local suppliers of raw materials and components. Since 1999, over 20 of our suppliers (many of which manufacture components for us based on our specifications) have established operations in Manisa. In 2005, we purchased 34.5% of our raw materials and components from suppliers that were located in Manisa. In order to optimise our manufacturing flexibility, we have established a website on which these suppliers can access our production plans and inventory reports in real time. Based on this information, our local suppliers provide just-in-time-deliveries to our production lines and can make multiple deliveries per day, providing us the flexibility to quickly modify our production plans to meet the needs of our customers.

Access to affordable labour force and flexible working practices. İzmir is Turkey's third largest city and, combined with Manisa, has a population of approximately 4.6 million people. Accordingly, we have access to a large and affordable labour force and have a significant advantage in terms of labour costs as compared to our European Union competitors. According to the Economist Intelligence Unit, in 2005 the average hourly cost for a blue collar worker in the European Union was $25.76 compared to $2.41 in Turkey. In addition to this significant difference in hourly cost, the typical working week in the European Union is 35 to 40 hours compared to 45 hours in Turkey.

Strong market position in the Turkish white goods market. We are one of the leading designers and manufacturers of white goods for the Turkish market. According to the Turkish White Goods Association, we increased our market share in the Turkish refrigerator market from approximately 11.9% in 2002 to approximately 19.4% in 2005 and in the Turkish washing machine market from approximately 5.5% to approximately 16.7% over the same period.

Well positioned to develop our presence in white goods markets with low market penetration rates. We believe that the white goods markets in Turkey, the Middle East and North Africa have higher growth prospects compared to the relatively mature market in Western Europe. For example, according to IMS Research, the penetration rate in 2004 for washing machines in France and Germany was 95.0% compared to 70.5% in Turkey and 15.0% in the Middle East and North Africa. According to the same source, growth in demand for white goods products in North Africa and the Middle East is expected due to low penetration rates, an improving economic outlook driven by improving political and economic stability and a young, growing population. We believe that we are well positioned to benefit from these factors.

As a member of the Vestel Group, we enjoy a number of significant advantages. We are a member of the Vestel Group and derive a number of advantages from this relationship. First, we benefit from the use of the strong "Vestel" brand in Turkey. Second, our marketing, sales and distribution functions are performed by other Vestel Group companies that have a network of sales offices in Europe and an efficient distribution network in Turkey. Third, other companies in the Vestel Group provide us with financing, guarantee certain of our obligations and provide us with information technology and legal services. Fourth, we can negotiate with suppliers and service companies as part of the Vestel Group, which we believe enhances our bargaining power with these third parties.

Products

We design and manufacture refrigerators and freezers, washing machines, air conditioners and cookers, principally for residential use. We expect to begin producing a broad range of dishwashers for residential use in the first half of 2007.

Current Products

Refrigerators

We have been producing refrigerators (including freezers) since 1999. We manufacture a complete line of freestanding refrigerators, freezers and combination refrigerator and freezers. Our models include single and double door, table top, no frost refrigerators and frost free refrigerator freezers. The refrigerators we manufacture, principally targeted for residential use, range in capacity from 79 to 515 litres and in energy use per year from 113 kwh to 767 kwh. We manufacture energy efficient refrigerators to meet the needs of specific markets. Currently, we produce 45 standard refrigerator models which may be customised in more than 5,000 different ways based on the needs of our customers.

Washing Machines

We have been producing washing machines since 2003. We manufacture front loader mechanically controlled washing machines with spin speeds ranging from 400 rpm to 600 rpm and electronically controlled washing machines with spin speeds ranging from 600 rpm to 1600 rpm. Our washing machine drum capacities range from 37 litres to 57 litres. We manufacture machines which operate on 220 volts with a frequency of 50 or 60 hertz. Currently, we produce three drum sizes, eight standard faces and eight different speeds of washing machines. These basic models may be customised in more than 5,000 different ways based on the needs of our customers.

Air Conditioners

We began producing air conditioners in 2000. We manufacture single-split and multi-split air conditioners. Our single-split units are produced with capacities of 7,000, 9,000, 12,000, 18,000 or 24,000 British Thermal Units per hour ("BTU/hr.") and our multi-split units are produced with capacities of 18,000 or 21,000 BTU/hr. A single-split air conditioner consists of a fixed outdoor unit with a weatherised cabinet connected to a single indoor unit by copper piping and electric cable. A multi-split air conditioner consists of a fixed outdoor unit with a weatherised cabinet connected to two indoor units by copper piping and electric cable. The individual indoor units in the multi-split air conditioners have capacities of 9,000 or 12,000 BTU/hr. We currently produce nine different aesthetic models with four different compressor types. Our basic split air conditioners may be customised in hundreds of different ways depending on our customer's specifications.

Cookers

We began producing cookers in the fourth quarter of 2005. Our cookers consist of 50 and 60 centimetre wide free standing cookers and built in ovens and hobs. We produce gas, electric and gas/electric combination cookers. We produce our hobs, consisting of four hob units, in gas, electric and ceramic versions. Our free standing cookers are produced in heights of 85 and 90 centimetres and our built in ovens are 60 centimetres wide. We produce our cookers to meet the different energy classifications of our target markets. Currently we produce eight standard cooker models which may be customised in more than 100 different ways based on the needs of our customers.

Planned Product

Dishwashers

We have completed the initial planning phase to develop a dishwasher factory, to be located at our Manisa production facilities, and obtain and develop dishwasher technology. We expect to complete our dishwasher production facilities and commence production of dishwashers in the first half of 2007. The dishwasher factory is planned to have an initial capacity of 500,000 units per annum and to have a covered area of approximately 18,000 square metres.

Manufacturing

General

All of our products are manufactured at our 275,600 square metre manufacturing complex located in Manisa, Turkey. We own approximately 177,000 square metres of the facility and lease the remainder from Vestel Electronics. Our Manisa manufacturing complex is part of Vestel City, a 500,000 square metre manufacturing complex where other members of the Vestel Group manufacture products such as televisions, computers and DVD players.

Our production process facilitates the manufacturing of a wide range of models based on standardised platforms. By manufacturing products on standardised platforms we are able to reduce the time necessary to set up a production line to manufacture a particular model and to change a production line to manufacture other similar models. The production process is flexible, meaning that different sized refrigerators, washing machines, air conditioners and cookers can be produced on the same assembly lines.

We impose strict quality control standards covering all aspects of the manufacturing process. All of the units that we produce are tested for electricity consumption, safety and other important performance criteria. In 2002, we adopted the ISO 9000 standards, which set quality guidelines for manufacturers and require an independent party to audit and document the compliance guidelines twice a year. Except for our new cooker factory assembly lines which were recently completed, all our assembly lines at our Manisa facility received ISO 9001 re-certification in 2003. We expect to receive ISO 9001 certification for our cooker facility assembly lines by the end of 2006.

We continue to develop new designs for our products to augment our existing designs, and we are in various stages of development of new products incorporating new technologies.

Production Facilities

The following table sets forth the area currently occupied by our production and warehouse facilities.

	Square metres
Refrigerator	150,000
Washing machines	27,600
Air conditioners	31,500
Cookers	31,500
Warehouse space	35,000

We completed construction of our second refrigerator factory in the second quarter of 2005 and completed our cooker production lines in the fourth quarter of 2005. We expect to complete our dishwasher production facilities and commence production of dishwashers in the first half of 2007.

The following table sets forth our production capacities as of December 31, 2003, 2004 and 2005 for the products we currently produce. The table also sets forth our expected production capacities as of December 31, 2006. These production capacities were calculated based on three shifts working 24 hours a day every day of the year except Sundays and holidays.

	As of December 31,			
	2003	2004	2005	2006 (Estimate)
	(units)			
Refrigerators	1,500,000	2,000,000	2,250,000	2,500,000
Washing machine	1,000,000	1,000,000	1,500,000	2,000,000
Air conditioners	250,000	450,000	700,000	700,000
Cookers	—	—	1,000,000	1,000,000
Total	2,750,000	3,450,000	5,450,000	6,200,000

The following table sets forth the actual number of units of each of our products produced in the periods indicated.

	Year ended December 31, 2003	2004	2005
		(units)	
Refrigerators	1,133,771	1,415,188	1,718,091
Washing Machines	58,209	712,858	1,020,850
Air Conditioners	177,111	287,379	369,497
Cookers	—	—	76,982
Total	1,369,091	2,415,425	3,185,420

Raw Materials and Purchased Components

We purchase raw materials and components for our products from suppliers in Turkey and elsewhere. Raw materials and components from Turkey and the EU constituted 46.8% and 26.6%, respectively, of our total costs for raw materials and components in 2004 and 33.7% and 42.4%, respectively, in 2005. Customs duty is payable on our products which are sold in the EU market if these products do not contain a certain percentage by value of EU sourced components. In 2004 and 2005, 32.5% and 34.5%, respectively, of our total costs for raw materials and components were related to purchases from suppliers located in Manisa. We encourage our domestic suppliers to relocate to Manisa to be close to our production facility.

Our production system is designed to minimize raw material and in process inventories through close coordination of delivery of raw materials and components from outside suppliers at our manufacturing facility. In particular, we outsource the production of certain components used in our manufacturing process generally to local companies in Manisa who manufacture for us. We assist these local companies in certain cases by providing them with moulds and assisting them in negotiating the supply of raw materials. In order to deal efficiently with these local suppliers, we have established a website in which suppliers can access in real time updated information such as production plans, stock reports, bills of materials and suppliers' performance reports. These local suppliers are responsible for just-in-time deliveries to our production lines and can make multiple deliveries per day based on their reviews of our stock reports and production schedules.

The principal raw materials we use for production of our products are steel, polyurethane, plastics and copper tubing. The principal components we use are compressors and motors. The following table sets forth our primary suppliers of raw materials and components in 2005.

Raw Material/Component	Supplier
Steel	Borçelik Çelik Sanayi Ticaret A.Ş. Ereğli Demir Çelik Fabrikaları A.Ş.
Polyurethane	The Bayer Group
Plastics	The Dow Chemical Company
Polystysol	BASF AG
Copper tube	Golden Dragon Group Halcor Metal Works S.A.
Compressors	Tecumseh Products Company Embraco Empresa Brasileria de Compressores SA Arçelik A.Ş. The Danfoss Group ACC Group Ebru Group Samsung Electronics Co., Ltd. ("Samsung") Matsushita Electric Industrial Co. Ltd. ("Panasonic") Hitachi, Ltd. Rechi Precision Co., Ltd.
Motors	Ana Group C.E. SET S.R.L. Ib MEI SA

Although we do not maintain long-term agreements with our suppliers, we have not suffered any material interruption in production as a result of a shortage in components or raw materials or delays in their supply. We review our relationships with suppliers at least every 12 months. When practical, we seek to establish multiple (at least two) sources for the purchase of raw materials and components to encourage competitive pricing, supply flexibility and protection from supply disruption. When only one or two suppliers are used, alternative sources are generally available, although costs may be incurred in transitioning to a new supplier where one of our suppliers is abruptly terminated. We will continue our efforts to identify and ensure availability from alternative suppliers, particularly for components that come from a more limited number of sources. We believe that we have adequate sources of raw materials and components for our manufacturing requirements.

As of December 31, 2005, we employed 18 people in our purchasing department. These included two purchasing managers, one assistant general manager and four purchasing specialists assigned to each of our current production lines. Our purchasing department is responsible for monitoring our levels of inventory and dealing with suppliers. We work closely with major suppliers to ensure that all major components meet quality and performance standards. Typically, outside suppliers provide warranties on all major purchased components. In addition, we work with suppliers to ensure that components meet the requirements of the RoHS directive. See "Risk Factors—Risk Relating to Our Business—We are subject to strict environmental regulations." We have a dedicated employee based in Asia who serves an important role in locating low-cost suppliers of components for our products.

We maintain a substantial level of raw material and component inventory in order to respond to the needs of customers on a rapid and flexible basis. From time to time, we may increase or decrease inventory levels for motors, compressors, steel or plastics in order to protect our business against fluctuations in raw material and component prices.

Research and Development

Our research and development team's main focus is on the adaptation of new technologies developed by others into our production process, as well as on research to keep our products competitive by improving product cost, safety, reliability and performance and ensuring compliance with environmental standards. We do not expend significant resources developing new technologies. We have more than 130 full-time research and development personnel. We also strive to reduce manufacturing costs through standardisation, size and weight reduction, the application of new technology and improvements in production techniques. Our goal is to respond to market needs and the technological demands of government regulation.

Sales

We sell all the products we manufacture to Vestel Foreign Trade, which sells them principally to markets in Western Europe, the Middle East and North Africa and to Vestel Domestic Marketing for sale in Turkey. We do not sell our products directly to any other customers nor do we deal directly with the customers of our products other than Vestel Foreign Trade and Vestel Domestic Marketing. Vestel Foreign Trade and Vestel Domestic Marketing also sell and market other products produced by the Vestel Group such as televisions, computers and DVD players. In addition, Vestel Domestic Marketing also sells and markets products the Vestel Group does not produce such as JVC cameras, audio equipment and flatscreen and plasma television sets, Motorola and Samsung cellular telephones, Zap digital satellite dishes and receivers, high end built-in kitchen products by Zanussi and other white goods not currently produced by us. See "Risk Factors—Risks Relating to Our Relationships with the Vestel Group and the Zorlu Group—We have no sales or marketing capabilities of our own and rely on other Vestel Group companies for these services."

As a manufacturer of consumer products, we may be subject to statutory warranties in the markets in which our products are sold. Contractual warranties also may be provided by Vestel Foreign Trade and Vestel Domestic Marketing to their customers, as discussed below.

International Market

Our relationship with Vestel Foreign Trade is governed by an agreement dated as of January 1, 2005 under which Vestel Foreign Trade has agreed to market and sell our products outside of Turkey. In 2003, 2004 and 2005, 59.3% 53.1% and 55.2%, respectively, of our net sales were derived from the sale of products to Vestel Foreign Trade. Vestel Foreign Trade does not carry any inventory and we sell our products to it only when it has an agreement to resell such product. We receive payment from Vestel Foreign Trade when it receives payment from its customers. Vestel Foreign Trade generally requires its customers to provide letters of credit, guarantees or credit risk insurance to protect against bad debt risks. Vestel Foreign Trade earns a 1.0% margin on these sales. See "Related Party Transactions—Sales and Marketing—Vestel Foreign Trade."

Vestel Foreign Trade Sales and Marketing Team

As of December 31, 2005, Vestel Foreign Trade employed a 15 person sales team, including two area sales managers, dedicated to the sale of white goods products.

Delivery of Goods to Vestel Foreign Trade

We deliver our products by truck or rail to Vestel Foreign Trade at the port of İzmir, if the products are to be shipped by sea to destinations such as Europe and North Africa. Vestel Foreign Trade or one of its local marketing companies then ships the products to ports such as Le Havre in France or Bremen in Germany, where they are transported by truck to customers' warehouses or stores. In these cases, we pay for the costs of delivering the product to the port of İzmir, and Vestel Foreign Trade or its local marketing company bears the risks and expenses of transporting products from that port to the customers' warehouse or point of sale as requested by the customer. Products destined for Middle Eastern markets are shipped from our Manisa facilities by rail or road across Turkey. Vestel Foreign Trade takes delivery of our product for shipment to the Middle East at the Manisa train station if by rail, or at our factory if by road, and Vestel Foreign Trade bears the risks and expenses from that point.

Vestel Foreign Trade's Customers

Vestel Foreign Trade sells and markets our products outside of Turkey, principally in Europe, the Middle East and North Africa. Vestel Foreign Trade has local affiliated companies in Belgium, France, Germany, Holland, Italy, Luxembourg, Portugal, Romania, Spain and the United Kingdom. Vestel Foreign Trade sold our products to over 100 customers in 2005.

Vestel Foreign Trade currently sells and markets our products to retail chain stores for resale principally in Western Europe under the stores' private label brands, to distributors for resale under the distributors' own brands, and to manufacturers for resale principally in Western Europe under the manufacturers' brands. No more than 5% of our net revenues in 2005 were derived from the sale of our products by Vestel Foreign Trade to any single customer. Vestel Foreign Trade also sells and markets our products in the Middle East and North Africa.

Vestel Foreign Trade's local affiliated companies also employ sales personnel responsible for marketing products of The Vestel Group.

Europe

Vestel Foreign Trade's local marketing companies manage the accounts of customers in these markets, from taking orders for our products through to delivery and provision of after-sales service. The local marketing companies also monitor the local market and maintain relationships with commercial customers in the countries in which they are located. Vestel Foreign Trade's local marketing companies employ people who are familiar with the local culture and can relate well to commercial customers in their countries. In 2003, 2004 and 2005, 49.7%, 48.9% and 49.4%, respectively, of our net sales were derived from products sold in Europe.

In a typical transaction, the local marketing companies will present our customisable product range to a potential customer which then makes its selection from our range. The local marketing company then submits the customer's order to Vestel Foreign Trade which in turn forwards the order to our factory manager for the relevant product. The factory manager reviews the order, including the required timing for production and price. If the factory manager accepts the order, production is commenced. If the factory manager does not accept the order, he may suggest alternative terms and conditions to Vestel Foreign Trade and Vestel Foreign Trade will communicate these terms and conditions to the local marketing company which may attempt to renegotiate the order with its customer. We do not deal directly with customers. Although its customers do not enter into long-term contracts, Vestel Foreign Trade maintains an ongoing relationship with its major customers in order to discuss and agree estimated future product specifications and requirements. Vestel Foreign Trade generally accepts firm orders for one month and receives forecasts for another three months. Vestel Foreign Trade provides us with this information regularly to assist us in purchasing and planning our production schedules.

Vestel Foreign Trade is not required to pay us for products until it has received payment from its customer. Vestel Foreign Trade's payment policy is to require its customers to provide guarantees or letters of credit, or cash or bank drafts against goods or documents. Payment terms generally range from payment on receipt of goods to approximately 40 days. Sales by Vestel Foreign Trade are principally denominated in euro within the European market and U.S. dollars in other export markets.

Vestel Foreign Trade sells products manufactured by us to the following retail stores, among others, which resell our products in Europe under the following private label brands.

Retail Store	Countries	Brand	Products
Carrefour	France, Spain, Italy, Portugal, Switzerland, Belgium, Greece	Firstline	Refrigerators Washing machines
Metro	Germany, Italy, Spain Greece, Belgium	Alaska	Refrigerators Washing machines
Conforama	France, Spain, Italy, Greece, Belgium	FAR	Refrigerators Washing machines
Aldi	Germany	TEVION	Refrigerators

Vestel Foreign Trade sells products manufactured by us to the following distributors, among others, which resell our products in Europe under the following private label brands.

Distributor	Countries	Brand	Products
Frigor A/S ("Frigor")	Algeria	Frigor	Refrigerators Washing machines Air conditioners
Tadiran Appliances Ltd. ("Tadiran")	Israel	Tadiran	Refrigerators Washing machines
Electra Israel Ltd ("Electra")	Israel	Electra	Refrigerators Washing machines
Astra	Greece	Voxson	Refrigerators Washing machines Air conditioners

Vestel Foreign Trade sells products manufactured by us to the following manufacturers, among others, which resell our products in Europe under the following brands.

Manufacturer	Countries	Brand	Products
Indesit	United Kingdom	Hotpoint	Refrigerators
Whirlpool	France, Netherlands, Ireland, Italy, Germany, Sweden	Whirlpool, Platinum, Laden and Ignis	Refrigerators
Fagor Brandt	France	Brandt, Ocean, Vedette	Washing machines
General Electric	Spain, Italy	GE	Air conditioners
Electrolux	Europe and North Africa	Electrolux	Refrigerators and Washing machines

North Africa and the Middle East

Vestel Foreign Trade sells products manufactured by us to customers in North Africa and the Middle East including:

- to Rose, an Iraqi company which distributes our products in Iraq under the Vestel brand;
- to Haier & Ranjoo International Co. which distributes our products in Iran under the Vestel, Daewoo and Hyundai brands; and
- to Tadiran, Electra, Lenco & Bayrere and New Pan in Israel which generally sell under their own brands.

Vestel Foreign Trade also sells unassembled refrigerators manufactured by us exclusively to Frigor in Algeria for final assembly and distribution under the Frigor brand, and non-exclusively in Egypt to Olympic Group for final assembly and distribution under their own brand in Egypt. Where we have exclusive arrangements with a distributor in a particular market we seek to require a certain specified level of sales for at least the first six months. If the distributor does not meet these requirements, the exclusivity is terminated. In 2005, 5.9% of our net sales were derived from products sold by Vestel Foreign Trade to distributors for resale in the Middle East and North Africa.

Order taking from and payment by commercial customers in North Africa and the Middle East are structured similarly to transactions with customers in Europe except that the actions taken by the local marketing companies in Europe are performed directly by Vestel Foreign Trade.

Domestic Market

Our relationship with Vestel Domestic Marketing is governed by the terms of an agreement dated January 1, 2005, under which Vestel Domestic Marketing has agreed to market and sell our products in Turkey. See "Related Party Transactions—Sales and Marketing—Vestel Domestic Marketing." In 2003, 2004 and 2005, we derived 40.6%, 46.8% and 44.7% of our net sales from the sale of products to Vestel Domestic Marketing.

Vestel Domestic Marketing Sales and Marketing Team

As of December 31, 2005, Vestel Domestic Marketing employed 12 sales managers. The sales managers report to four regional sales managers each of whom is responsible for a different geographic region. Unlike many other sales teams in Turkey, Vestel Domestic Marketing's sales team has been using laptop computers since 2000. All of its sales force receives extensive training regarding the broad range and variations of our white goods products. Vestel Domestic Marketing maintains a GPS based database of white goods retailers throughout Turkey. This database is used to determine market strategy and plan the distribution of retailers of our products.

As of December 31, 2005, Vestel Domestic Marketing employed one assistant general manager, two marketing managers, 12 product managers, one communications manager, two e-commerce managers and one market researcher in its marketing division. One of the marketing managers and five of the product managers are solely responsible for white goods marketing.

Vestel Domestic Marketing carries out advertising campaigns and promotions in Turkey in respect of products it sells and offers sales incentives to dealers. Advertising campaigns are principally conducted in newspapers, television and radio.

Vestel Domestic Marketing promotes and facilitates various sales strategies through retailers including credit card discount schemes, extended warranties, buy now-pay later consumer financing arrangements and "bundling" products of Vestel Group companies together. Vestel Domestic Marketing also promotes instalment purchase programs, in which the risk of a customer defaulting on instalment payments is borne by the relevant dealer and not by Vestel Domestic Marketing or us.

Delivery of Goods to Vestel Domestic Marketing

We deliver our products to Vestel Domestic Marketing's warehouse facility located at Vestel City in Manisa and we bear any and all risks and expenses only to such point. Vestel Domestic Marketing bears the costs, risks and expenses of transporting our products from Vestel Domestic Marketing's warehouse to its customer's warehouse or point of sale, as requested by the customer.

Vestel Domestic Marketing's Customers

Vestel Domestic Marketing sells and markets our products primarily to approximately 1,200 retail points of sale across Turkey under the Vestel brand name and to six wholesalers who sell our products to retailers under the Regal brand name. Vestel Domestic Marketing also sells and markets small amounts of our products from time to time to retail chain stores such as Carrefour and Metro, for resale in Turkey under the stores' private label brand names or under the SEG brand name.

Showroooms and Shops

Points of sale for our products include approximately 1,200 Vestel branded showrooms and shops located across Turkey. These stores are generally modern and located in prime locations. The stores can range in size from less than 50 square metres to over 200 square metres, and most stores are between 50 square metres and 150 square metres in area.

Vestel Domestic Marketing typically enters into agreements with the dealers who own showrooms and shops which require them to maintain specified levels of service and meet specified revenue targets. The dealer agreements are typically for a term of three years. Each dealer is required to purchase our products from Vestel Domestic Marketing. Vestel Domestic Marketing requires dealers to provide a bank letter of guarantee, cash collateral or security over real estate to cover part of their payment obligations. The minimum retail price of our products is established by Vestel Domestic Marketing and us, and active measures are taken by Vestel Domestic Marketing to discourage price discounting by dealers. Vestel Domestic Marketing monitors the service provided by the dealers and terminates or does not renew dealer agreements with those dealers that do not maintain high standards of service or meet their specified revenue targets.

Vestel dealers can input their orders themselves through the internet or through our salesmen when they visit the dealerships. The salesmen input the order through the Vestel Group's SAP system, which can be done online at the dealers' premises. The order is then delivered to us through the SAP system.

In addition, approximately 35 smaller retail outlets sell small amounts of our white goods products. These smaller retail outlets tend to be older stores that offer a more limited selection of durable goods products and may also sell white goods products not distributed by Vestel Domestic Marketing. As part of its strategy to increase the quality of Vestel retail outlets, Vestel Domestic Marketing is seeking to increase the number of larger Vestel showrooms and decrease sales to mixed brand stores.

Wholesalers

Our Regal brand of white goods products is marketed and sold by Vestel Domestic Marketing to six wholesalers. These wholesalers sell our products to over 1,100 mixed product stores across Turkey more than 400 of which display a Regal sign on their shop front. The Regal brand was created in 2000 solely for use in the wholesale channel and is marketed as a strong and durable brand name that represents good value for money. If it deems necessary, Vestel Domestic Marketing requires wholesalers to provide a bank letter of credit, cash collateral or security over real estate to cover part of their obligations.

Retail Chain Stores

Vestel Domestic Marketing sells a small amount of the products we manufacture to retail stores in Turkey such as Carrefour, Metro and Tansaş Perakende Mağazacılık ve Ticaret A.Ş. ("Tansaş"), which resell our products under their private labels. In certain cases, products may be sold under the SEG brand name.

After-Sales Services

We do not provide after-sales services and depend on Vestel Foreign Trade and Vestel Domestic Marketing to provide these services.

International Market

In Western Europe, Vestal Foreign Trade arranges for after-sales services to be provided by third parties. It does not arrange for after-sales services in the Middle East, North Africa or Eastern Europe.

Domestic Market

Vestel Domestic Marketing has approximately 400 service offices and approximately 3,000 certified technicians that are dedicated to servicing and installing our white goods products throughout Turkey. Vestel Domestic Marketing also has a consumer services department and call centre that answers and manages incoming consumer calls, allocates service and installation requests to the appropriate service office and monitors servicing and installation performance through consumer satisfaction questionnaires. Vestel Domestic Marketing provides three-year warranties on our products to its customers. We do not provide contractual warranties to Vestel Domestic Marketing, although we are responsible for product defects under statutory warranties.

Competition

European Market

In the European market, we compete principally in the production of OEM/ODM products and do not sell our Vestel or Regal branded products, except that we sell a limited amount of our SEG branded products in Germany. We compete principally on the basis of price and quality, our proximity to European markets, our low labour costs and our exemption from certain customs duties between Turkey and the European Union.

Our main competitors in the European OEM/ODM refrigerator and washing machine manufacturing market are Arçelik, Antonio Merloni and Snaige. Our main competitors in the European OEM/ODM air-conditioner manufacturing market are Chinese manufacturers such as Kelon, Guangdong Galanz Enterprises Group Co., Ltd ("Galanz") and Midea. The main producers of OEM/ODM cookers, dryers and dishwashers for the European market are Arçelik, Indesit, Fagor Brandt, IAR Siltal S.p.A. and Amica Wronki SA.

Many of our competitors in the OEM/ODM market also sell their own branded products in the European market. For example, Arçelik sells its products under its own brands which include Beko and Blomberg. We consider the fact that our branded products generally do not compete with those of our OEM/ODM customers to be a competitive advantage.

Turkish Market

In the Turkish market, we compete in two main areas, branded products and OEM/ODM products. Our competitive advantages in both segments include our local production, the alignment of our products to Turkish market preferences and our product quality.

We compete in the branded products segment with our Vestel and Regal brands. Our Vestel branded products are generally considered to be "B" brands in the Turkish market. They are positioned higher than "C" brands such as Regal but below "A" brands such as Miele or Arçelik. Our Vestel branded products benefit from the strong "Vestel" brand, which is well known in Turkey, the extensive dealer network of Vestel Domestic Marketing, the ability of Vestel Domestic Marketing to assist its dealers in offering competitive credit terms to customers and Vestel Domestic Marketing's wide network of after-sales service centres.

Our Regal branded products are generally considered to be "C" brands in the Turkish market. This brand is mainly targeted toward lower income customers. The Regal brand is marketed as a strong and durable name brand that represents good value for money.

Our principal competitors in the Turkish market in the production of branded refrigerators and washing machines are Arçelik and BSH and, to a lesser extent, Indesit. In the production of air conditioners our competitors are various Chinese manufacturers, such as Kelon, Galanz and Midea. In the production of cookers and dishwashers, our competitors are Arçelik and BSH.

We also act as an OEM/ODM for chain stores in the Turkish market such as Carrefour, Metro and Tansaş. Our principal competitors in the Turkish market in the production of OEM/ODM refrigerators and washing machines are Indesit; in the production of air conditioners our competitors are various Chinese manufacturers, such as Kelon; and in the production of cookers, our competitors are Indesit and various Chinese manufacturers.

North African and Middle Eastern Markets

In the North African and Middle Eastern markets, we compete either as an OEM/ODM or by selling our own branded products depending upon the specific country in which our products are sold.

In the Egyptian market, we compete solely as an OEM/ODM. Our main competitors in the Egyptian OEM/ODM market are Arçelik and Electrolux in refrigerators and washing machines, and Unionaire and Carrier Corporation in air conditioners.

In the Israeli market, we compete principally as an OEM/ODM. Our main competitors in the Israeli white goods markets are Antonio Merloni, Arçelik and Snaige.

Our main competitors in Iraq are Arçelik and BSH in refrigerators and washing machines, and Mitsubishi Corporation and Arçelik in air conditioners.

Our principal business in Iran is as an OEM/ODM. Our main competitors as OEMs/ODMs in the Iranian market are LG, Samsung, Arçelik and Yashisaran in refrigerators and washing machines, and LG and Samsung in air conditioners.

We are present in the Algerian market as an OEM/ODM. Our main competitors in the Algerian OEM/ODM market are Arçelik and Sonaem, an Algerian government-owned company.

Properties

Our ownership of our manufacturing and warehouse properties in Manisa is subject to restrictions set forth in our agreements with the Manisa Organised Industrial Zone including the right of the Manisa Organised Industrial Zone to repurchase the properties in certain circumstances. We lease a 35,000 square metre warehouse facility at Manisa and a 63,000 square metre manufacturing facility, which we use for air conditioner and cooker production at Manisa, from Vestel Electronics.

Intellectual Property

We licence the trademarks, "Vestel" and "Regal," from Vestel Electronics and Vestel Domestic Marketing, respectively, for the design, manufacture and sale of white goods. We have a licence to use the SEG trademark for the design, manufacture and sale of refrigerators and freezers. See "Risk Factors—Risks Relating to Our Relationships with the Vestel Group and the Zorlu Group—We do not own the trademarks we use and a failure by the owners to protect the trademarks could have a material adverse effect on our business, financial condition and results of operations" and "Related Party Transactions—Intellectual Property."

Information Technology

We use a modern information and data processing Enterprise Resource Planning system called SAP/R3 in order to control operating and accounting functions. The SAP/R3 system integrates our operational, logistics, finance and accounting systems within the Vestel Group, particularly with respect to production costs, control of sales, budgeting and inventory assessment. In addition, the SAP/R3 system co-ordinates supply chain management, customer relationship management, bar-coded production information collection and business-to-business solutions for electronic information exchange. The SAP/R3 system allows us to respond quickly to changes in demand and to monitor our production and quality control processes. We use product identification codes which allow us to track a product from the quality control phase all the way to the customer.

The operating systems and hardware we use, other than the personal computers which belong to us, but including the SAP3/R3 system and the local area network at Manisa, are provided and serviced by IBM Türk Ltd. Şti. ("IBM"), pursuant to a seven-year agreement recently entered into between Zorlu Holding and IBM. Zorlu Holding has the right to extend the agreement for an additional three-year term. Our information technology network is connected to the network of many of our affiliates in the Vestel Group throughout Turkey. IBM provides its services jointly to us and other companies in the Vestel Group. Zorlu Holding has not yet determined the arrangement under which we will pay the charges for the services rendered to us by IBM, but we expect that the costs incurred under the agreement with IBM will be allocated among all Vestel Group companies.

Environmental Regulations and Proceedings

Our activities are subject to Turkey's environmental laws and regulations, which are administered at the national level by the Ministry of Environment and by a variety of regional and local authorities. Such laws regulate, among other things, waste water discharge, air pollution and the generation, handling, storage, transportation, treatment and disposal of waste materials. We are subject to annual inspections by external environmental authorities that investigate our compliance with Turkey's environmental laws and regulations. In addition, we regularly conduct internal audits to monitor our waste water discharge and other emissions. We believe that our production processes comply in all material respects with all applicable environmental, health and safety laws and regulations, and that any expense or liability that we may incur in connection with any non-compliance with any such law or regulation will not be material. We are not the subject of any pending or, to our knowledge, threatened legal or administrative proceedings or private claims relating to environmental matters. Under current Turkish laws and regulations, the relevant authorities may suspend or terminate non-complying operations, levy monetary penalties and require non-complying entities to bear the cost of related remediation programmes.

Our products which are sold in the European Union are required to be labelled in accordance with the WEEE directive and contain components complying with the RoHS directive, and our products comply with these requirements. As an OEM/ODM, manufacturing outside the European Union, we do not believe that we are subject to any obligations with respect to collection, recovery and treatment of waste electrical products under the WEEE Directive in any EU country in which our products are sold under other companies' brand names. However, see "Risk Factors—Risks Relating to Our Business—Compliance with EU directives regulating environmental impacts associated with electrical and electronic equipment may have a negative impact on our business and results of operations" for a discussion of certain risks relating to the EU directives.

We maintain regulatory licences, permits and approvals for the operation of our production facilities in accordance with the relevant legislation.

Insurance

We believe that we maintain adequate insurance in respect of our buildings, inventory, plant and equipment. However, certain of our insurance policies in respect of accidental damage, power outages and explosion damages set limits on claims that are below the replacement cost of the asset they insure. We also have business interruption insurance in relation to machinery breakdowns. We maintain accident and third party and product liability and product recall insurance, together with insurance for the transportation of our products as well as for loss and theft. These policies are maintained with Turkish insurance companies which generally, in turn, reinsure their risks in the international markets. These insurance policies are arranged through Marsh Insurance and Re-Insurance Brokerage A.Ş., an affiliate of Marsh & McLennan, a global insurance broker. We maintain earthquake insurance as part of our property insurance.

In 2005, we paid YTL 226,824 in insurance premiums. We believe that the insurance coverage maintained by us is adequate. We have not experienced any material disputes with our insurance companies in respect of insurance claims made by us.

In the event of any major disaster which materially affects the operation of our production facilities, we have undertaken minimal contingency planning, in particular in relation to the replacement of lost production. No assurance can be given that, in the event of the destruction of a material part of our production process and facilities, we could source alternative production facilities. See "Risk Factors—Risk Factors Relating to Turkey—Future earthquakes could damage our facilities and the Turkish economy in general."

Legal Proceedings

We are not subject to any litigation, arbitration, regulatory action or other dispute which would involve, individually or in the aggregate, potential liabilities which we believe would have a material adverse effect on our business, financial condition or results of operations, nor are we aware that any such disputes are pending or threatened against us. We are a party to various proceedings including those relating to employee termination severance payments, though we do not believe any such proceedings are, individually or in the aggregate, material. We are also a party to a patent infringement action initiated by one of our competitors regarding a refrigerator component, and, although we believe this is unlikely to have any significant adverse effect on our business and production, we cannot assure you that this will be the case.

Employees

As of December 31, 2005, we had 2,978 employees, comprised of 2,653 hourly workers and 325 salaried workers. 1,738 of our hourly workers were employed in our refrigerator operations, 180 in our air conditioner operations, 490 in our washing machine operations and 239 in our cooker operations. As of December 31, 2005, six of our hourly workers were not assigned to a specific product.

The following table sets forth the number of employees as of the dates indicated (exclusive of temporary employees).

	As of December 31,		
	2003	2004	2005
Salaried	150	218	325
Hourly	1,809	2,349	2,653
Total	1,959	2,567	2,978

We continuously seek to increase the quality of our work force through enhanced recruiting efforts, competitive compensation and employee training programmes. Our strategy is to recruit from the large local labour pool in Manisa and İzmir. From time to time we use the services of employees from Vestel Electronics based on seasonal production demands. During the time they are working for us we reimburse Vestel Electronics for the cost of these employees or pay these employees directly.

We do not have any employees who are members of labour unions. We have never experienced any industrial action or other work stoppages resulting from labour disputes. We believe our relationship with our current employees is good. However, we are engaged in litigation with some of our former employees relating to their dismissal from the Company. See "—Legal Proceedings."

SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data as of and for the three years ended December 31, 2003, 2004 and 2005 has been extracted from the IFRS Financial Statements and is qualified in its entirety by reference to, the IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

Our IFRS Financial Statements have been restated for the changes in the general purchasing power of the New Turkish Lira as of December 31, 2005 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 date of the most recently presented balance sheet, which for the purposes of this Offering Circular is December 31, 2005, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the WPI published by the SIS. See Note 2 to our IFRS Financial Statements.

The IFRS Financial Statements as of and for the three years ended December 31, 2003, 2004 and 2005 have been audited by Grant Thornton. See "Presentation of Financial and Certain Other Information."

You should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the IFRS Financial Statements and the notes thereto included elsewhere in this Offering Circular.

	Year ended December 31,		
	2003	2004	2005
		(YTL)	
Income Statement Data			
Net sales	448,953,377	731,263,359	810,072,731
Cost of sales	(377,126,248)	(611,262,404)	(721,566,385)
Gross profit	71,827,129	120,000,955	88,506,346
Operating income	67,282,084	102,353,466	58,279,919
Monetary gain	9,690,379	4,849,716	3,923,800
Financing expense, net	(7,661,302)	(16,885,760)	(1,471,982)
Income before tax	69,311,161	90,317,422	60,731,737
Taxation on income	(7,744,924)	(17,598,890)	(11,064,012)
Net income	61,566,237	72,718,532	49,667,635

	As of December 31,		
	2003	2004	2005
	(YTL, except shares outstanding)		
Balance Sheet Data			
Trade receivables	26,312,101	137,194,256	143,664,580
Inventories	48,748,743	85,158,101	101,588,396
Other current assets	2,946,018	4,025,044	8,554,409
Trade payables	74,319,589	183,894,855	178,111,187
Other payables and accrued expenses	3,889,092	5,621,998	54,680,841
Share and Per Share Data			
Weighted average number of shares outstanding	138,000,000	138,000,000	138,000,000
Earnings per share(1)	0.45	0.53	0.36
Dividends per share(2)	—	—	—

	For the year ended December 31,		
	2003	2004	2005
Operating Data and Financial Ratios			
Working capital(3)	(201,819)	36,860,548	21,015,357
Return on average equity(4)	n/a	48.2%	23.4%
Debt to equity ratio(5)	57.9%	41.3%	41.2%
Net debt to equity ratio(6)	55.8%	39.9%	37.7%
Gross margin(7)	16.0%	16.4%	10.9%
Operating margin(8)	15.0%	14.0%	7.2%
Net margin(9)	13.7%	9.9%	6.1%

	For the year ended December 31,		
	2003	2004	2005
		(number of units)	
Other Data			
Refrigerator production	1,133,771	1,415,188	1,718,091
Refrigerator export sales	904,956	1,068,666	1,316,687
Refrigerator domestic sales	222,980	348,515	377,778
Total refrigerator sales	1,127,936	1,417,181	1,694,465
Washing machine production	58,209	712,858	1,020,850
Washing machine export sales	27,141	383,472	730,325
Washing machine domestic sales	22,201	309,960	285,253
Total washing machine sales	49,342	693,432	1,015,578
Air conditioning unit production	177,111	287,379	369,497
Air conditioning unit export sales	114,705	161,925	148,145
Air conditioning unit domestic sales	62,842	117,937	184,250
Total air conditioning unit sales	177,547	279,862	332,395
Cookers production	—	—	76,982
Cookers export sales	—	—	1,156
Cookers domestic sales	—	—	71,285
Total cookers sales	—	—	72,441

Notes:

(1) Earnings per share has been calculated on the basis of the weighted average number of shares outstanding during the relevant period after giving retroactive effect to any rights issues and bonus issues.

(2) We have not declared dividends for any of the three years ended December 31, 2005.

(3) Working capital means current assets less cash and cash equivalents minus current liabilities less current borrowings and taxation on income.

(4) Return on average equity is net income divided by average shareholders' equity. Average shareholders' equity is calculated as the simple average of the period beginning and period ending shareholders' equity.

(5) Debt comprises current and non-current borrowings.

(6) Net debt comprises current and non-current borrowings less cash and deposits with banks.

(7) Gross margin means gross profit as a proportion of net sales, expressed as a percentage.

(8) Operating margin means income from operations as a proportion of net sales, expressed as a percentage.

(9) Net margin means net income as a proportion of net sales, expressed as a percentage.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information in "Selected Financial and Other Data" and the IFRS Financial Statements, including the notes thereto, included elsewhere in this Offering Circular. IFRS differs in certain significant respects from U.S. GAAP. For a description of certain significant differences between IFRS and U.S. GAAP, see "Summary of Certain Significant Differences between IFRS and U.S. GAAP."

References to "export sales" are to the sale of our products to Vestel Foreign Trade and references to "domestic sales" are to the sale of our products to Vestel Domestic Marketing. Both Vestel Foreign Trade and Vestel Domestic Marketing are wholly owned subsidiaries of our parent company, Vestel Electronics.

This discussion includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors."

Overview of Our Business

We design and manufacture a broad range of refrigerators (including freezers), washing machines, air conditioners and cookers principally for residential use. We operate as an ODM or OEM to retailers, distributors and other manufacturers of white goods for sale in Europe, Turkey, the Middle East and North Africa. We also manufacture white goods for sale under the Vestel, Regal and SEG brands in Turkey, under the Vestel and Regal brands in certain North African and Middle Eastern countries and under the SEG brand in Germany.

We sell all the products we manufacture to Vestel Foreign Trade and Vestel Domestic Marketing. Vestel Foreign Trade is responsible for the marketing and sale of our products (as well as other products of the Vestel Group) outside of Turkey, and Vestel Domestic Marketing is responsible for the marketing and sale of our products (as well as other products of the Vestel Group) in Turkey, pursuant to agreements with us. See "Related Party Transactions—Sales and Marketing."

We have no subsidiaries.

Application of IAS 29

Our financial statements have been restated for the changes in the general purchasing power of the New Turkish Lira as of December 31, 2005 based on IAS 29, "*Financial Reporting in Hyperinflationary Economies*." IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy such as Turkey's be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the WPI published by the SIS.

Pursuant to IAS 29, non-monetary items in our financial statements, including income and expense items attributable thereto, are restated on a monthly basis pursuant to the WPI. In accordance with IAS 29, all fixed-asset investments, other investments, intangible assets, shareholders' equity and related income and expense items in our financial statements have been restated on the basis of changes in the WPI from the WPI published in respect of the month of the relevant transactions to the WPI published in respect of the restatement date, December 31, 2005.

Within hyper-inflationary economies, holding local currency monetary assets in excess of monetary liabilities results in a loss, since the real value of the monetary assets decreases in line with the inflation rate. Conversely, if monetary liabilities exceed monetary assets, a gain results as the real value of such liabilities decreases. The net gain or loss is defined as "monetary gain (loss)" and is one of the major items in inflation-adjusted financial statements.

IAS 29 also requires that the loss or gain on our net monetary position be included in our restated net profit (loss). Net monetary position is defined as monetary assets less monetary liabilities. Since the amounts included in the net monetary position are stated in nominal money units, they need not be restated, whereas the other financial statement items are restated as described in Note 2 to our IFRS Financial Statements.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that we could realise or settle the same values of assets and liabilities as indicated on the consolidated balance sheets. Similarly, it does not necessarily mean that we could return or settle the same values of equity to our shareholders. For a more detailed discussion of the application of IAS 29 in our financial statements, see Note 2 to our IFRS Financial Statements.

The WPI and conversion factors that are used in the presentation of our financial statements in the equivalent purchasing power of New Turkish Lira as of December 31, 2005 and for the preceding three financial years are set forth in the following table:

	WPI	Conversion Factor
December 31, 2005	8,786	1.000
December 31, 2004	8,404	1.045
December 31, 2003	7,382	1.190
December 31, 2002	6,479	1.356

Principal Factors Affecting Our Results of Operations

The European Economic Environment

Our results of operations are and will continue to be significantly influenced by export sales, through Vestel Foreign Trade, to Europe, principally to France, Spain, Italy, Germany, Greece and the United Kingdom. In 2003, 2004 and 2005, 59.3%, 53.1% and 55.2%, respectively, of our net sales were derived from sales to Vestel Foreign Trade. We believe the white goods market is relatively stable in our European markets and sales are mainly driven by replacement demand. However, consumption patterns in these countries may be affected by overall macroeconomic trends in the economy of each such country. See “Market Overview—Europe.” According to Bloomberg, the Eurozone economy grew by 0.9% in 2003, 1.6% in 2004, and 1.9% in 2005 in real GNP terms and the reported rate of inflation in the Eurozone was 2.0%, 2.4% and 2.2% in 2003, 2004 and 2005, respectively.

We believe that, over the next several years, many European white goods industry participants will increasingly seek to outsource the manufacturing of their products. We believe that this is primarily driven by low growth in the European white goods market combined with rising manufacturing and selling, general and administrative costs and overheads. We intend to increase our sales to European markets by taking advantage of this trend based on our competitive manufacturing advantage and the existing customer relationships of the Vestel Group. We also expect our export sales through Vestel Foreign Trade to be favourably impacted as large European retailers, which rely on ODMs and OEMs to produce their branded products, continue to increase their share of the white goods market in Europe. As a result of these factors and our expectation that demand in Turkey will increase at a more moderate rate than in recent years, we expect that our export sales will increase as a proportion of our total sales in future years.

The Turkish Economic Environment

Our results of operations are and will continue to be significantly influenced by Turkish economic and political factors. All of our manufacturing assets are located in Turkey and during 2003, 2004 and 2005, 40.6%, 46.8% and 44.7%, respectively, of our net sales were derived from domestic sales. Relative to the European market, the Turkish market for white goods has enjoyed a higher growth rate in recent years but also has been significantly more erratic due to the economic and political climate in Turkey. For example, the severe economic crisis in Turkey in 2001 negatively impacted our results of operations in that year. According to Bloomberg, the Turkish economy grew by 6.1% in 2003, 6.3% in 2004 and 7.0% in 2005 in real GDP terms, and the reported rate of inflation in Turkey derived from the WPI was 13.9%, 13.8% and 4.5% in 2003, 2004 and 2005, respectively. See “Market Overview—Turkey” and “Risk Factors—Risk Factors Relating to Turkey.”

In 2003 and 2004, our domestic sales were favourably impacted by increased demand for our white goods products as Turkish consumers began to regain confidence after the liquidity crises in the banking sector in November 2000 and February 2001. According to the Turkish White Goods Association, in 2003 and 2004, combined annual sales volume of refrigerators and washing machines increased by approximately 27% and 61%, respectively, in Turkey. We believe that this pent-up demand has largely been satisfied and in the next several years demand for white goods products in Turkey will increase at a more moderate rate.

Competition and Pricing

In Europe, the market is dominated by large, well-established manufacturers, and the white goods market has experienced low growth in recent years. The relatively recent entry of a number of competitors from low-cost regions, including Turkey and Asia, has resulted in an increase in supply and pricing and margin pressure as these new entrants seek to gain market share. We enjoy certain cost advantages over some of our competitors as a result of our proximity to Europe, which results in lower transportation costs, and favourable treatment under the Customs Union between the EU and Turkey. However, because air conditioners are less expensive to ship over long distances, air conditioner prices across Europe have decreased dramatically due to intense competition from Chinese manufacturers.

Competition in the Turkish market is based on branding, pricing and distribution capabilities. Arçelik is the market leader in Turkey, based on a strong brand name and a long-term presence in the domestic white goods market. We believe that we are able to maintain more favorable margins in Turkey partially because we benefit from using the strong Vestel brand name. However, we can experience pricing pressure from our domestic competitors if they choose to engage in promotional activity or if they have greater economies of scale than we have. In addition, we face intense pricing pressure with respect to the sale of our air conditioners in Turkey, primarily from importers of air conditioners from China.

Cost of Sales

Substantially all of our cost of sales is accounted for by components and raw materials for our products (which we refer to as "direct material" in our IFRS Financial Statements) followed by labour costs, energy, general overhead and depreciation and amortisation. In 2003, 2004 and 2005, components and raw materials accounted for 86.4%, 87.1% and 90.1% respectively, of our cost of sales. Components and raw materials increased as a percentage of our cost of sales over the period primarily as a result of competition and continued increases in commodity costs, and we expect this trend to continue for the foreseeable future.

In addition, our cost of sales as a percentage of net sales increases when the Turkish Lira appreciates and accordingly our gross margin is negatively affected. Our cost of sales as a percentage of net sales decreases when the Turkish Lira depreciates and accordingly our gross margin is positively affected. See "Risk Factors—Risks Relating to Our Business—We are subject to pressure on our profit margins primarily due to fluctuating raw materials and component costs."

Our principal materials are steel and plastics, which are used in all of our products and accounted for more than 59.8% of our cost of sales in 2005. In addition, we purchase manufactured components for our products, principally compressors for the production of refrigerators and air conditioning units and motors for the production of washing machines. See "Business—Manufacturing—Raw Materials and Purchased Components."

The following table sets forth the breakdown of our costs for our primary raw materials and components as a percentage of total direct material in 2005.

	Percent of total direct material
Metal parts	14.7%
Compressors	12.6%
Metal raw materials	12.2%
Plastic parts	14.9%
Plastics raw materials	10.8%
Motors	7.8%
Polyurethane	7.2%
Others	19.8%
Total	100%

Exchange Rates

We report our financial results in New Turkish Lira. We have foreign currency denominated revenues, expenses, assets and liabilities. As a consequence, movements in exchange rates can affect our profitability, the comparability of our results between periods and the carrying value of our assets and liabilities.

In 2005, 24.3%, 41.8% and 33.9% of the costs for our components and raw materials were paid for in U.S. dollars, New Turkish Lira and euros, respectively. 14.7%, 44.7% and 40.4% of our total net sales in 2005 were generated in U.S. dollars, New Turkish Lira and euros, respectively. We also have other costs which are denominated in currencies other than New Turkish Lira. As a result, we are exposed to foreign exchange rate risk to the extent that the aggregate amount of our expenses or liabilities are not equal to our aggregate revenues or assets in the same currency.

Our revenues from sales to Vestel Foreign Trade are primarily denominated in euro. As a result, the appreciation of the New Turkish Lira has a negative effect on our recorded revenues from exports. As we depend heavily on exports, further New Turkish Lira currency appreciation could have a negative influence on our margins. A significant depreciation of the New Turkish Lira increases our financial expenses with respect to our debt obligations that are denominated in U.S. dollars or the euro but decreases our cost of sales as a percentage of net sales, while a significant appreciation of the New Turkish Lira decreases our financial expenses and increases our cost of sales as a percentage of net sales. In addition, fluctuations in currencies may result in valuation adjustments in our assets and liabilities which could affect our reported results of operations. See "Risk Factors—Risks Relating to Our Business—Exchange rate fluctuations may negatively affect our operations."

Our revenues from sales to Vestel Domestic Marketing are denominated in New Turkish Lira but are determined by reference to a price list in euro, with the New Turkish Lira exchange rate adjusted on a monthly basis. Accordingly, a depreciation of the New Turkish Lira against the euro could have a negative effect on our domestic sales.

Although we do not enter into any currency hedging contracts, we attempt to mitigate the effect of exchange rates on our results of operations by making expenditures in the same currencies as our revenues.

In addition, even where revenues and expenses are matched, we must translate non-New Turkish Lira denominated results of operations, assets and liabilities into New Turkish Lira in our IFRS Financial Statements. To do so, balance sheet items are translated from their source currency into New Turkish Lira using fiscal year-end exchange rates and income statement and cash flow items are translated into New Turkish Lira using average exchange rates during the relevant period. Consequently, increases and decreases in the value of the New Turkish Lira will affect our reported results of operations and the value of our assets and liabilities in our balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in their original currency. These translations could significantly affect the comparability of our results between financial periods or result in significant changes to the carrying value of our assets, liabilities and shareholders' equity.

In 2004, the New Turkish Lira appreciated by 3.8% against the U.S. dollar and depreciated by 4.7% against the euro relative to 2003. In 2005, the New Turkish Lira was generally unchanged against the U.S. dollar and appreciated by 13.0% against the euro.

Relationship with the Vestel Group

Our financial condition and results of operations are significantly influenced by the fact that we are a member of the Vestel Group. All of our products are sold directly to Vestel Foreign Trade and Vestel Domestic Marketing, wholly owned subsidiaries of our parent company, Vestel Electronics. All sales and marketing of our products are carried out by Vestel Foreign Trade and Vestel Domestic Marketing. Accordingly, we incur no direct sales and marketing costs. See "Risk Factors—Risks Relating to Our Relationship with the Vestel Group and the Zorlu Group—We have no sales or marketing capabilities of our own and rely on other Vestel Group companies for these services." Vestel Foreign Trade and Vestel Domestic Marketing also provide after-sales services to the end users of our products, and other Vestel Group companies provide us with information technology and legal services. See "Related Party Transactions" for a discussion of our agreements with Vestel Foreign Trade and Vestel Domestic Marketing.

Vestel Foreign Trade does not keep any inventory. Vestel Foreign Trade pays us the final sales price charged to its customer less a discount of 1.0%. Payment is to be made to us in the currency collected by Vestel Foreign Trade within two days following the collection of the sales price by Vestel Foreign Trade. Vestel Foreign Trade has agreed with us to ensure payment from its customers in advance of the sale or obtain confirmed letters of credit, bank guarantees or other insurance with respect to such payments. While Vestel Foreign Trade has agreed that in the event of non-payment by its customers it will use its best efforts to obtain such payment from the applicable issuing bank, guarantor or other relevant party, we still bear the risk of loss in the event Vestel Foreign Trade ultimately does not receive full payment from its customer. To date, we have not recognised any significant bad debt expense as a result of this arrangement. See "Related Party Transactions—Sales and Marketing—Vestel Foreign Trade."

Vestel Domestic Marketing keeps an inventory of our products and it is required to pay us within 150 days of the invoice date. We agree our prices with Vestel Domestic Marketing on an annual basis, although they may be renegotiated in the event of a significant change in market prices during the year. In calculating the sales price, we have agreed to sell our products to Vestel Domestic Marketing with a discount in the range of 15% to 25% from the final sales price that Vestel Domestic Marketing charges its customers. Although our price list is quoted in euro, we bill Vestel Domestic Marketing in New Turkish Lira on the first business day of each month, based on the Central Bank exchange rate in effect on the last business day of the prior month. Vestel Domestic Marketing is responsible to pay us whether or not it receives payment from its customers. See "Related Party Transactions—Sales and Marketing – Vestel Domestic Marketing."

Taxation and Trade Regulation

Turkey's tax laws and regulations applicable to Turkish corporations have changed substantially during the past decade and have significantly affected the tax position and liability of Turkish corporations, including us. Substantial tax reform legislation became effective in Turkey on January 1, 1999. Companies are subject to corporation tax which is levied at a rate of 30%. For 2004, the corporation tax rate was 33% and the rate was reduced in 2005 to 30% under the provisional Article 32 of the Corporate Tax Law. The law introduced a quarterly accrual tax system based on the current quarter's accrued income with the tax rate of 30% for 2005 (33% for 2004) of profits. Such interim payments are deductible from the year end tax bill of a company.

Tax planning plays an important part in our overall financial planning and strategy as our tax position, effective tax rate and tax liability have a significant impact on our financial results.

Prior to 2003, as permitted under Turkish tax law, we obtained various investment incentive certificates from the Turkish Treasury Ministry which entitle us to a deduction for tax purposes of investments made in certain plant and equipment and to exemptions from customs duties in respect of the importation of plant and equipment. The exemptions from customs duties are subject to the requirement that we achieve a specified level of exports within a specified period of time as set out in the relevant investment incentive certificate. We are also permitted to import components and raw materials free of customs duties to the extent related to the export of our finished products. In April 2003, the investment incentive certificate scheme under Turkish tax law was abolished, although existing investment certificates are allowed to be used until their expiration. Under current tax law relating to existing investment incentive certificates, in respect of fixed assets purchased after April 24, 2003, we may either deduct 40% of the value of such assets from our taxable profits or deduct the full value subject to a withholding tax of 19.8%. See Note 13 to our IFRS Financial Statements. For a discussion of our existing investment incentive certificates, including their respective expiration dates, see Note 16 to our IFRS Financial Statements.

The amount of income tax we incur is calculated based on the taxable income reported in our Turkish statutory accounts rather than on our IFRS income before tax. Accordingly, our IFRS income before tax may change without there being any corresponding change in our income tax reported in our IFRS Financial Statements. If that happens, our effective tax rate determined by reference to our IFRS Financial Statements will be affected. As a result of the effect of the various tax exemptions and allowances and accelerated depreciation available to us, our effective rate of tax (actual taxes paid as a percentage of income before tax) in respect of the years ended December 31, 2003, 2004 and 2005 was 0%, 13.7% and 1.3%, respectively, as determined by reference to our IFRS Financial Statements. We expect to have a higher effective rate of tax in the future if proposed changes in the Turkish corporate tax law are adopted. See "Risk Factors—Risks Relating to Our Business—Proposed changes in the Turkish corporate tax law will have an adverse effect on our net income if adopted."

Under our application of IAS 29, the element of income and expense which is calculated to be attributable to the effects of inflation is classified within the monetary gain or loss account in our income statement and not within the financial income and expense account. Net income and expense (as so reclassified in the income statement) is taxable, either currently or on a deferred basis, and the tax provision related thereto is included within the provision for taxes.

As a result of the Customs Union Agreement between the EU and Turkey, we are able to export our products to EU member states free of customs duties and tariff restrictions. However, imports of certain of our components and raw materials sourced from outside the EU and specified underdeveloped countries are subject to EU customs duties and taxes, which range from 14% to 25%.

A special consumption tax is imposed on the sale of certain white goods in Turkey, in addition to the 18% value-added tax that is imposed on all products. The special consumption tax amounts to 6.7% of the transfer price of refrigerators, washing machines and electric cookers from us to Vestel Domestic Marketing. See "Risk Factors—Risks Relating to Our Business—A change in the amount or the application of the special consumption tax imposed on sales of white goods in Turkey could adversely affect our business."

Seasonality

Sales of refrigerators and air conditioning units tend to peak during the spring and summer months and sales of washing machines tend to increase during the autumn and winter months. As a result, our net sales tend to be lower in the first and fourth quarters and higher in the second and third quarters. As we increase the range of products that we offer, we expect seasonality to have less of an effect on our results of operations.

Critical Accounting Policies

Our financial statements are prepared in accordance with IFRS. Our accounting policies are integral to understanding our results of operations and financial condition presented in our IFRS Financial Statements and the notes thereto. Our significant accounting policies are described in Note 3 to our IFRS Financial Statements appearing elsewhere in this Offering Circular. The preparation of our IFRS Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, management evaluates its estimates and judgements, including those related to allowance for losses, investments, income taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

Our management believes that the following accounting policies require more critical judgements or estimates or involve a greater degree of complexity in application of accounting policies that affect our financial condition and results of operations.

Recognition of Revenue and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. Generally this is when the applicable sales invoice is prepared, which for sales to Vestel Foreign Trade is at the time we deliver our products and for sales to Vestel Domestic Marketing is at the end of the month in which the products were ordered, or, if earlier, when the products are delivered. Net sales are shown net of discounts and returns. Our rental income is recognised on an accrual basis and our interest income is recognised on an effective yield basis. Expenses are accounted for on an accrual basis.

Allowance for Unearned Interest

As of December 31, 2005, unearned interest was calculated at the rate of 13.8% (21% as of December 31, 2004 and 48% as of December 31, 2003) per year for New Turkish Lira and 3.5% as of December 31, 2005 (2.6% as of December 31, 2004 and 2.1% as of December 31, 2003) per year for foreign currency on receivables and payables at the balance sheet date.

Bank Borrowings

We record interest-bearing bank loans and overdrafts in the amount of the proceeds received, net of direct issue costs. Finance charges, including premiums payable in settlement or redemption, are accounted for on an accrual basis and we add these amounts to the carrying amount of the applicable instrument to the extent that they are not settled in the period in which they arise.

Contingent Assets and Contingent Liabilities

Transactions that may give rise to contingencies 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 recognised in our financial statements if a reasonable estimate of the amount of the resulting loss can be made. Contingent assets are reflected in our financial statements only if it is probable that a gain will be realised.

Property, Plant and Equipment Depreciation

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 estimated recoverable amount.

Research and Development Costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that the expenditure is expected to generate future economic benefits. Development costs that have been capitalised are amortised on a pro-rata basis over a period of five years.

The carrying values of capitalised 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.

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 recognised 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 utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare 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 recognised in net profit or loss in the period in which they are incurred.

Results of Operations for the Years ended December 31, 2003, 2004 and 2005

The following table sets forth certain income statement items and their respective percentage of net sales for the periods indicated.

	Year ended December 31,					
	2003		2004		2005	
	(YTL)	(%)	(YTL)	(%)	(YTL)	(%)
Net sales	448,953,377	—	731,263,359	—	810,072,731	—
Cost of sales	(377,126,248)	84.0%	(611,262,404)	83.6%	(721,566,385)	89.1%
Gross profit	71,827,129	16.0%	120,000,955	16.4%	88,506,346	10.9%
Research and development expenses	(1,762,129)	0.4%	(5,571,245)	0.8%	(8,247,505)	1.0%
Selling expenses	(3,569,233)	0.8%	(5,505,691)	0.8%	(8,179,317)	1.0%
General and administrative expenses	(5,755,251)	1.3%	(10,519,842)	1.4%	(11,580,374)	1.4%
Other income (expense), net	6,541,568	1.5%	3,949,289	0.5%	(2,219,231)	0.3%
Operating income	67,282,084	15.0%	102,353,466	14.0%	58,279,919	7.2%
Financing income (expense), net	(7,661,302)	1.7%	(16,885,760)	2.3%	(1,471,982)	0.2%
Monetary gain	9,690,379	2.2%	4,849,716	0.7%	3,923,800	0.5%
Income before tax	69,311,161	15.4%	90,317,422	12.4%	60,731,737	7.5%
Taxation on income	(7,744,924)	1.7%	(17,598,890)	2.3%	(11,064,102)	1.4%
Net income	61,566,237	13.7%	72,718,532	9.9%	49,667,635	6.1%

The following table sets forth our net sales by destination expressed as a percentage for the periods indicated. Other sales, which principally includes sales of spare parts, are excluded.

	Year ended December 31,					
	2003		2004		2005	
	Export	Domestic	Export	Domestic	Export	Domestic
Refrigerator	47.3%	27.4%	33.3%	23.0%	30.9%	21.6%
Washing machines	1.6%	2.0%	13.1%	15.1%	18.7%	12.2%
Air conditioners	10.4%	11.2%	6.7%	8.7%	5.6%	9.5%
Cookers	—	—	—	—	—	1.4%
Total	59.3%	40.6%	53.1%	46.8%	55.2%	44.7%

The following table sets forth our unit sales by product for the periods indicated, as well as our production capacity as of the end of each period.

	Year ended December 31,					
	2003		2004		2005	
	Unit sales	Production capacity at year end	Unit sales	Production capacity at year end	Unit Sales	Production capacity at year end
Refrigerator	1,127,936	1,500,000	1,417,181	2,000,000	1,694,465	2,250,000
Washing machines	49,342	1,000,000	693,432	1,000,000	1,015,578	1,500,000
Air conditioners	177,547	250,000	279,862	450,000	332,395	700,000
Cookers	—	—	—	—	72,441	1,000,000
Total	1,354,825	2,750,000	2,390,475	3,450,000	3,114,879	5,450,000

Results of Operations for the Years ended December 31, 2004 and 2005

Net Sales

Our net sales consist of gross sales less discounts and returns. With respect to product sales, we do not record discounts or returns and, accordingly, net sales for products are equal to gross sales amounts. We record sales of spare parts as "other sales."

Our net sales increased by YTL 78,809,372, or 10.8%, to YTL 810,072,731 in 2005 from YTL 731,263,359 in 2004.

Our net sales in 2005 were positively affected by a 57.1% increase in net sales from washing machines sold for export due to increased sales volumes to both new and existing customers and our increased production capacity. In addition, net sales from air conditioners sold in Turkey increased by 20.6% in 2005 due to overall market growth and an increase in our production capacity. We also began selling cookers in November 2005, which had a positive impact on our net sales for the year. These increases were partially offset by a 6.5% decrease in net sales from air conditioners sold for export in 2005. Our net sales from washing machines sold in Turkey also decreased by 10.3% in 2005, due to an overall decline in the domestic market for washing machines in 2005 after record sales volumes in 2004 and to the fact that purchases from Vestel Domestic Marketing were lower in 2005 because it had accumulated a high level inventory of washing machines as of December 31, 2004. Reported net sales were also adversely affected by the appreciation of the New Turkish Lira against the euro in 2005.

The following table sets forth a breakdown of our net sales to Vestel Foreign Trade and Vestel Domestic Marketing by product for the periods indicated.

	Year ended December 31,					
	2004			2005		
	Export	Domestic	Total	Export	Domestic	Total
	(YTL)					
Refrigerators	243,620,982	168,364,589	411,985,571	250,488,749	174,904,384	425,393,133
Washing machines	95,884,353	110,209,089	206,093,442	150,681,252	98,861,209	249,542,461
Air conditioners	48,860,081	63,754,585	112,614,666	45,695,923	76,878,441	122,574,364
Cookers	—	—	—	268,621	11,464,915	11,733,536
Other sales, net	—	—	569,680	—	—	829,237
Total net sales	388,365,416	342,328,263	731,263,359	447,134,545	362,108,949	810,072,731

Sales to Vestel Foreign Trade

Net export sales increased by YTL 58,769,129, or 15.1%, to YTL 447,134,545 in 2005 from YTL 388,365,416 in 2004. In 2005, the net increase in the number of units sold outside of Turkey increased by 36.1% compared to 2004.

The following table sets forth our net sales and number of units sold to Vestel Foreign Trade for the periods indicated.

	Year ended December 31,			
	2004		2005	
	Net Sales	Units	Net Sales	Units
	(YTL)		(YTL)	
Refrigerators	243,620,982	1,068,666	250,488,749	1,316,687
Washing machines	95,884,353	383,472	150,681,252	730,325
Air conditioners	48,860,081	161,925	45,695,923	148,145
Cookers	—	—	268,621	1,156
Total	388,365,416	1,614,063	447,134,545	2,196,313

In 2005, the number of refrigerators we sold for export increased by 23.2% due to increased sales to both new and existing customers but our net sales from refrigerators sold for export increased by only 2.8%. This was principally because our average selling price per refrigerator sold for export decreased primarily as a result of a change in sales mix toward more table top and medium sized refrigerators in 2005. Our reported net sales were also adversely affected by the appreciation of the New Turkish Lira against the euro.

In 2005, the number of washing machines we sold for export increased by 90.5% primarily due to increased capacity and increased sales to new customers but our net sales from washing machines sold for export increased by only 57.1%. This was because of a significant change in our export sales mix toward low rpm washing machines, resulting in a lower average selling price per washing machine in 2005. Our reported net sales were also adversely affected by the appreciation of the New Turkish Lira against the euro.

In 2005, the number of air conditioners we sold for export decreased by 8.5% primarily as a result of weak demand resulting from cooler weather in our principal markets in Europe. Our net sales from air conditioners sold for export decreased only 6.5%. This is because our average selling price per air conditioner outside Turkey increased primarily due to a change in sales mix toward high-end air conditioners. Reported net sales of air conditioners were also adversely affected by the appreciation of the New Turkish Lira against the euro in 2005.

Sales to Vestel Domestic Marketing

Domestic net sales increased by YTL 19,780,686, or 5.8%, to YTL 362,108,949 in 2005 from YTL 342,328,263 in 2004. In 2005, the number of units we sold in Turkey increased by 18.3% compared to 2004.

The following table sets forth our net sales and number of units sold to Vestel Domestic Marketing for the periods indicated.

	Year ended December 31,			
	2004		2005	
	Net Sales (YTL)	Units	Net Sales (YTL)	Units
Refrigerators	168,364,589	348,515	174,904,384	377,778
Washing machines	110,209,089	309,960	98,861,209	285,253
Air conditioners	63,754,585	117,937	76,878,441	184,250
Cookers	—	—	11,464,915	71,285
Total	342,328,263	746,413	362,108,949	918,567

In 2005, the number of refrigerators we sold in Turkey increased by 8.4% generally in line with the overall Turkish market for refrigerators but our net sales from refrigerators sold in Turkey increased by only 3.9%. Our average selling price per unit decreased primarily as a result of the appreciation of the New Turkish Lira against the euro.

In 2005, the number of washing machines we sold in Turkey decreased by 8.0% primarily due to a decline in the Turkish market for washing machines following very high demand in 2004, together with the fact that Vestel Domestic Marketing had built up an unusually high level of washing machine inventory as of December 31, 2004. Our net sales from washing machines sold in Turkey decreased by 10.3% in 2005 compared to 2004. Our average selling price per washing machine sold in Turkey decreased as a result of the appreciation of the New Turkish Lira against the euro.

In 2005, the number of air conditioners we sold in Turkey increased by 56.2% primarily as a result of increased demand for air conditioners in Turkey but our net sales from air conditioners sold in Turkey increased by only 20.6%. Our average selling price per air conditioner decreased principally as a result of increased competition from Chinese air conditioner manufacturers importing into Turkey, as well as the appreciation of the New Turkish Lira against the euro in 2005.

Cost of Sales

Cost of sales consists of cost of goods sold and cost of merchandise sold. Cost of goods sold is driven from cost of goods produced, adjusted by the net change in work in process and finished goods inventories. Cost of goods produced consists of direct material (which consists of raw materials and components), direct labour costs, general overhead and depreciation and amortization.

Our cost of goods produced increased by YTL 126,608,278, caused primarily by an increase of YTL 117,640,452 in direct material costs in 2005. Direct material costs were negatively affected by higher raw material costs. As a result, direct material costs as a percent of cost of goods produced increased to 87.6% in 2005 compared to 86.5% in 2004.

YTL 5,290,744 of the total increase in cost of goods produced in 2005 resulted from an increase in direct labour costs. At December 31, 2005, we had 2,978 employees compared to 2,567 employees as of December 31, 2004. Our direct labour costs increased principally as a result of this increased headcount. YTL 3,649,436 of the increase in cost of goods produced resulted from an increase in depreciation and amortisation expenses.

The increase in cost of goods produced was partially offset by a net increase of work in process and finished goods inventories of YTL 15,396,952 and a net decrease in cost of merchandise sold of YTL 907,345.

As a result, our cost of sales increased by YTL 110,303,981 to YTL 721,566,385 in 2005 from YTL 611,262,404 in 2004 (an increase of 18%). Costs of sales as a percentage of net sales increased to 89.1% in 2005 compared with 83.6% in 2004.

Gross Profit

The following table sets forth the contributions to gross profit and gross margin of each of our product lines for the periods indicated. "Gross margin" is gross profit as a proportion of net sales of the relevant item, expressed as a percentage.

	Year ended December 31,			
	2004		2005	
	Gross Profit (YTL)	Gross Margin	Gross Profit (YTL)	Gross Margin
Sales to Vestel Foreign Trade				
Refrigerators	38,946,093	16.0%	17,715,966	7.1%
Washing Machines	18,201,258	19.0%	21,118,315	14.0%
Air Conditioners	(773,632)	(1.6)%	(1,451,853)	(3.2)%
Cookers	—	—	85,579	31.9%
Total	56,373,719	14.5%	37,468,007	8.4%
Sales to Vestel Domestic Marketing				
Refrigerators	30,558,655	18.2%	24,458,891	14.0%
Washing Machines	26,526,164	24.1%	18,173,415	18.4%
Air Conditioners	6,542,417	10.3%	5,888,312	7.7%
Cookers	—	—	2,517,721	22.0%
Total	63,627,326	18.6%	51,038,339	14.1%
Total	120,000,955	16.4%	88,506,346	10.9%

Our gross profit decreased by YTL 31,494,609, or 26.2%, to YTL 88,506,346 in 2005 from YTL 120,000,955 in 2004. This was mainly caused by the appreciation of the New Turkish Lira against the euro, the significant increase in raw material costs and higher depreciation and amortization expenses and our inability to increase our sales prices to offset these increases due to heavy competition. As a percentage of net sales, gross profit was 10.9% in 2005 compared to 16.4% in 2004.

We generally enjoy higher margins on the sales of our products to Vestel Domestic Marketing primarily because of the strength of the Vestel and Regal brands in Turkey and a more favorable mix of products sold in Turkey. Our margins on air conditioners are significantly affected by intense competition from Chinese manufacturers (particularly with respect to sales to Vestel Foreign Trade), which is not the case for our other white goods products.

Sales to Vestel Foreign Trade

In 2005, our gross margin on refrigerators sold for export decreased to 7.1% from 16.0% in 2004. This decrease resulted principally from a shift in product mix in 2005 toward table top and medium sized refrigerators, which have lower margins, and the appreciation of the New Turkish Lira against the euro.

In 2005, our gross margin on washing machines sold for export decreased to 14.0% from 19.0% in 2004. This decrease resulted principally from a shift in product mix in 2005 toward lower rpm washing machines, which have lower margins, and the appreciation of the New Turkish Lira against the euro.

In 2005, we continued to experience a loss on air conditioners sold for export as a result of the intense pricing pressure in Europe. Notwithstanding these losses, we continue to sell air conditioners in export markets to help cover our fixed costs.

Although we had a gross margin of 31.9% on the limited amount of cookers we sold for export in 2005, we expect this gross margin to decrease as we further penetrate the market.

Sales to Vestel Domestic Marketing

In 2005, our gross margin on refrigerators sold in Turkey decreased to 14.0% from 18.2% in 2004 and our gross profit margin on washing machines sold in Turkey decreased to 18.4% from 24.1%. The decreases resulted principally from the appreciation of the New Turkish Lira against the euro.

In 2005, our gross margin on air conditioners sold in Turkey decreased to 7.7% from 10.3% in 2004. This decrease resulted principally from increased price competition from importers of air conditioners from China, although we believe that we were able to maintain reasonable margins as a result of the strength of the Vestel brand name in Turkey. The gross margin in 2005 was also adversely affected by the appreciation of the New Turkish Lira against the euro in 2005.

Research and Development Expenses

Research and development expenses consist principally of costs incurred on development projects (relating to the design and testing of new or improved products) and expenditures that are expected to generate future economic benefits. Development costs that have been capitalised are amortised on a pro-rata basis over five years. Our research and development expenses increased by YTL 2,676,260, or 48.0%, to YTL 8,247,505 in 2005 from YTL 5,571,245 in 2004. As a percentage of net sales, research and development expenses increased to 1.0% in 2005 from 0.8% in 2004. This increase resulted principally from additional expenses associated with the development of our cooker operations, which commenced production in the fourth quarter of 2005. In 2006, we expect our research and development expenses as a percentage of our net sales to be generally consistent with those in past years as a result of expenses we expect to incur in connection with our new dishwasher production lines.

Selling Expenses

Selling expenses consist principally of the costs that have been incurred during the selling process, primarily transportation costs, customs duties and related fees. Our selling expenses increased by YTL 2,673,626, or 48.6%, to YTL 8,179,317 in 2005 from YTL 5,505,691 in 2004, principally as a result of increased transportation expenses and customs duties attributable to the increase in export sales volumes. As a percentage of net sales, selling expenses increased to 1.0% in 2005 from 0.8% in 2004.

General and Administrative Expenses

General and administrative expenses consist principally of white collar personnel expenses, retirement pay reserves, auditing expenses and other general and administrative expenses. Our general and administrative expenses increased by YTL 1,060,532 or 10.1%, to YTL 11,580,374 in 2005 from YTL 10,519,842 in 2004. As a percentage of net sales, general and administrative expenses were 1.4% in 2005 and 2004.

Other Income (Expense), net

Other income (expense), net consists principally of grants received, rent income, income from scrap sales, profit on sale of fixed assets and idle capacity expense. Rent income is derived principally from renting a portion of our facilities in Manisa to Vestel Electronics. Other income decreased by YTL 6,168,520 to an expense of YTL 2,219,231 in 2005 from YTL 3,949,289 in 2004. This decrease resulted principally from a YTL 7,025,284 increase in idle capacity expenses (related to pre-operation expenses associated with unused capacity in our new cooker factory and second refrigerator factory) and a YTL 1,630,624 decrease in rent income from Vestel Electronics as the amount of spare space we had available to rent decreased, partially offset by a YTL 2,405,905 increase in government grants received for research and development projects.

Operating Income, net

As a result of the foregoing, our operating income decreased by YTL 44,073,547, or 43.1%, to YTL 58,279,919 in 2005 from YTL 102,353,466 in 2004. As a percentage of net sales, operating income decreased to 7.2% in 2005 from 14.0% in 2004.

Financing Income (Expense), net

Financing income (expense), net consists principally of foreign exchange gain (loss), net, interest income (expense), net, letter of credit expenses and unearned interest income (expense), net on notes receivable and payable. Our financing expense, net decreased by YTL 15,413,778, or 91.3% to YTL 1,471,982 in 2005 from YTL 16,885,760 in 2004. This decrease resulted principally from an increase in foreign exchange gain, net of YTL 10,555,859, a decrease in bank borrowings commissions of YTL 1,583,109 and an increase in unearned interest income, net of YTL 3,953,329. Foreign exchange gain, net represents the net adjustment to our assets and liabilities resulting from fluctuations in currencies and was favourably impacted by the appreciation of the New

Turkish Lira against the euro in 2005. Because outstanding borrowings increased in 2005, interest expense increased by YTL 1,889,351; this increase in interest expense was more than offset by an increase in interest income from time deposits of YTL 2,228,595. The decrease in financing expense, net was partially offset by a YTL 579,959 increase in letter of credit fees.

Taxation on Income

Taxation on income consists of corporate tax and deferred tax charge. Our tax expenses decreased by YTL 6,534,788, or 37.1%, to YTL 11,064,102 in 2005 from YTL 17,598,890 in 2004. In 2005, we had corporate taxes and deferred taxes of YTL 796,670 and YTL 10,267,432, respectively. In 2004, our corporate taxes and deferred taxes were YTL 12,394,856 and YTL 5,204,034, respectively. This decrease resulted principally from the fact that we had lower net income before tax in 2005 and were able to utilise a higher amount of investment incentive certificates in 2005. The increase in deferred taxes is attributable to the increase in our fixed assets in 2005.

Net Monetary Gain

Net monetary gain reflects the effect of inflation on our net monetary position. Our net monetary gain decreased to YTL 3,923,800 in 2005 from YTL 4,849,716 in 2004 as a result of a lower overall inflation rate in 2005 compared to 2004.

Net Income

As a result of the foregoing, our net income decreased by YTL 23,050,897, or 31.7%, to YTL 49,667,635 in 2005 from YTL 72,718,532 in 2004. As a percentage of net sales, our net income decreased to 6.1% in 2005 from 9.9% in 2004.

Results of Operations for the Years ended December 31, 2003 and 2004

Our results of operations in 2004 were impacted by the fact that we began producing washing machines in the last quarter of 2003 and net sales from washing machines are included for the full year in 2004. Our 2004 results also reflect significantly increased net sales to Vestel Domestic Marketing which were in line with the overall strong performance of the Turkish white goods market in 2004.

Net Sales

Our net sales increased by YTL 282,309,982, or 62.9%, to YTL 731,263,359 in 2004 from YTL 448,953,377 in 2003.

Our net sales in 2004 were positively influenced by the inclusion of a full year of washing machine sales in 2004 and the strong performance of our domestic net sales against the backdrop of sharply increased demand in Turkey in 2004.

The following table sets forth a breakdown of our net sales to Vestel Foreign Trade and Vestel Domestic Marketing by product for the periods indicated.

	Year ended December 31,					
	2003			2004		
	Export	Domestic	Total	Export	Domestic	Total
	(YTL)					
Refrigerators	212,073,068	123,120,878	335,193,946	243,620,982	168,364,589	411,985,571
Washing machines	7,171,777	8,785,949	15,957,726	95,884,353	110,209,089	206,093,442
Air conditioners	46,781,729	50,426,162	97,207,891	48,860,081	63,754,585	112,614,666
Cookers	—	—	—	—	—	—
Other sales, net			593,814			569,680
Total net sales	266,026,574	182,332,989	448,953,377	388,365,416	342,328,263	731,263,359

Sales to Vestel Foreign Trade

Net export sales increased by YTL 122,338,842, or 45.9%, to YTL 388,365,416 in 2004 from YTL 266,026,574 in 2003. In 2004, the net increase in the number of units sold outside of Turkey increased by 54.2% compared to 2003.

The following table sets forth our net sales and number of units sold to Vestel Foreign Trade for the periods indicated.

	Year ended December 31,			
	2003		2004	
	Net Sales (YTL)	Units	Net Sales (YTL)	Units
Refrigerators	212,073,068	904,956	243,620,982	1,068,666
Washing machines	7,171,777	27,141	95,884,353	383,472
Air conditioners	46,781,729	114,705	48,860,081	161,925
Total	266,026,574	1,046,802	388,365,416	1,614,063

In 2004, the number of refrigerators we sold for export increased by 18.1% primarily due to increased capacity and new model offerings but our net sales from refrigerators sold for export increased by only 14.9%. Although we benefited from a relatively stable pricing environment and a favourable appreciation of the euro relative to the New Turkish Lira in 2004, the application of inflation accounting pursuant to IAS 29 had a negative impact on our net sales as reported in our IFRS Financial Statements.

The significant increase in net sales from washing machines in 2004 was attributable to the fact that we began selling washing machines in the fourth quarter of 2003.

In 2004, the number of air conditioners we sold for export increased by 41.2% primarily as a result of an increase in our production capacity and increased demand in our principal markets in Europe but our net sales from air conditioners sold for export increased by only 4.4%. This was because our average selling price per air conditioner sold for export decreased principally as a result of significant selling price decreases in the market, particularly as a result of increased competition from Chinese importers.

Sales to Vestel Domestic Marketing

Domestic net sales increased by YTL 159,995,274, or 87.7%, to YTL 342,328,263 in 2004 from YTL 182,332,989 in 2003. In 2004, the number of units we sold in Turkey increased by 152.1% compared to 2003.

The following table sets forth our net sales and number of units sold to Vestel Domestic Marketing for the periods indicated.

	Year ended December 31,			
	2003		2004	
	Net Sales (YTL)	Units	Net Sales (YTL)	Units
Refrigerators	123,120,878	222,980	168,364,589	348,515
Air conditioners	50,426,162	62,842	63,754,585	117,938
Washing machines	8,785,949	22,201	110,209,089	309,960
Total	182,332,989	308,023	342,328,263	776,413

In 2004, the number of refrigerators we sold in Turkey increased by 56.3% primarily as a result of significantly increased demand in the Turkish market and our increased production capacity but our net sales from refrigerators sold in Turkey increased by only 36.7%. Our average selling price per unit decreased as a result of significant selling price decreases in the Turkish refrigerator market.

In 2004, the number of air conditioners we sold in Turkey increased by 87.7% primarily as a result of an increase in our production capacity and increased product demand but net sales from air conditioners sold in Turkey increased by only 26.4%. Our average selling price per air conditioner decreased principally as a result of significant selling price decreases in the market.

The significant increase in net sales from washing machines in 2004 was attributable to the fact that we began selling washing machines in the fourth quarter of 2003.

Cost of Sales

Our cost of sales increased by YTL 234,136,156, or 62.1%, closely in line with the increase in net sales, to YTL 611,262,404 in 2004 from YTL 377,126,248 in 2003. YTL 206,629,475 of this increase resulted from an increase in direct material costs. YTL 12,493,975 of the increase related to an increase in direct labour costs resulting from increased headcount. YTL 10,823,792 of the increase resulted from an increase in general overhead. YTL 5,424,063 of the increase resulted from an increase in depreciation and amortisation expenses.

Cost of sales as a percentage of net sales remained broadly stable at 83.6% for 2004 and 84.0% for 2003.

Gross Profit

The following table sets forth the contributions to gross profit and gross margin of each of our product lines for the periods indicated.

	Year ended December 31,			
	2003		2004	
	Gross Profit (YTL)	Gross Margin	Gross Profit (YTL)	Gross Margin
Sales to Vestel Foreign Trade				
Refrigerators	39,446,862	18.6%	38,946,093	16.0%
Washing machines	(41,817)	(0.6)%	18,201,258	19.0%
Air conditioners	(279,135)	(0.6)%	(773,632)	(1.6)%
Total exports	39,125,910	14.7%	56,373,719	14.5%
Sales to Vestel Domestic Marketing				
Refrigerators	23,759,498	19.3%	30,558,655	18.2%
Washing machines	940,904	10.7%	26,526,164	24.1%
Air conditioners	8,000,817	15.9%	6,542,417	10.3%
Total domestic	37,701,219	20.7%	63,627,236	18.6%
Total	71,827,129	16.0%	120,000,995	16.4%

Our gross profit increased by YTL 48,173,826, or 67.1%, to YTL 120,000,995 in 2004 from YTL 71,827,129 in 2003. While the decrease in gross margin of refrigerators and air conditioners both in our export and domestic markets negatively impacted our gross margin, this effect was more than offset by the dramatic increase in sales volume of our highest gross margin product, washing machines. As a percentage of net sales, gross profit increased to 16.4% in 2004 from 16.0% in 2003.

Sales to Vestel Foreign Trade

In 2004, our gross margin on refrigerators sold for export decreased to 16.0% from 18.6% in 2003. This decrease resulted principally from a more aggressive pricing strategy by Vestel Foreign Trade in export markets.

In 2004, we continued to experience a loss on air conditioners sold for export primarily as a result of intense price competition from Chinese manufacturers.

In 2004, our gross margin on washing machines sold for export increased to 19.0% from (0.6%) in 2003 due to the ramp-up of production in 2003, resulting in an initially low gross margin on this product.

Sales to Vestel Domestic Marketing

In 2004, our gross margin on refrigerators sold in Turkey decreased to 18.2% from 19.3% in 2003. This decrease resulted principally from significant selling price decreases in the Turkish refrigerator market.

In 2004, our gross margin on air conditioners sold in Turkey decreased to 10.3% from 15.9% in 2003. This decrease resulted principally as a result of significant selling price decreases in the market.

In 2004, our gross margin on washing machines sold in Turkey increased to 24.1% from 10.7% in 2003. This increase resulted principally from the fact that we experienced lower margins during 2003 when we initially began producing washing machines.

Research and Development Expenses

Our research and development expenses increased to YTL 5,571,245 in 2004 from YTL 1,762,129 in 2003. As a percentage of net sales, research and development expenses increased to 0.8% in 2004 from 0.4% in 2003. This increase resulted principally from the expansion of our washing machine and air conditioner operations and costs associated with our new cooker and refrigerator production lines.

Selling Expenses

Our selling expenses increased by YTL 1,936,458, or 54.3%, to YTL 5,505,691 in 2004 from YTL 3,569,233 in 2003, principally as a result of increased sales volume. As a percentage of net sales, selling expenses remained stable at 0.8% in 2003 and 2004.

General and Administrative Expenses

Our general and administrative expenses increased by YTL 4,764,591, or 82.8%, to YTL 10,519,842 in 2004 from YTL 5,755,251 in 2003. This increase principally resulted from wages associated with an increase in employees and other expenses related to the expansion of our business. As a percentage of net sales, general and administrative expenses increased to 1.4% in 2004 from 1.3% in 2003.

Other Income (Expense), net

Other income, net decreased by YTL 2,592,279, or 39.6%, to YTL 3,949,289 in 2004 from YTL 6,541,568 in 2003. This decrease resulted principally from a decrease in income from scrap sales of YTL 1,878,574 and a decrease in rent income of YTL 699,965, partially offset by an increase in grant income of YTL 534,369 for research and development projects. As a percentage of net sales, other income, net decreased to 0.5% in 2004 from 1.5% in 2003.

Operating Income, net

As a result of the foregoing, our operating income increased by YTL 35,071,382, or 52.1%, to YTL 102,353,466 in 2004 from YTL 67,282,084 in 2003. As a percentage of net sales, operating income decreased to 14.0% in 2004 from 15.0% in 2003.

Financing Income (Expense), net

Our financing expense, net increased by YTL 9,224,458 to YTL 16,885,760 in 2004 from YTL 7,661,302 in 2003. This increase resulted principally from an increase in foreign exchange losses, net of YTL 7,964,695, an increase of YTL 4,598,966 in unearned interest expense, net and an increase of YTL 1,196,733 in letter of credit expenses partially offset by an increase of YTL 1,705,640 in unearned interest income on payables. Foreign exchange loss, net was negatively impacted by the depreciation of the Turkish Lira against the euro and favourably impacted by the appreciation of the Turkish Lira against the U.S. dollar. The increase in financing expense, net was partially offset by a decrease in interest expense of YTL 830,598 and term difference expenses (which are payments to extend the payment terms of our trade payables to suppliers) of YTL 3,184,899.

Taxation on Income

Our tax expenses increased by YTL 9,853,966 to YTL 17,598,890 in 2004 from YTL 7,744,924 in 2003. In 2004, we had corporate taxes and deferred taxes of YTL 12,394,856 and YTL 5,204,034, respectively. In 2003, our corporate taxes and deferred taxes were YTL 0 and YTL 7,744,924, respectively. This increase resulted principally from the fact that our profit before tax increased by YTL 21,006,261 in 2004 and we were not able to use the same amount of investment incentive certificates in 2004.

Net Monetary Gain

Our net monetary gain decreased to YTL 4,849,716 in 2004 from YTL 9,690,379 in 2003 as a result of an overall lower rate of inflation in 2003 compared to 2004.

Net Income

As a result of the foregoing, our net income increased by YTL 11,152,295, or 18.1%, to YTL 72,718,532 in 2004 from YTL 61,566,237 in 2003. As a percentage of our net sales, net income decreased to 9.9% in 2004 from 13.7% in 2003.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2003	2004	2005
		(YTL)	
Net income	61,566,237	72,718,532	49,667,635
Adjustment to reconcile net income to net cash provided from operating activities	28,026,249	47,891,699	35,811,194
Changes in operating assets and liabilities	(19,953,523)	(41,335,796)	19,584,718
Net cash provided by operating activities	69,638,963	79,274,141	92,668,987
Net cash provided by financing activities	19,324,150	9,926,235	19,871,375
Net cash used in investing activities	(86,561,877)	(88,910,039)	(106,889,233)
Net increase in cash and cash equivalents	2,401,236	290,337	5,651,129

Adjustment to Reconcile Net Income to Net Cash Provided from Operating Activities

The principal adjustments to reconcile net income to cash provided from operating activities are our depreciation expenses and tax charges. Our depreciation expenses amounted to YTL 16,311,307, YTL 22,888,293 and YTL 27,005,749 in 2003, 2004 and 2005 respectively, and increased during this period due to the increase in our fixed assets related to our investment in production expansion. In addition, we recorded tax expenses of YTL 7,744,924, YTL 17,598,890 and YTL 11,063,236 in 2003, 2004 and 2005. The higher tax charge in 2004 was mainly attributable to a higher profit before tax in that year and the fact that we were not able to use the same amount of investment incentive certificates in 2004.

Changes in Operating Assets and Liabilities

The expansion of our business has resulted in increases in our operating assets and liabilities. In 2005, changes in operating assets and liabilities included increases in trade receivables, inventories, other current assets and trade payables of YTL 4,434,647, YTL 16,833,349, YTL 4,529,365 and YTL 3,676,764 respectively. This was offset by an increase in other current liabilities of YTL 49,058,843 which was composed of an advance from Vestel Foreign Trade, which we used to fund our working capital. In 2004 we had an increase in trade receivables, inventories and other current assets of YTL 116,412,082, YTL 36,409,358 and YTL 1,079,026, respectively. This was offset by an increase in trade payables and other current liabilities of YTL 110,831,764 and YTL 1,732,906, respectively. In 2003 we had an increase in trade receivables, inventories and other current liabilities of YTL 21,076,137, YTL 16,499,759 and YTL 19,402,974, respectively. We also had an increase in other current assets and trade payables of YTL 466,382 and YTL 36,558,965, respectively.

Net Cash Provided by Operating Activities

As a result of the foregoing, our net cash provided by operating activities in 2003, 2004 and 2005 amounted to YTL 69,638,963, YTL 79,274,141 and YTL 92,668,987, respectively.

Net Cash Provided by Financing Activities

Net cash provided by financing activities consists of changes in net current borrowings, changes in net non-current borrowings, and increase in capital. In 2005 we had an increase in net current borrowings, and an increase in net non-current borrowings of YTL 2,133,174 and YTL 17,738,201, respectively. The increase in net non-current borrowings was used for financing our new cooker facility; the increase in net current borrowings was used to finance working capital needs. In 2004 we had an increase in net current borrowings and an increase in net non-current borrowings of YTL 6,865,282 and YTL 3,060,953, respectively. In 2003, we had a YTL 65,028,115 decrease in net current borrowings and a YTL 54,287,867 increase in net non-current borrowings. In 2003, we also had a YTL 30,064,398 increase in capital. The increases in net non-current borrowings and capital were used to finance the decrease in current borrowings and the investment in our washing machine production facilities.

Net Cash Used in Investing Activities

Net cash used in investing activities consists of purchase of property, plant and equipment, net, purchase of intangible fixed assets, net and changes in other investing activities. In 2005, we had a net purchase of property, plant and equipment of YTL 106,496,847 related to the expansion of our refrigerator and washing machine production facilities and the start-up of our cooker production facilities and a net purchase of intangible fixed assets of YTL 392,386. In 2004, we had a net purchase of property, plant and equipment of YTL 66,374,858 primarily related to air conditioner and washing machine production expansion and a net purchase of intangible fixed assets of YTL 652,921. In addition, in 2004 we had changes in other investing activities of YTL 21,882,260 which represents borrowings from Vestel Foreign Trade to fund capital expenditures. In 2003, we had a YTL 64,578,566 net purchase of property, plant and equipment primarily related to the start-up of our washing machine production facilities and a YTL 2,027,794 net purchase of intangible fixed assets. In addition, in 2003 we had changes in other investing activities of YTL 19,955,517 which represents borrowings from Vestel Foreign Trade to fund capital expenditures.

Liquidity and Capital Resources

Historically, our capital requirements have been funded primarily through a combination of (i) cash generated from our operations, (ii) borrowings under credit facilities made available by third parties and (iii) advances or prepayments of trade receivables by Vestel Foreign Trade.

We expect that our principal future cash needs will be to fund our working capital requirements, debt service and the expansion of our production facilities. We believe that our existing cash balances, cash generated from our operations and the global offering, as well as cash available from our existing credit facilities will be sufficient to fund these needs for the foreseeable future.

The following table sets forth a summary of our outstanding borrowings (in their original currency and as recorded in our IFRS Financial Statements) as of the dates indicated.

	Short-term		Long-term	
	Foreign Currency	Recorded YTL Balance	Foreign Currency	Recorded YTL Balance
December 31, 2004:				
Bank borrowings				
U.S. dollars	2,482,800	3,483,608	660,000	926,044
Euro	4,870,983	9,302,727	26,889,673	51,354,577
Finance lease liabilities				
U.S. dollars	1,436,022	2,014,877	3,063,616	4,298,549
Euro	1,545,323	2,951,297	1,602,121	3,059,771
		17,752,509		**59,638,941**
December 31, 2005:				
Bank borrowings				
U.S. dollars	63,661	85,420	8,000,000	10,734,400
Euro	10,307,199	16,362,678	40,192,986	63,806,365
New Turkish Lira	—	59,335		—
Finance lease liabilities				
U.S. dollars	1,272,582	1,707,551	1,773,838	2,380,136
Euro	1,314,117	2,086,161	287,396	456,241
		20,301,145		**77,377,142**

Credit and Guarantee Facilities

We have entered into credit and guarantee agreements with a number of Turkish and non-Turkish banks. As of December 31, 2005, we had total cash borrowings of YTL 91,048,198 and had obtained guarantees and letters of credit amounting to a total of YTL 32,685,023. Our primary credit and guarantee facilities are described below.

Generally, Turkish banks do not provide committed facilities to companies in Turkey, but rather assign uncommitted credit lines which can be used for cash borrowings, letters of credit or guarantees. We have uncommitted credit lines with aggregate credit limits in excess of $100 million from various Turkish banks. Vestel

Electronics and, in certain cases, Zorlu Holding usually guarantee our obligations under these credit lines. Our primary Turkish banking relationships are with Denizbank A.Ş., Finansbank A.Ş., Türkiye Vakıflar Bankası T.A.O. ("Vakıfbank"), T. Garanti Bankası A.Ş. and Yapı Kredi Bankası A.Ş. As of December 31, 2005, our cash borrowings under these facilities amounted to YTL 11,409,570, and we had guarantees and letters of credit amounting to YTL 16,968,888 (excluding borrowings and guarantees under the Vakıfbank facilities described in the following paragraph).

We also may borrow funds and issue letters of credit from Vakıfbank pursuant to two credit and guarantee facilities for $114.4 million and YTL 20 million, respectively, executed by us, Vestel Electronics and other members of the Vestel Group. We have also guaranteed any amounts outstanding under this agreement, whether on account of borrowings or letters of credit for us or other members of the Vestel Group. The $114.4 million and YTL 20 million credit limits are limits for the aggregate amount of borrowings that we and the other Vestel Group companies can have outstanding under the agreements at any given time. As of December 31, 2005, we had no cash borrowings under the agreement, and we had obtained letters of credit amounting to $4,022,540 (YTL 5,397,444).

In order to finance our cooker and washing machine investments, we entered into two general credit line agreements with Fortis Bank N.V. ("Fortis Bank") on September 30, 2004 and May 3, 2004 for a cumulative amount of EUR 10.9 million and EUR 12 million respectively, under which individual credit agreements were concluded in order to finance up to 85% of our machinery purchases from Italy. The performance of our obligations under both the general credit line agreements and the individual credit agreements executed thereunder are guaranteed by Vestel Electronics. These borrowings bear interest at a rate of EURIBOR plus 0.75 and the maturities of the individual loans vary from 2008 to 2012. As of December 31, 2005, our cash borrowings under these facilities amounted to EUR 18,993,878 (YTL 30,152,781).

Furthermore, we entered into several individual credit agreements with Fortis Bank in 2003 and 2004 for the financing of up to 85% of our machinery purchases from Italy, Germany and Denmark. These agreements were not concluded under the general credit line agreements dated September 30, 2004 and May 3, 2004 and, therefore, borrowings under these agreements are not within the limits set in these general credit line agreements. These borrowings bear interest at a rate of EURIBOR plus 0.75 and the maturities of the individual loans vary from 2008 to 2012. As of December 31, 2005, our borrowings under these facilities amounted to EUR 13,604,984 (YTL 21,597,912).

We also entered into standard loan agreements in 2004 with Bayerische Hypo-und Vereinsbank pursuant to a framework agreement between Zorlu Holding and Bayerische Hypo-und Vereinsbank in which Zorlu Holding guarantees our obligations under such standard loan agreements. Similar to the individual credit agreements concluded with Fortis Bank, the purpose of these standard loan agreements was to finance up to 85% of our machinery purchases from Italy and Germany for our second refrigerator facility. These borrowings bear interest at a rate of EURIBOR plus 0.625 and the maturities of the individual loans vary from 2009 to 2012. As of December 31, 2005, our cash borrowings under these facilities amounted to EUR 9,692,203 (YTL 15,386,372).

We are party to a EUR 9 million loan agreement dated June 9, 2003 with Black Sea Trade and Development Bank. The loan, which is guaranteed by Vestel Electronics, bears interest at a rate of EURIBOR plus 3.25 and matures in May 2009. As of December 31, 2005, our cash borrowings under this facility amounted to EUR 7,875,000 (YTL 12,501,563).

We are party to a EUR 20 million loan facility agreement with Demir-Halk Bank (Nederland) N.V. which can be used in the form of letters of credit or short- and medium-term financing subject to the lender's consent on a case-by-case basis. The pricing of each transaction is to be discussed and agreed upon by us and the bank. Zorlu Holding and Vestel Electronics are also parties to this agreement as guarantors of our obligations under the facility. As of December 31, 2005, there were no amounts outstanding under the agreement.

We also entered into a short-term letter of guarantee facility agreement with Fortis Bank pursuant to which Fortis Bank may provide guarantees up to EUR 20 million. The lender's consent is required to amend any supply agreement financed by this facility and termination of any such supply agreement by us constitutes an event of default. As of December 31, 2005, we had obtained guarantees under this facility amounting to EUR 6,499,963 (YTL 10,318,691).

We are also party to a Master Murabaha Agreement with HSBC Bank plc dated February 27, 2006 for $20,750,000. The loan matures on February 27, 2007 and may be extended upon our request and acceptance of HSBC, so long as there is no event of default.

Furthermore, we and certain other Vestel Group companies entered into a $120 million Letters of Credit Issuance Facility Agreement dated February 10, 2006 with a syndicate of banks led by ABN Amro Bank N.V. and Deutsche Bank AG, London Branch. We and the other borrowers are jointly and severally liable for any amounts outstanding under the agreement, whether on account of letters of credit issued for us or for other members of the Vestel Group. The cost of utilisation of the facility is LIBOR plus 0.1%. The $120 million credit limit is the limit for the aggregate amount of borrowings that we and the other Vestel Group companies are permitted have outstanding at any given time. As of March 29, 2006, we had obtained guarantees under this facility amounting to $2,644,270 (YTL 3,586,159 as of March 29, 2006).

Advances and Prepayments of Trade Receivables by Related Parties

As a member of the Vestel Group, we have been able to borrow from related parties to finance certain of our requirements. Historically, we obtained long-term advances from Vestel Foreign Trade to finance capital expenditures. In recent years, we have obtained short-term advances from Vestel Foreign Trade primarily for day-to-day cash management purposes and to finance our working capital requirements when needed. As of December 31, 2003, 2004 and 2005, respectively, we owed to Vestel Foreign Trade YTL 21,882,260, YTL 0 and YTL 44,867,652, respectively. The advance of YTL 44,867,652 is payable on demand and does not accrue interest. In the future, we expect to decrease our reliance on advances from other Vestel Group companies.

Working Capital

The following table sets forth a breakdown of working capital as of the dates indicated.

	As of December 31,		
	2003	2004	2005
		(YTL)	
Trade receivables	26,312,101	137,194,256	143,664,580
Inventories	48,748,743	85,158,101	101,588,396
Other current assets	2,946,018	4,025,044	8,554,409
Total	78,006,862	226,377,401	253,807,385
Trade payables	74,319,589	183,894,855	178,111,187
Other current liabilities	3,889,092	5,621,998	54,680,841
Total	78,208,681	189,516,853	232,792,028
Net working capital	(201,819)	36,860,548	21,015,357

Our receivables have increased throughout the periods reported due to an increase in our net sales. In 2003, 2004 and 2005, our trade receivables from Vestel Domestic Marketing were on terms of 45, 90 and 150 days, respectively. In 2003, 2004 and 2005, Vestel Foreign Trade paid us when it received payments from its customers. In practice, this resulted in payments to us on average between 40 and 45 days from the invoice date.

Our inventories have increased throughout the periods reported due to an increase in net sales. Our general policy is to keep our inventory levels at below 60 days.

Our trade payables have increased throughout the periods reported due to an increase in purchases. In 2004 and 2005, we were able to extend the payment dates of certain of our trade payables as a result of issuing interest-bearing letters of credit that were not required to be reimbursed by us until after our trade payables were due.

Because all of our net sales are to Vestel Foreign Trade and Vestel Domestic Marketing, we have been able to use advances from these entities as a source of liquidity to manage our working capital requirements, as described above.

Capital Expenditures

Our business is capital intensive and requires significant capital expenditures, primarily with respect to production equipment. Our capital expenditures were YTL 67,009,179, YTL 67,037,899, and YTL 107,740,209 in 2003, 2004 and 2005, respectively. In 2003 our capital expenditures principally consisted of washing machine start-up investments. In 2004, our capital expenses principally consisted of air conditioner and washing machine expansion expenses. The 60.7% increase in our capital expenditures in 2005 compared to 2004 was principally due to additional capital expenditures associated with our second refrigerator factory, our cooker production line and washing machine capacity increases. The amount of capital expenditure varies from year to year depending in large part on the production equipment being installed.

Our capital expenditures principally comprise expenditure on acquiring machinery, equipment and buildings to be used to produce our products and, to a lesser extent, land, furniture and fittings.

The following table sets forth certain information on our capital expenditures for the periods indicated.

	Year ended December 31,		
	2003	2004	2005
		(YTL)	
Machinery and equipment	63,030,090	62,878,246	98,100,120
Buildings	1,076,065	1,078,354	4,618,069
Land	950,036	951,090	1,000,000
Furniture and fittings	1,666,016	1,189,210	3,408,020
Other	286,972	940,999	614,000
Total	67,009,179	67,037,899	107,740,209

In addition, as of December 31, 2005, we had budgeted EUR 52 million for capital expenditures in 2006, of which EUR 18 million is related to the expected start-up of our dishwasher operations in the fourth quarter of 2006. We expect to begin selling dishwashers in the first half of 2007.

Our property, plant and equipment are relatively new. As a result, our maintenance capital expenditure has historically been low and we expect this to continue for the foreseeable future. In each of 2003, 2004 and 2005, maintenance capital expenditure accounted for less than 2.0% of our total capital expenditures. These expenses consisted principally of the purchase of moulds.

Contractual Obligations and Commercial Commitments

The following table summarises our contractual obligations and principal payments we were required to make under our financing and operating leases and debt agreements as of December 31, 2005. The information presented below reflects the contractual maturities of our obligations. These maturities may differ significantly from their actual maturity.

	Year ended December 31,						
	2006	2007	2008	2009	2010	Thereafter	Total
				(YTL)			
Financing leases	3,793,712	1,859,351	976,083	943	—	—	6,630,089
Operating leases	72,562	18,141	—	—	—	—	90,703
Debt obligations	16,507,433	27,327,441	16,809,176	13,744,140	9,570,303	7,809,705	91,048,198
Total cash commitments	20,373,707	29,204,933	17,065,259	13,745,083	9,570,303	7,809,705	97,768,990

We use letters of credit in the normal course of our business. In addition, as a member of the Vestel Group, we are party to guarantees of financial obligations of other Vestel Group companies. See "—Credit and Guarantee Facilities."

Off-Balance Sheet Items

We do not have any off-balance sheet liabilities.

Market Risk

By the nature of our business, we are exposed to certain market risks. These can be classified under three categories: currency risk, commodity price risk and interest rate risk. Any unfavourable change in the corresponding markets can have a significant impact on our financial results.

Our currency risk arises from the mismatch of our assets and liabilities in different currencies; as well as a mismatch between different currencies in our expenses and revenues. Our principal sources of foreign currency assets are certain bank deposits and advances. Our principal sources of foreign currency liabilities are certain financial liabilities, trade payables and liabilities to related parties. A detailed calculation of our currency exposure due to balance sheet items can be found in Note 22 of our IFRS Financial Statements. As of December 31, 2005 we had a short foreign currency position of $ 35,345,282 against the dollar and EUR 139,955,425 against the euro.

Although we do not enter into any currency hedging contracts, we attempt to mitigate the effect of exchange rates on our results of operations by making expenditures in the same currencies as our revenues. For a detailed discussion of how changes in exchange rates affect our results of operations, see "—Principal Factors Affecting Our Results of Operations—Exchange Rates."

Interest rate risk is created by our floating rate long term financial borrowings. As of December 31, 2005 EUR 50 million of our outstanding long-term financial borrowings bore interest at a floating rate. We do not hedge our interest rate exposure because we think the risk created by this exposure is negligible when compared to our cash flows.

We use significant amounts of commodities such as steel and plastics in our manufacturing process. In addition, prices of many of our components such as motors and compressors are directly affected by the changes in the prices of commodities. Our ability to maintain or improve margins depends on our ability to pass along any increased costs to our customers. If we are unable to pass along some or all of our increased costs, whether as a result of competitive pressures or otherwise, or if we experience delays in our ability to pass along some or all of our increased costs, this could have a material adverse effect on our business, financial condition and results of operations. Therefore we are exposed to significant market risk based on commodity prices. In 2005, for example, our results were negatively impacted by increased costs of commodities. We do not enter into hedging transactions to protect us from these risks.

Contingent Liabilities

As of December 31, 2005, we had contingent liabilities amounting to YTL 4,670 in respect of bank loans, letters of credit and other guarantees arising in the ordinary course of business. In addition, due to the export and investment certificates we have obtained, as of December 31, 2005, we had committed to realise exports amounting to $158,113,409 (YTL 212,156,572).

As of December 31, 2005, we had agreed to guarantee the obligations of other Vestel Group companies pursuant to the agreements described under "—Credit and Guarantee Facilities" in an aggregate principal amount of $125 million. As of December 31, 2005, these other Vestel Group companies had obtained guarantees in an amount of $90,625,460 (YTL 121,601,242). As of March 27, 2006, we had agreed to guarantee the obligations of other Vestel Group companies in an aggregate principal amount of approximately $245 million. As of March 27, 2006, these other Vestel Group companies had obtained guarantees in an amount of $197,298,653.

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. Our responsibility continues until such clearance. In the past no liability has arisen as a result of these VAT payments and no liability is reasonably expected for the future.

See Note 16 to the IFRS Financial Statements for more information.

Current Trading and Prospects

We have not yet completed our first quarter. Based on incomplete preliminary numbers available to us at this time, we currently expect our net sales for the three months ended March 31, 2006 to be slightly below the comparable period in 2005.

Net sales from refrigerators and washing machines sold in Turkey in the first three months of 2006 were lower than in the same period in 2005. While we did not sell cookers in the first quarter of 2005, our net sales from cookers sold in Turkey in the first quarter of 2006 were less than what we budgeted. During the first three months of 2006, our domestic net sales of refrigerators, washing machines and cookers were adversely affected by an extended religious holiday in January as well as harsher winter weather. This decline in domestic net sales was partially offset by an increase in net sales from air conditioners. The decline in net sales is also related in part to inventory changes at Vestel Domestic Marketing which experienced only a marginal decrease in its net sales over the same period.

Net sales from refrigerators and washing machines sold in the export market increased significantly compared to the same period last year. Net sales from cookers sold in the export market started off slowly and were lower than expected. Sales of air conditioners for the export market were significantly below those for the same period of 2005. Because our net sales of air conditioners as a percentage of our total net sales is relatively small, we do not expect this significant decrease in net sales to have a significant impact on our overall net sales.

SENIOR MANAGEMENT

Board of Directors

Under the Turkish Commercial Code and our articles of association, our board of directors is responsible for our management. The articles of association require that our board of directors consist of seven members. All directors serve for a term of one to three years, subject to re-appointment. Currently, there is no limit on the number of times a director may be re-appointed.

Pursuant to our articles of association, the majority of our directors consists of non-executive members and one-third of our directors (a minimum of two) must be independent members. Under Turkish law, directors are required to own at least one share in order to serve on the board. However, if a director is elected to the board as a representative of a legal entity shareholder, then such shareholder may pledge one share to us on behalf of such director. See "Description of Our Share Capital—Board of Directors."

The following table sets forth the name of each current member of our board of directors, each of whom was elected for a one-year term at our general meeting of shareholders on March 23, 2006.

Name	Age	Position	Year First Elected to Position	Year Term Ends
Ahmet Nazif Zorlu	61	Chairman of the Board of Directors	1997	2007
Prof. Dr. Ekrem Pakdemirli	66	Vice Chairman of the Board of Directors	2005	2007
Ömer Yüngül	51	Director; Vestel Group's Chief Executive Officer; Chairman of Vestel Group's Executive Committee	1998	2007
Cem Köksal	38	Director; Vestel Group's Chief Financial Officer ; Member of Vestel Group's Executive Committee	2005	2007
Enis Turan Erdoğan	51	Director; Vestel Group's Head of Foreign Trade; Vice Chairman of Vestel Group's Executive Committee	1998	2007
Dr. Recep Yılmaz Argüden	47	Director; Member of Vestel Group's Executive Committee	2005	2007
Şule Zorlu	28	Director	2001	2007

Of our board of directors, three members, Ömer Yüngül, Enis Turan Erdoğan and Cem Köksal are representatives of the Vestel Group. The remaining members are non-executive members, and Prof Dr. Ekrem Pakdemirli and Dr. Recep Yılmaz Argüden are independent board members.

Ömer Yüngül, Enis Turan Erdoğan, Cem Köksal and Dr. Recep Yılmaz Argüden are also members of the Vestel Group's Executive Committee, which is the committee responsible for monitoring and overseeing the operations of all Vestel Group companies.

The business address of our directors is Zorlu Plaza, 34840 Avcılar, İstanbul.

Senior Management

Our senior management is responsible for the day-to-day management of our company in accordance with the instructions, policies and operating guidelines set by our board of directors. Pursuant to our articles of association, our board of directors may delegate some of its powers to one or more of its members or to other senior managers. The following table sets forth the name and position of each of our executive officers.

Name	Age	Position	Year First Appointed to Position
İzzet Güvenir	51	Consultant; Member of Vestel Group's Executive Committee	2005
Nedim Sezer	48	General Manager	2005
Alp Dayı	42	Assistant General Manager (Finance & Accounting)	1999
Umut Gönen	35	Assistant General Manager (Purchasing)	2005
Kemal Özgür	36	Washing Machine Factory Manager	2003
Cevdet Yavuz	43	Cooker Factory Manager	2005
Hakan Akıncı	34	Air Conditioner Factory Manager	2005
Erdal Haspolat	35	Dishwasher Factory Manager	2006

In addition to the persons named above, Ömer Yüngül, Cem Köksal and Enis Turan Erodğan, members of the Vestel Group's Executive Committee and members of our board of directors, perform management and finance functions for us for which we do not compensate them directly.

Biographies

Directors

Ahmet Nazif Zorlu. Mr. Zorlu started his career in a family owned textile business and later established his first company, Korteks A.Ş., in 1976. Mr. Zorlu further established Zorluteks (1979), Zorlu Turizm Sanayi ve Ticaret A.Ş. (1986), Zorpaş A.Ş., Zorlu Polimer Sentetik İplik Sanayi A.Ş. (1988), Zorlu Boya ve Apre Sanayi A.Ş. (1989) and Zorlu Tekstil Ürünleri Pazarlama A.Ş. (1990). Ahmet Nazif Zorlu is currently on the boards of directors of 29 different Zorlu Group companies. He is also the chairman of the board of directors of all of the Vestel Group companies.

Prof. Dr. Ekrem Pakdemirli. Prof. Dr. Pakdemirli served as the Minister of Communications of Turkey between 1987 and 1989 and the Minister of Finance of Turkey between 1989 and 1990. Prof. Dr. Pakdemirli served as a Deputy Prime Minister and proxy of the Prime Minister in 1991. Prof. Dr. Pakdemirli has given lectures in the faculties of business and engineering at Bilkent University, Başkent University and Ege University.

Ömer Yüngül. Mr. Yüngül has served as Assistant General Manager in Merloni Elettrodomestici SpA, Faz Elektrik A.Ş. between 1989 and 1997 and in Metaş A.Ş. between 1981 and 1985. He has served in various positions in Vestel Group since 1997. Mr Yüngül graduated from Bosphorus University, faculty of Mechanical Engineering.

Cem Köksal. Mr. Köksal was an Assistant General Manager at Interbank between 1990 and 1997 and was an Assistant General Manager at Denizbank between 1997 and 2001. Mr. Köksal has served in various positions in Vestel Group since 2002. Mr. Köksal graduated from Bosphorus University, faculty of Mechanical Engineering, and received an MBA degree from Bilkent University.

Enis Turan Erdoğan. Mr. Erdoğan has served as R&D engineer in Chrysler A.Ş., Anadolu Endüstri Holding and Ekinciler Holding between 1980 and 1988. He has served in various positions in Vestel Group since 1998. Mr. Erdoğan graduated from İstanbul Technical University, faculty of Mechanical Engineering, and obtained an MBA from Brunel University.

Dr. Recep Yılmaz Argüden. Dr. Argüden started his career in 1978, at the investigation and development centre of Koç Holding. In 1991, Dr. Argüden served as the chief economic advisor of the Prime Minister. Dr. Argüden has been a member of the executive committees of Anadolu Efes, Borusan, Koç Holdings and the Vestel Group. He has served as the president of the executive committee of Erdemir Demir Çelik Fabrikaları A.Ş. between 1997 and 1999. Mr. Argüden received a degree in Industrial Engineering from Bosphorus University and a Ph.D. in Policy Analysis from the RAND Graduate Institute.

Şule Zorlu. Ms. Zorlu held various positions at Denizbank between 2000 and 2002. Between 2002 and 2003, Ms. Zorlu served as the general manager of Anadolu Kredi Kartı Turizm ve Ticaret A.Ş., a Zorlu Group company. Ms. Zorlu has served as general manager of Zorlu Linens since 2003. Ms. Zorlu graduated from Silberman College FDU, and she is the daughter of Ahmet Nazif Zorlu.

Senior Managers

İzzet Güvenir. Mr. Güvenir was employed by Arçelik between 1987 and 1989. He joined the Vestel Group in 1989 and he was involved in the establishment of our first refrigerator factory. Mr. Güvenir served as the R&D manager of Vestel until 1993. Mr. Güvenir worked for Coca-Cola Romania as a manager responsible for sales and production between 1993 and 1995. He served as a factory manager in Raks between 1995 and 1998. Between 1998 and 2000 he served as the air conditioner factory manager in Vestel, where he became the general manager in 2000. Mr. Güvenir graduated from İstanbul Technical University with a BS degree in Aeronautical Engineering.

Nedim Sezer. Mr. Sezer has served as a Manager for Household Appliances R&D at Peg Profilo A.Ş., between 1985 and 1997. He has served in various positions in Vestel Group since 1998 and is currently serving as our General Manager. Mr. Sezer graduated from İstanbul Technical University, Faculty of Mechanical Engineering.

Alp Dayı. Mr. Dayı has served as the Finance Manager at İzmir Demir Çelik A.Ş. between 1987 and 1993 and as a Deputy General Manager responsible of purchasing, human resources, finance, accounting and budgeting at

Raks Electronic A.Ş. between 1993 and 1999. He has served in various positions in Vestel Group since 1999 and is currently serving as our Assistant General Manager responsible for finance and accounting. He has graduated from Dokuz Eylül University, faculty of Industrial Engineering.

Umut Gönen. Mr. Gönen has served as the R&D Engineer for İnci Akü A.Ş., between 1995 and 1996 and as the Purchasing Engineer for BMC A.Ş. between 1993 and 1995 and as the chief of Quality Assurance & New Projects for Raksev A.Ş. between the years of 1996 and 1999. He has served in various positions in Vestel Group and is currently our Assistant General Manager responsible for purchasing. He has graduated from İstanbul Technical University, faculty of Mechanical Engineering.

Kemal Özgür. Mr. Özgür has served as the Project Engineer at Peg Profilo A.Ş., between 1995 and 1997. He has served in various positions in Vestel Group since 1997 and is currently serving as the Manager of our washing machine factory. Mr. Özgür has graduated from İstanbul Technical University, faculty of Industrial Engineering.

Cevdet Yavuz. Mr. Yavuz has served as the Chief Engineer at Peg Profilo A.Ş., between 1990 and 1997 and as the Manager of R&D for Cookers at Auer İmalat A.Ş. between the years 1997 and 2001 and as the Plant Manager at Teba A.Ş. between the years of 2001 and 2003. He has served in various positions in Vestel Group since 2003 and is currently serving as the Manager of our cooker factory. He graduated from İstanbul Technical University, faculty of Mechanical Engineering in 1985 and received a masters degree from İstanbul Technical University.

Hakan Akıncı. Mr. Akıncı has served in various position in Vestel Group since 1999 and is currently the Manager of our air conditioner factory for Vestel White Goods. Mr. Akıncı, graduated from İstanbul Technical University, faculty of Mechanical Engineering, in 1992 and has received a MBA degree in in Mechanical Engineering from Dokuz Eylül University.

Erdal Haspolat. Mr. Haspolat worked as a design engineer at Özmak Makina Sanayi ve Ticaret A.Ş. between 1992 and 1993 and as the design leader at MKEK Elroksan A.Ş. between 1993 and 1996. Mr. Haspolat has served in various positions in Vestel Group since 1998 and is currently the Manager of our Dishwasher Plant. Mr. Haspolat, graduated from Middle East Technical University, faculty of Mechanical Engineering.

Board Committees

We formed a Corporate Governance Committee and an Audit Committee on March 23, 2006. The members of the Audit Committee are Prof. Dr. Ekrem Pakdemirli (chairman) and Cem Köksal. The members of the Corporate Governance Committee are Recep Yılmaz Argüden (chairman), Şule Zorlu and Selim Yuna. Selim Yuna is not a member of our board of directors but has been appointed to the committee as an expert in accordance with our articles of association. See "Description of Our Share Capital—Board Committees."

Our Corporate Governance Committee is responsible for monitoring our compliance with the Corporate Governance Principles of the CMB and for nominating members of senior management. Our Audit Committee is responsible for supervising the proper conduct of our financial and operational activities. Each of these committees is headed by a non-executive member of our board of directors, as required by our articles of association.

Corporate Governance

The CMB published in July 2003 a set of Corporate Governance Principles (which were revised in February 2005) primarily dealing with shareholders' rights, disclosure and transparency, interested parties (such as workers, lenders, customers and suppliers) and the board of directors. Implementation of these Corporate Governance Principles is voluntary for public and non-public companies. However, public companies are obligated to (i) disclose the level of implementation of these principles, (ii) explain the reasons for failure to implement these principles, and (iii) outline in their annual report and disclose to the public their plans for dealing with any conflicts that arise in the future and the implementation of the principles. In order to support implementation of the new Corporate Governance Principles, the CMB issued a rating communiqué which enables rating agencies to rate companies on the basis of their compliance with the principles.

In accordance with the Corporate Governance Principles, our board of directors includes two independent board members. Our articles of association provide minority shareholders representing at least 5% of our Shares which are publicly traded on the ISE with the right to convene a meeting of our board of directors.

See "Description of Our Share Capital—Protection of Minority Shareholders" and "Description of Our Share Capital—Board of Directors."

Compensation

Remuneration of the members of the board of directors is approved by the general meeting of shareholders. Pursuant to our articles of association, the remuneration of the independent members should be at a level so as to not to influence their independence.

The total remuneration paid to our directors and senior management (including deferred or contingent compensation accrued for the year) during 2005 amounted to approximately YTL 719,005. In our most recent general assembly meeting, our shareholders have decided that each of our directors would be paid YTL 50,000 annually. No loans were made to our directors or senior executives during the past three years. There are no pension, retirement or similar benefits for our directors and senior management. We do not provide for benefits to our directors upon termination of employment. We do not provide any incentive plans for our senior managers.

Share Ownership

Except as disclosed in “Principal and Selling Shareholders,” as of the date of this Offering Circular, none of the members of our board of directors or senior managers directly owns more than 1% of any class of our share capital, and none of them will own more than 1% of any class of our share capital following the offering.

PRINCIPAL AND SELLING SHAREHOLDERS

Immediately prior to the consummation of the global offering, each of Zorlu Holding A.Ş., Ahmet Nazif Zorlu, Zeki Zorlu, Olgun Zorlu and Zülal Zorlu will transfer all of the Shares that they then own (with the exception of one Share, which Mr. Ahmet Nazif Zorlu is required to own as a member of the board of directors) to Vestel Electronics for an amount equal to the offer price in the global offering.

The following table sets forth certain information with respect to the beneficial ownership of our Shares prior to the global offering and following the purchase of Shares by Vestel Electronics described above and the global offering.

	Shares owned prior to the global offering		Shares owned after the global offering (assuming no exercise of the allotment option)		Shares owned after the global offering (assuming full exercise of the over-allotment option)	
Name of owner	**Number**	**%**	**Number**	**%**	**Number**	**%**
Vestel Electronics(1)	48,300,000	35.0	137,999,995	72.6	130,200,995	68.5
Zorlu Holding A.Ş.(2)	13,800,000	10.0	—	—	—	—
Ahmet Nazif Zorlu(3)	36,569,994	26.5	1	*	1	*
Zeki Zorlu	1,380,000	1.0	—	—	—	—
Olgun Zorlu	36,570,000	26.5	—	—	—	—
Zülal Zorlu	1,380,000	1.0	—	—	—	—
Cem Köksal(3)	1	*	1	*	1	*
Enis Turan Erdoğan(3)	1	*	1	*	1	*
Ömer Yüngül(3)	1	*	1	*	1	*
Şule Zorlu(3)	1	*	1	*	1	*
Ekrem Pakdemirli(3)	1	*	1	*	1	*
Recep Yılmaz Argüden(3)	1	*	1	*	1	*
Investors in the global offering	—	—	52,000,000	27.4	59,800,000	31.5
Total	138,000,000	100	190,000,000	100	190,000,000	100

* less than 1%.

(1) Vestel Electronics is located at Zorlu Holding, Ambarlı, 34840, Avcılar, İstanbul, Turkey. Vestel Electronics is owned 51.6% by Collar Holding and 48.4% by public shareholders. Collar Holding is owned and controlled by Ahmet Nazif Zorlu. Vestel Electronics has granted to the Manager and the underwriters of the domestic offering, an option which, due to applicable Turkish law requirements, is exercisable, in whole or in part, only by DenizYatırım, subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, until 30 days after the commencement of trading of the Shares on the ISE, to purchase up to an aggregate of 7,800,000 additional Shares solely for the purpose of covering over-allotments, if any.

(2) Zorlu Holding is located at Zorlu Plaza, Ambarlı, 34840, Avcılar, İstanbul, Turkey. Zorlu Holding is owned 73.0% by Olgun Zorlu, 15.0% by Ahmet Nazif Zorlu, 10.0% by Zeki Zorlu, 1.0% by Zülal Zorlu and 1.0% by Türkan Zorlu.

(3) Turkish law requires each member of our Board of Directors to own at least one Share.

THE VESTEL GROUP

The Vestel Group manufactures, develops and distributes products in three principal business areas: consumer electronics, digital products and white goods. According to data compiled by the Vestel Group, based on internal sources and certain external sources, the Vestel Group through Vestel Electronics is the largest manufacturer of colour televisions in Turkey and the third largest in the world after the Chinese manufacturers TCL and Chang Hong. Vestel Electronics produced approximately 10.8 million units in 2005 representing 55.4% of Turkey's total domestic television production in 2005. The majority of the televisions manufactured by Vestel Electronics are exported, mainly to countries within the EU.

In addition, through Vestel CIS, the Vestel Group manufactures televisions in Russia for distribution in Russia and other CIS countries. Vestel CIS will commence the production of refrigerators by the end of the first quarter of 2006. See "Risk Factors—Risks Relating to Our Relationships with the Vestel Group and the Zorlu Group—Vestel CIS Limited will soon commence production of white goods products for sale in Russia and the CIS, and after such time, we do not intend to sell our products in these markets."

The Vestel Group, through Vestel Communications, is the largest manufacturer in Turkey of digital products, including DVD players, DVD recorders, digital-to-analogue converter boxes and desktop personal computers, producing 7,314,755 units in 2005 (8,131,372 units in 2004).

In addition to manufacturing refrigerators, washing machines, air conditioning units and cookers through us, the Vestel Group also imports for sale in the Turkish market a range of household electrical appliances.

Vestel Foreign Trade manages the marketing, sale and distribution of the Vestel Group's products outside Turkey and Vestel Domestic Marketing manages the marketing, sale and distribution of the Vestel Group's products in Turkey. The majority of Vestel Group's foreign sales have generally been to Western Europe, while the remaining balance has been to Eastern Europe, North and South Africa, the U.S., Russia, the Balkan States, Australia, the Middle East and the Turkic Republics.

ZORLU HOLDING

The information in this section has been derived from publicly available information regarding the Zorlu Group and has not been independently verified by us, the Selling Shareholder or the Manager. We believe the information to be reliable but have not independently verified it.

Certain directors of Vestel Electronics, our parent company, are also directors of or have shareholdings in Zorlu Holding, a major Turkish conglomerate. As of December 31, 2005, the shareholders of Zorlu Holding were Ahmet Nazif Zorlu (15%) and members of his immediate family, Zeki Zorlu (10%), Olgun Zorlu (73%) and Türkan Zorlu (1%). The Zorlu Group is one of Turkey's oldest established home textile conglomerates, with a history that dates back to the emergence of Turkey's textile industry in the early 1950s.

As of December 31, 2004, the Zorlu Group employed approximately 27,000 people and had total assets of approximately YTL 10.4 billion. It had total net sales of approximately YTL 2.2 billion and net income of approximately YTL 170.4 million for the year ended December 31, 2004, the latest date for which consolidated financial statements of the Zorlu Group are available.

In addition to its interests in the textile industry, Zorlu Holding has investments in, among other things, the finance sector and the power industry. Details of Zorlu Holding's major equity participations as of the date of this Offering Circular are set out below:

Name of the Company	Zorlu Holding's direct interest[(1)]	Business
	(%)	
Korteks Mensucat Sanayi ve Ticaret A.Ş.	78.0	Production of polyester yarn and curtain materials, drapes and household textiles
Zorlu Linen Dokuma Emp. Konfeksiyon Sanayi ve Ticaret A.Ş.	94.6	Dyeing and finishing
Zorlu Tekstil Ürünleri Pazarlama A.Ş.	75.0	Marketing of textiles
Zorlu Mensucat Sanayi ve Ticaret A.Ş.	76.0	Marketing of textiles
Zorlu Turizm ve Ticaret A.Ş.	88.0	Tourism
Zorlu Bel Air Mensucat A.Ş.	80.0	Marketing of Bel Air products in Turkey
Zorlu Ev Tekstil Ürünleri Ticaret A.Ş.	75.0	Marketing of household textiles
Zorlu Sigorta Aracılık Hizmetleri A.Ş.	78.0	Insurance
Deniz Factoring A.Ş.	91.5	Factoring
Zorlu Grand Hotel İşletmeleri A.Ş.	80.0	Tourism
Denizbank A.Ş.	75.0	Banking
Zorlu Ambalaj Sanayi ve Ticaret A.Ş.	80.0	Packaging
Bel Air Industries S.A.	100.0	Production and manufacture of polyester curtain materials

(1) The balance of the shares in these companies (other than Denizbank A.Ş.) is held by other companies within the Zorlu Group, members of the Zorlu family or officers of Zorlu Holding.

RELATED PARTY TRANSACTIONS

We and other companies controlled by the Vestel Group and the Zorlu Group have a number of arrangements and engage in various transactions as affiliated companies. We believe that these arrangements and transactions, taken as a whole, are based on arm's length principles to accommodate our respective interests in a manner that is fair and beneficial to both parties. However, because of the scope of the various relationships between us and our affiliates, we cannot assure you that each of the agreements and transactions, if considered separately, has been or will be effected on terms no less favourable to us than could have been obtained from unaffiliated third parties. See "Risk Factors—Risks Relating to our Relationships with the Vestel Group and the Zorlu Group."

Existing material arrangements include the agreements and arrangements described below. For more information with respect to related party transactions, please see Note 21 to our IFRS Financial Statements.

Sales and Marketing

Vestel Foreign Trade

Pursuant to our agreement with Vestel Foreign Trade dated January 1, 2005, Vestel Foreign Trade has agreed to purchase substantially all of its white goods requirements from us and to use its best efforts to promote, market and sell our white goods products outside of Turkey. The agreement does not apply to white goods purchases and sales by Vestel Foreign Trade with respect to Russia and the CIS countries.

Vestel Foreign Trade has agreed to purchase all of its white goods requirements exclusively from us; however, it is permitted to purchase white goods from third parties to the extent (but only for the period) that we are not capable of producing such product models.

Vestel Foreign Trade has agreed that, in each year during the term of the agreement, regardless of the governing economic conditions (save for *force majeure* conditions), it will purchase from us a minimum number of units of white goods equal to 80% of the number of units of white goods purchased from us in the prior year.

The agreement provides that Vestel Foreign Trade will pay us the final sale price charged to its customer, less a discount of 1%. The amount of the discount may be modified by prior written agreement of the parties. Vestel Foreign Trade is required to pay us within two days following the date of collection of the sale price from its customer, in the currency in which such payment was made to it. In the event of a payment default, 12% interest accrues on unpaid amounts. The agreement requires Vestel Foreign Trade to obtain from its customer either an advance payment of the sales price or confirmed letters of credit, bank guarantees or other insurance with respect to such payment. Vestel Foreign Trade has agreed that, in the event of nonpayment by its customer, it will use its best efforts to obtain such payment from the issuing bank, guarantor or other relevant party.

Vestel Foreign Trade has agreed to allocate an adequate number of personnel exclusively to the marketing and sale of our products and to maintain the number of such personnel at a reasonable level throughout the term of the agreement.

Pursuant to the agreement, we are responsible for the cost of delivering our products free on board at the loading port of Izmir, Turkey, if the goods are to be transported by ship, or free on truck at our manufacturing facility in Manisa, Turkey if transport is to be made by land, and the title of the goods as well as their risks and benefits pass to Vestel Foreign Trade at that point.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Results of Operations—Relationship with the Vestel Group."

Vestel Domestic Marketing

Pursuant to our agreement with Vestel Domestic Marketing dated January 1, 2005, Vestel Domestic Marketing has agreed to use its best efforts to promote, market and sell our "Vestel" and "Regal" branded white goods products in Turkey.

Vestel Domestic Marketing has agreed to purchase all of its white goods requirements exclusively from us; however, it is permitted to purchase white goods from third parties to the extent (but only for the period) that we are not capable of producing such product models. Pursuant to the agreement, Vestel Domestic Marketing may not sell, market or promote in Turkey white goods product models manufactured by any third party, at any time when we are capable of producing such white goods product models, without our prior written consent.

Vestel Domestic Marketing has agreed that, in each year during the term of the agreement, regardless of the governing economic conditions (save for *force majeure* conditions), it will purchase from us a minimum number of units of white goods equal to 80% of the number of units of white goods purchased from us in the prior year.

The agreement provides that we will agree on the prices of the white goods to be sold to Vestel Domestic Marketing in euro, and the monthly invoices sent by us to Vestel Domestic Marketing will be denominated in New Turkish Lira, based on the Central Bank exchange rate effective on the last business day of the previous month. We have agreed to sell our products to Vestel Domestic Marketing at a price that represents a discount in the range of 15% to 25% from the final sales price that Vestel Domestic Marketing charges to its customers. The agreement provides that prices will be set annually, although they may be re-negotiated by the parties in the event of a significant change in market prices during the year or in the event of an expected deviation from the agreed discount range. Each invoice is payable by Vestel Domestic Marketing no later than 150 days after the invoice date, and unpaid amounts bear interest at a rate of 14.4% thereafter.

Vestel Domestic Marketing has agreed to allocate an adequate number of personnel exclusively to the marketing and sale of our products and to maintain the number of such personnel at a reasonable level throughout the term of the agreement.

Pursuant to the agreement, we are responsible for the cost of delivering our products to the warehouse of Vestel Domestic Marketing in Vestel City in Manisa, Turkey, and the title of the goods as well as their risks and benefits pass to Vestel Domestic Marketing at that point.

The agreement has an initial term of five years, and it may be extended by agreement of the parties for additional terms of five years, or such other period as we may agree. The agreement may be terminated by either party with 12 months' notice after the first three years from the date of the agreement. In the event of a material default by either party which is not remedied within 60 days after notice of such default, the other party may terminate the agreement with immediate effect.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Results of Operations—Relationship with the Vestel Group."

Non-Competition Agreement

Pursuant to an agreement among Vestel CIS, Mr. Ahmet Zorlu, Vestel Electronics and us dated January 1, 2005, Vestel CIS, Mr. Ahmet Zorlu and Vestel Electronics have agreed not to establish, participate in or acquire control, directly or indirectly, of any white goods manufacturing facility or white goods business or company that is not owned or controlled by us, and not to engage in any business relationships with any third party with respect to the production or sale of white goods in territories other than the Russian Federation and the CIS. Vestel CIS, Mr. Ahmet Zorlu and Vestel Electronics further agreed not to sell any finished white goods into territories other than the Russian Federation and the CIS. The Non-Competition Agreement shall remain in force for so long as (i) Vestel CIS remains in the control of or under common control with Vestel Electronics or Mr. Ahmet Zorlu and (ii) Vestel CIS or we remain active in the white goods business. The Non-Competition Agreement further provides that it may not be terminated unless or until either Vestel CIS or we are liquidated or otherwise dissolved.

Know-How and Licence Agreement

On January 1, 2005, we entered into a Know-How and Licence agreement with Vestel CIS, pursuant to which we agreed to transfer technical know-how in relation with the production and sale of refrigerators, washers, cookers, air conditioners and dishwashers within the Russian Federation and the CIS. Furthermore, during the term of the agreement, we agree to provide technical support in connection with the production of such white goods. In return for the transfer of know-how, Vestel CIS agreed to pay us an annual royalty fee of 1.5% of its sales. The payments of the royalty fee are made semi-annually. In the event of late payment, Vestel CIS has agreed to pay a default interest of LIBOR plus 2.5%. The term of the agreement is five years, which term may be extended upon mutual agreement of the parties. However, in the event of Vestel CIS' breach of the agreement and failure to cure such breach within 30 days of notice, we have the right to unilaterally terminate the agreement before the end of its term.

Intellectual Property

Pursuant to Licence Agreements dated as of April 15, 2005 and January 1, 2005, Vestel Electronics and Vestel Domestic Marketing have granted to us, for an indefinite period of time, royalty-free licences to use the trademarks "Vestel" and "Regal," respectively, for white goods products. In addition, Mr. Rolf Schmid, the joint venture partner of Vestel Foreign Trade in GmbH, Vestel Foreign Trade's local marketing company in Germany, has granted us a non-exclusive royalty-free licence for the "SEG" trademark for refrigerators and deep freezers, pursuant to a trademark licence agreement. The licence is granted for a five-year term.

After-Sales Services

We have entered into an After-Sales Service Agreement dated January 1, 2005 with Vestel Domestic Marketing. Pursuant to the agreement, we have agreed to provide Vestel Domestic Marketing with technical support for after-sales service. Costs and expenses for servicing must be borne by us if the number of our products which malfunction due to production defects exceed certain prescribed percentages of the number of products sold, and we assume all responsibility for manufacturing defects. Vestel Domestic Marketing has agreed to provide high quality technical service regarding our products. The agreement requires us to provide spare parts to Vestel Domestic Marketing during the term of the agreement and for 10 years thereafter. The initial term of the agreement is five years and is automatically extended for additional five-year terms unless terminated by either party.

Real Estate

Pursuant to a lease agreement dated February 1, 2005, we lease approximately 35,000 square metres of warehouse space near our Manisa production facilities from Vestel Electronics. We also lease approximately 63,000 square metres for our air conditioner and cooker facilities at Manisa from Vestel Electronics pursuant to a lease agreement dated October 1, 2004. In 2005, we paid Vestel Electronics YTL 721,120 for the lease of these facilities. We also lease unused space in our Manisa facility to Vestel Electronics from time to time.

Legal Services

We entered into a legal services agreement with Vestel Electronics on August 1, 2005 pursuant to which Vestel Electronics agreed to provide us with legal consultancy services through its legal department. The initial term of the agreement is one year, which is automatically extended unless terminated by either party. We have the right to unilaterally terminate the agreement at any time. Vestel Electronics can also unilaterally terminate the agreement subject to three months' prior written notice and provided that they continue to provide their ongoing legal services.

Advances

As a member of the Vestel Group, we have been able to borrow from related parties to finance certain of our requirements. Historically, we obtained long-term advances from Vestel Foreign Trade to finance capital expenditures. In recent years, we have obtained short-term advances from Vestel Foreign Trade primarily for day-to-day cash management purposes and to finance our working capital requirements when needed. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Advances and Prepayments of Trade Receivables by Related Parties."

Guarantees

From time to time, some of our financing may be guaranteed by the Vestel Group or its affiliates, and our continued access to such financing would depend on a number of factors, including compliance by the Vestel Group or its affiliates with covenants in their financing arrangements.

In addition, as a member of the Vestel Group, we have agreed to guarantee the obligations of other Vestel Group companies under credit and guarantee agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contingent Liabilities."

In addition, as of December 31, 2005, Mr. Ahmet Nazif Zorlu had personally guaranteed $19,016,480 (YTL 25,790,150) and EUR 4,770,070 (YTL 7,572,486) of our liabilities in the form of cash collateral, letters of credit and guarantees.

Trade Receivables and Trade Payables

We had trade receivables of YTL 147,516,841, YTL 109,048,134 and YTL 23,943,017 from Vestel Domestic Marketing as of December 31, 2005, 2004 and 2003, respectively. We had trade receivables of YTL 33,442,381 from Vestel Foreign Trade as of December 31, 2004. As of December 31, 2005, Vestel Foreign Trade had advanced us YTL 44,867,652. As of December 31, 2005, we had trade payables to Vestel Electronics and Vestel Holland B.V. of YTL 3,987,355 and YTL 3,083,197, respectively. As of December 31, 2004, we had trade payables of YTL 1,899,825 and YTL 122,056 to Vestel Electronics and Vestel Holland B.V., respectively. The foregoing trade payables to Vestel Electronics and Vestel Holland B.V. were in connection with the purchase of raw materials and components, respectively.

Transactions with Denizbank A.Ş.

We engage in ordinary course banking and related transactions from time to time with Denizbank A.Ş., which is controlled by Zorlu Holding.

As of December 31, 2005, cash and cash equivalents included YTL 232,287 of demand deposits and YTL 3,355,000 of repurchase transactions with Denizbank A.Ş. The average interest rate was 14.0% with respect to New Turkish Lira deposits and 2.0% with respect to foreign currency deposits and the average maturity was two days. As of December 31, 2004, cash and cash equivalents included YTL 11,656 of demand deposits and YTL 2,579,728 of repurchase transactions with Denizbank A.Ş. The average interest rate was 18.2% with respect to New Turkish Lira deposits and 1.5% with respect to foreign currency deposits, and the average maturity was three days. As of December 31, 2003, cash and cash equivalents included YTL 120,879 of demand deposits and YTL 2,292,548 of repurchase transactions with Denizbank A.Ş. The average interest rate was 25.5% with respect to Turkish Lira deposits. The average maturity was one day.

As of December 31, 2004, we had borrowed YTL 7,513,111 from Denizbank A.Ş. with an average annual interest rate of 4.4%. This loan was repaid in December 2005.

We obtain interest free loans for daily financing purposes from Denizbank A.Ş. As of December 31, 2004 and 2005, these loans were YTL 27,493 and YTL 15,129, respectively.

DESCRIPTION OF OUR SHARE CAPITAL

The following is a description of the rights attaching to the Shares, which rights are derived from the Turkish Commercial Code, the Capital Markets Law, the CMB regulations and our articles of association.

Paid-in Capital, Nominal Value, Form of Shares and Limit of Liability

Our share capital will be increased by YTL 52,000,000 to YTL 190,000,000 composed of 190,000,000 Shares each having a nominal value of YTL 1. All of the 52,000,000 shares will be offered to the public as a result of restricting the pre-emption rights of the existing shareholders. This share capital increase will be based on the resolution of the general meeting of shareholders dated March 23, 2006, which we anticipate will be announced in the Trade Registry Gazette on or about April 20, 2006.

The following table sets out the changes in our share capital during the past three years:

Date of corporate resolution in	Date of registration in the trade registry	Capital increase	Total number of shares outstanding	Share capital
		(YTL)		(YTL)
February 28, 2003	March 4, 2003	31,000,000[(1)]	46,000,000	46,000,000[(1)]
March 18, 2005	March 24, 2005	92,000,000	138,000,000	138,000,000
March 23, 2006	On or about April 20, 2006	52,000,000	190,000,000	190,000,000

(1) All figures prior to January 1, 2005 have been converted from Turkish Lira to New Turkish Lira for convenience.

Our Shares are in bearer form. Pursuant to our articles of association, all the Shares confer identical rights on each of the holders thereof.

Pre-emption Rights

We may increase our capital only through the issuance of new shares, which may take the form of a rights issue or a bonus issue. Existing shareholders have pre-emption rights and are entitled to subscribe for new shares in proportion to their respective shareholdings each time we increase our capital. Under Turkish law, pre-emption rights relate only to issues of shares.

The exercise of pre-emption rights by our shareholders must be made within a subscription period of not less than 15 nor more than 60 days following the issuance of an offering circular for the relevant capital increase. Our shareholders who do not wish to subscribe for new shares may sell their rights on the ISE. Any shares not subscribed by the existing shareholders or purchasers of the rights coupons are sold on the ISE at the then current market price. Any differences between the rights issue price and the price realised for the shares on the ISE accrues to our surplus account.

Currently, increasing or decreasing our capital requires a resolution approved by the holders of at least a majority of our outstanding shares present at a general meeting, pursuant to the express terms of our articles of association. Pre-emption rights of our shareholders related to a new issue may be restricted wholly or in part by an affirmative vote of the holders of a majority of our outstanding shares represented at an ordinary or extraordinary general meeting of shareholders. CMB regulations stipulate that such authority may be conferred upon the board of directors of companies that have received permission from the CMB to adopt the authorised capital system. The CMB further requires that the right of the board of directors to restrict the pre-emption rights of shareholders apply equally with respect to all shareholders. With the required approval of our shareholders, we intend to adopt an authorised capital system after the global offering, which would allow us to issue additional Shares without shareholder approval up to a certain maximum level of capitalisation set by our shareholders.

To the extent that pre-emption rights are not restricted, U.S. holders of Shares may not be able to exercise these rights for Shares unless a related registration statement under the Securities Act is effective or an exemption from the registration requirements thereunder is available. We cannot assure you that any registration statement would be filed in such case. See "Risk Factors—Risks Relating to an Investment in the Shares—The pre-emption rights granted to holders of our Shares may be unavailable to U.S. holders of our Shares."

Bonus issues may be undertaken in order to convert all or a portion of the revaluation fund and reserves of a company into share capital. We periodically adjust the value of our fixed assets in accordance with Law No. 5024, a tax regulation relating to inflation accounting issued by the Ministry of Finance, in accordance with IFRS. The reserve resulting from the application of inflation accounting is included in the balance sheet under shareholders' equity, which is subsequently transferred to paid-in capital through a bonus issue to our shareholders. Shares issued pursuant to a bonus issue are distributed free of charge to the holders of bonus coupons attached to share certificates representing the Shares.

Dividend Distribution and Allocation of Profits

Annual dividend distributions can only be recommended by our board of directors and approved by our shareholders at the annual general meeting. Dividends are payable on a date proposed by our board of directors and approved at the annual general meeting. Distribution of dividends can be made in the form of cash or bonus shares, or a combination of both. Dividend distributions are required to be completed by the end of the fifth month following the end of the preceding financial year.

Net profit is calculated in accordance with our articles of association after deducting expenses, depreciation, required reserves, taxes and any carried forward losses, if any, from the revenues determined at the end of the fiscal period, and distributed as prescribed by the Turkish Commercial Code in the following required order:

- 5% of the net profit is allocated to a first legal reserve until the first legal reserve reaches 20% of our paid-in capital.
- After the deduction of the amount described in the preceding sentence from the net profit, the amount specified by the CMB is distributed to our shareholders as a first dividend.
- All or part of the remaining net profit may be distributed to our shareholders as a second dividend or retained by us as extraordinary company reserves, all at the discretion of the general meeting of shareholders.
- Upon deduction of dividends equal to 5% of the paid-in capital from the portion which is resolved to be distributed to the shareholders, 10% of the remaining amount is set aside as a second reserve

The calculations described above are performed using statutory financial statements prepared according to the Turkish Commercial Code and Turkish tax legislation, which may differ from our IFRS accounts significantly due to different depreciation, expense and revenue, and foreign exchange gain and loss recognition standards.

The date and form of distribution of dividends are determined by our shareholders within the framework of the CMB regulations.

According to current CMB regulations, a minimum of 30% of the net profit of public companies must be distributed to shareholders as a first dividend, either in cash or as bonus shares or as a combination of cash and bonus shares. However, the CMB may, from time to time, change the amount of dividends required to be distributed by public companies.

Pursuant to the Capital Markets Law, public companies may distribute interim dividends in accordance with the following criteria:

- interim dividends must be based on quarterly audited financial statements prepared in accordance with the Turkish Taxation Code;
- interim dividends cannot exceed 50% of the net profits for the relevant interim period;
- the aggregate amount of interim dividends in one fiscal year cannot exceed the lesser of (x) 50% of distributable profits for the previous fiscal year, or (y) the extraordinary reserves approved by the general meeting of shareholders;
- any interim dividends previously paid must be deducted from any subsequent interim dividend payments within the same fiscal year;
- the articles of association of the company must permit the distribution of interim dividends and the general meeting of shareholders must authorise the board of directors to declare such distributions for each year that they wish to have interim dividend distributions; and
- holders of privileged classes of shares and any non-shareholders entitled to receive dividends are not allowed to receive interim dividends.

Currently, our articles of association allow us to distribute interim dividend payments to our shareholders. No dividends or additional interim dividends may be distributed until the interim dividends of the previous year are completely set-off.

For additional information on dividend distribution and allocation of profits, see "Dividends and Dividend Policy."

Liquidation Rights

Pursuant to the Turkish Commercial Code, shareholders of a joint stock company have the right to receive a pro-rata share of any proceeds arising from the liquidation of the company. The articles of association, however, may restrict this right. As of the date of this Offering Circular, our articles of association provide for all liquidation proceeds to be distributed to our shareholders on a pro-rata basis.

General Meetings of Shareholders

Pursuant to our articles of association, general meetings of shareholders are to be held at our head office or at another location selected by our board of directors. We are required by the Turkish Commercial Code to hold our annual general meeting within three months of the end of each financial year, which in our case is December 31. Extraordinary general meetings may be convened by our board of directors or upon the request of holders of Shares representing at least 5% of our share capital, or upon the request of our internal auditors.

The following matters are required by the Turkish Commercial Code to be included on the agenda of each of our annual general meetings:

- review of the annual reports of our board of directors and the auditors;
- approval, amendment or rejection of our financial statements for the preceding financial year, release of our board of directors from liability in respect of actions taken by them in that year and the proposals of our board of directors for the allocation and distribution of any of our net profits;
- approval of the remuneration of the directors and the auditors; and
- election of directors and auditors.

Holders of Shares representing at least 5% of our share capital may, by written notice, require any additional matters to be included on the agenda.

Notices convening general meetings must include the agenda for such meeting and be published in the *Trade Registry Gazette* and a leading Turkish newspaper determined by us, at least two weeks before the date fixed for the meeting. The Turkish Commercial Code requires us to send notice of any general meeting by registered mail to each person registered in our books as a holder of Shares and to those shareholders who have deposited at least one share certificate representing Shares with us and have indicated a notice address. Similar notices are published in relation to adjourned or rescheduled meetings.

Any shareholder wishing to attend our general meetings in person must deposit its share certificates (or its receipt from the Central Registry evidencing such shares) not less than one week before the date of the meeting in order to obtain an entry permit for that meeting. Any shareholder not wishing to attend any such meeting in person may appoint another person as a proxy. Under Turkish law, proxies for representation in a general meeting can only be granted to individuals and cannot be granted to the board of directors of the company

Our articles of association provide that the quorum required for general meetings of shareholders and for resolutions to be adopted at such meetings are those stipulated by the Turkish Commercial Code and the Capital Markets Law. Pursuant to the Turkish Commercial Code, the quorum requirement at any general meeting of shareholders is 25% of our share capital. If such quorum is not present when a general meeting is convened, the meeting shall be adjourned, in which event the meeting is re-convened within 15 days, regardless of the amount of share capital represented at such meeting. Resolutions of general meetings must be passed by the holders or their proxies of a majority of the Shares or present at such meeting.

Notwithstanding the foregoing, a meeting called to consider any of the following matters requires the quorum indicated:

- dissolution—attendance of shareholders or proxies representing 75% of the share capital is required; if the first attempt to reach a quorum fails, then the meeting quorum falls to 50% for the second attempt,

- issuing debt securities—attendance of shareholders or proxies representing 50% of the capital is required; if the first attempt to reach a quorum fails, then the meeting quorum falls to 33% for the second attempt (issuing of debt securities requires a shareholder vote unless the articles of association explicitly give this authority to the board of directors), and
- approving the sale of all of the assets during a liquidation—attendance of shareholders or proxies representing 50% of the capital is required; if the first attempt to reach a quorum fails, then the meeting quorum falls to 33% for the second attempt.

Currently, our articles grant the authority to issue debt securities to our board of directors.

Changing our jurisdiction of incorporation or increasing the financial obligations of shareholders towards us requires approval of shareholders representing 100% of our share capital.

Voting Rights

Holders of Shares are all entitled to one vote per Share on all matters submitted to a vote of our holders of Shares. Votes at general meetings are taken by a show of hands. However, a simple majority of our share capital represented at the general meeting may demand a secret ballot.

Transfer of Shares

Holders of Shares may transfer all or any of their Shares by physical delivery or by means of book-entry registration with accounts maintained by the Central Registry. Shareholders have no pre-emption rights in respect of the transfer of Shares. Our articles of association do not contain any restrictions on the transfer of Shares.

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares of a company quoted on a Turkish stock exchange exclusively on such exchange. Accordingly, following the global offering, non-resident investors may transfer the Shares only on the ISE, through a bank or a brokerage firm.

Mandatory Offer

In the event any party or parties acting together acquire, directly or indirectly, 25% or more of our share capital and voting rights or management control regardless of such percentage, such party or parties are required to make an offer to the other shareholders to buy their shares. Furthermore, if a party or parties acting together owning between 25% and 50% of our share capital or voting rights increases such holding by 10% or more in any given 12-month period, such party or parties are required to make an offer to the other shareholders to purchase their shares. The CMB may grant an exemption from these requirements, when and if certain conditions are satisfied.

Protection of Minority Shareholders

Under Turkish law, a minority shareholder in a public company that holds, either as a single shareholder or as a group of shareholders, 5% or more of the company's outstanding share capital has certain rights, including, among others, to require the board of directors:.

- to call an extraordinary meeting of shareholders;
- to include a particular matter on the agenda for an ordinary or extraordinary meeting of shareholders;
- to appoint special statutory auditors; and
- to take action against directors who have violated the Turkish Commercial Code or the articles of association of the company or who have otherwise failed to perform their duties.

Board of Directors

Pursuant to our articles of association, our board of directors must consist of seven members and a majority of the board must consist of members not holding executive positions. Furthermore, at least one-third (being not less than two at any given time) of the members of our board of directors shall be independent.

Without prejudice to the power of the general meeting of shareholders to appoint any person to be a director and subject to the Turkish Commercial Code and our articles of association, our board of directors has the power at any time and from time to time to appoint any person to be a director to fill a vacancy in the existing board of directors, provided that the total number of directors may not at any time exceed any maximum number fixed by or in accordance with our articles of association. Any director so appointed by our board of directors may hold office only until the next following general meeting of shareholders.

Except as provided in the previous paragraph, each director holds office for a term of at least one and not more than three years. Members of our board of directors whose term of office has expired may be re-elected.

Directors receive remuneration (whether by way of monthly or annual salary or a particular payment for each board of directors' meeting attended) pursuant to our articles of association. The amount of remuneration and the method of payment are determined by the general meeting of shareholders.

The Turkish Commercial Code requires each director to inform the board of directors of any personal interest of the director or certain members of his or her family (including parents, spouse and children) in any contract or arrangement under consideration by the board of directors and prohibits such director from participating in such discussions or exercising his vote in relation thereto.

Directors may not enter into any transactions with the company or compete with the company unless the general meeting of shareholders passes a resolution to the contrary with the affirmative votes of at least three-fourths of the share capital represented in such general meeting.

Board Committees

Pursuant to our articles of association, our board of directors is empowered to establish two committees, the Corporate Governance Committee and the Audit Committee. Both of the committees must be comprised of at least two members, to be appointed from among the members of our board of directors. The majority of the members of such committees, including their chairmen, are required to be non-executive members of our board of directors. A member of one committee cannot be a member of the other.

On March 23, 2006, meeting, our shareholders appointed Prof. Dr. Ekrem Pakdemirli and Cem Köksal to the Audit Committee, with Prof. Dr. Ekrem Pakdemirli as the chairman. The Audit Committee is responsible for supervising the proper conduct of our financial and operational activities. The Audit Committee is required to meet at least four times each year.

On March 23, 2006, our shareholders appointed Dr. Recep Yılmaz Argüden, Şule Zorlu and Selim Yuna to the Corporate Governance Committee, with Dr. Recep Yılmaz Argüden as the chairman. Our articles of association allow the appointment of non-director members of the board committees if their expertise is deemed necessary by the board of directors. Selim Yuna is a non-director member of the Corporate Governance Committee appointed in such manner. The Corporate Governance Committee is responsible for monitoring our compliance with the Corporate Governance Principles of the CMB and for nominating members of senior management. The Corporate Governance Committee is required to meet at least three times each year.

Auditors

Pursuant to our articles of association and the Turkish Commercial Code, the general meeting of shareholders appoints one or two statutory auditors. The minimum and maximum term of office of each auditor is one and three years respectively.

Pursuant to our articles of association, our annual and interim financial statements are audited by independent auditors approved by the general meeting of shareholders. The independence of the auditors must be pre-approved by the Audit Committee.

Reports to Shareholders

We produce an activity report in Turkish, including audited accounts prepared in accordance with the rules and regulations of the CMB. Copies of the latest such report may be obtained on request within 15 days preceding the date of each annual general meeting of shareholders as required by Turkish law. In addition, we will prepare an English translation of the foregoing following the global offering and we will make this available to any shareholder upon request.

We also prepare unaudited quarterly profit and loss accounts and balance sheets for the first and third quarters and an audited semi-annual profit and loss account and balance sheets for the first six months of each financial year, which will be available to shareholders in accordance with ISE regulations.

THE TURKISH SECURITIES MARKET

The following information has been derived from publicly available information and has not been independently verified by us, the Selling Shareholder or the Manager.

Introduction

There has been an organised securities market in Turkey since 1866, although by the late 1970s the markets had been substantially dormant for many years. In 1981, the Capital Markets Law was enacted, which established the CMB as the main regulatory body with responsibility for supervision and regulation of the Turkish securities markets. The ISE was re-established in 1985 and recommenced operations in early 1986.

The Capital Markets Board

The principal function of the CMB is to assist the development of the securities markets in Turkey and thereby contribute to the efficient allocation of financial resources in the Turkish economy and to ensure adequate protection for investors. The CMB supervises and regulates, among others, public companies, banks and other financial intermediaries, mutual funds, investment corporations, investment consulting firms and rating firms that offer their services to institutions operating in the capital markets.

As the capital markets regulator, the CMB promulgates regulations relating to Turkish capital markets and the rules which participants in such markets are required to observe. CMB regulations require registration with the CMB of all securities to be publicly offered in Turkey, as well as certain private placements. A prospectus filed with the CMB for registration must include all information reasonably necessary to enable a prospective investor to assess the merits of the issuer and the proposed investment. The CMB may refuse registration in the event that it is not satisfied with the quality of the issuer or the level of disclosure in the prospectus. The type and scope of information required to be disclosed to the public under CMB regulations is considerably less detailed than disclosure requirements in more developed markets such as the United States or the United Kingdom.

The İstanbul Stock Exchange

Governance

The ISE is governed by an Executive Council composed of five members. After nomination by the CMB, the President, who also acts as the chief executive officer, of the Executive Council is appointed by the Government. Four other members of the Executive Council represent the three categories of the ISE members: the investment and the development banks, the corporate banks, and the brokerage houses. The ISE is the only stock exchange in Turkey.

Trading and Settlement

In December 1993, the ISE launched a computerised trading system known as Electronic Purchase and Sale System. Although this trading system was used initially for 50 stocks that were not the subject of heavy trading, in December 1994 the ISE converted fully to this trading system. The ISE operates two computer dealing rooms at its new premises and approximately 150 brokers are eligible to trade through the auspices of the ISE. The brokers, after receiving orders by telephone, enter positions and transact sales by computer, just as would be done in the treasury departments of most investment banks. Since December 2001, ISE members have also been able to route their orders directly to the ISE automated trading system through an interface software called Ex-API. Through Ex-API, members route the orders (either collected or derived by their own back office systems) directly to the ISE automated trading system and instantaneously receive order and trade confirmations. The electronic communication acts as a sales contract. At the end of each trading session, the ISE gives all brokers a breakdown of all the transactions that they have completed.

Updated trading prices for stocks traded on the ISE are conveyed in real time to data vendors such as Bloomberg and Reuters for international dissemination. After each trading session, the ISE publishes a daily bulletin, which sets out for each security, among other information, the high and low sales price, the closing sales price, trading volume and weighted average sales price. The information contained in the bulletin is customarily extracted and published on the following day in major newspapers in Turkey. All transactions are on a cash basis and settlement must take place on the second business day after the execution of a trade. Most equity securities traded on the ISE are in bearer form. In practice, shares in registered form which are traded on the ISE are represented by share certificates endorsed in blank, enabling such shares to be transferred as if they were in bearer form.

Trading on the ISE is conducted on each business day in Turkey, with the morning session taking place from 9:30 a.m. to noon, and the afternoon session taking place from 2:00 p.m. to 4:30 p.m. İstanbul time. In 1996, the ISE introduced four new markets, the first for trading in less liquid shares or in shares not eligible for listing on the national stock exchange (Second National Market), the second for telecommunication, information technologies, electronic, internet, computer manufacturing, software and hardware, media or technology companies with growth potential (New Economy Market), the third for companies under special surveillance and investigation due to extraordinary situations with respect to stock transactions of companies traded on the ISE (Watch List Companies Market). The final market is the Wholesale Market, permitting the sale of stocks which are traded on the National Market and the Second National Market as well as those which are not traded on the İstanbul Stock Exchange, through capital increase or sale of stocks of existing shareholders to predetermined and/or unidentified buyers. In the Wholesale Market, the session takes place on each business day between 11:00 a.m. and noon.

The ISE was closed on December 30, 2004 and December 31, 2004 in order to enable its members to carry out necessary preparations relating to the introduction of the New Turkish Lira. Based on an ISE decision, in line with the implementation of the New Turkish Lira, all arrangements based on TL1,000,000 (nominal) = 1,000 shares = 1 lot were amended to YTL 1.00 (nominal) = 1 share = 1 lot.

Turkish capital markets legislation requires shares of a company listed on a Turkish securities exchange to be traded exclusively on that exchange. The CMB has announced that this requirement applies only to brokerage firms licensed to trade on the stock exchange and to orders placed with them by investors; transfers between principals that do not involve a public offering may be transacted outside a stock exchange. However, as Turkish foreign exchange legislation requires non-resident investors to execute their trades in listed securities through a duly licensed brokerage firm or a bank trades by non-resident investors on the exchange, the exemption may be limited in scope as a practical matter.

Dematerialisation of Shares and the Central Registry

The Capital Markets Law was amended at the end of 1999 to require share certificates of public companies to be replaced by an electronic book-entry registration system maintained by a central registry institution incorporated as a private legal entity. Further to its communiqué on the procedure and principles for the registration of dematerialised securities and the regulation on procedure and principles for the establishment, operation and supervision of the Central Registry, the CMB determined to proceed with the dematerialisation of the shares traded on the ISE. Since September 2005, shares traded on the ISE and physically held by İMKB Takas ve Saklama Bankası A.Ş., the central securities depositary of Turkey have been dematerialised in their entirety and may only be held through the Central Registry, a private company owned by various market participants and regulated by the CMB. Investors have until the end of 2007 to submit any printed share certificates held elsewhere. However, newly issued shares are no longer printed but entered into the book-entry system of the Central Registry.

Trading Prices and Fluctuations

Trading prices for securities listed on the ISE are generally limited to a daily range established by the ISE. Accordingly, traders are not permitted to place orders at prices which are 10% higher or 10% lower than the base price of the relevant security for the preceding trading session. The base price is the price which is taken as the basis for determining the highest and lowest price limits within which the stock may be traded in one trading session. The base price is determined by rounding to the nearest price step the average weighted price at which trades were realised and recorded in the immediately preceding trading session. The stock market director, however, may double, and the Chairman of the ISE may lift, the limits for a particular trading session either ex officio or upon application by a certain number of exchange members. In the absence of such actions by ISE officials, price fluctuations of stocks traded on the ISE must be within the range established for each session. If required by extraordinary adverse circumstances, the Chairman of the ISE may suspend trading in any listed security for up to five business days and suspend operations of the ISE entirely for a period of up to three days. The CMB may suspend the operations of the ISE for a period of up to 15 days upon the request of the Executive Council, and the relevant Minister of State may order a suspension of up to one month upon the request of the CMB. Only the Council of Ministers of Turkey may suspend the operations of the ISE for a period exceeding one month. Since the ISE recommenced operations in 1986, its operations have been suspended four times: first, due to the 1999 earthquake for six working days (August 17, 1999 to August 24, 1999); second, after the terrorist attacks of September 11, 2001, for one day; third, following the terrorist attacks in İstanbul on November 11, 2003, for two days; and fourth, for preparations relating to the introduction of the New Turkish Lira on December 30, 2004, for two days.

Listing Requirements

The ISE requires that a company meet certain profitability and minimum shareholding standards as a condition to listing securities on the ISE. Certain important listing requirements for securities are set out below:

- Three calendar year annual and the latest quarterly financial statements must have been independently audited and, for group companies, consolidated financial statements must have been prepared.
- A minimum of three calendar years must have elapsed since the company's incorporation and the financial statements for the last three calendar years should be available.
- The company must have earned profits before taxes in the last two consecutive years (in the previous year if the market value of the offered shares is at least YTL 35 million or the free float rate is at least 35%) (this amount is increased by the Executive Council of the ISE in accordance with the revaluation rate that is announced annually).
- The company's minimum net equity must be YTL 12 million as shown in its latest independently audited balance sheet (this amount is increased by the Executive Council of the Istanbul Stock Exchange in accordance with the revaluation rate that is announced annually).
- The free float rate must be a minimum of 25% (the free float rate can be less than 25% if the market value of the offered shares amounts to a minimum of YTL 35 million) and the market value of the offered shares must amount to a minimum of YTL 18 million (this amount is increased by the Executive Council of the ISE in accordance with the revaluation rate that is announced annually).
- The Executive Council must have had the company's financial situation examined and accepted its ability to continue as a going concern.
- The articles of association should not include any provision limiting the transfer and trading of the security or any provision preventing a shareholder from exercising his or her rights.
- There should not be any material legal dispute which will affect the production and activity of the corporation.
- The company should not have stopped production for more than three months within the last year for reasons other than those that are acceptable by the Executive Council of the ISE and there should not be any requests or proceedings for the liquidation or arrangements in bankruptcy of the corporation or any other related process identified by the ISE.
- The securities must comply with the ISE Executive Council's criteria of current and possible trading volume in the market.
- It must be documented that the establishment and activities of the corporation and the legal status of the share certificates comply with the legislation to which they are subject.

Disclosure Requirements

In addition to the reporting requirements of the CMB, companies whose shares are listed on the ISE are required to comply with the information and disclosure requirements of the ISE. There are two types of disclosure requirements, one relating to financial statements and the other relating to special situations. Disclosure requirements regarding financial statements are set out below:

- Financial statements must be presented on a quarterly basis according to CMB standards.
- Audited year-end financial statements and reports prepared in accordance with CMB accounting standards must be submitted to the ISE within a period of ten weeks following the end of the accounting period (if companies are required to submit consolidated financial statements, the period is extended to 14 weeks following the end of the accounting period).
- Audited six-month results must be submitted to the ISE within six weeks (eight weeks for banks) following the end of the accounting period (if companies are required to submit consolidated financial statements, the period is extended to 10 weeks following the end of the accounting period).
- Unaudited first quarter and third quarter financial statements must be submitted within four weeks (six weeks for banks) following the end of the accounting period (if companies are required to submit consolidated financial statements, the period is extended to 8 weeks following the end of the accounting period).

The CMB has issued Communiqué no. XI-25 "Communiqué on Accounting Standards in Capital Markets" which sets out a comprehensive set of accounting principles. In this Communiqué, the CMB stated that, as an alternative, application of accounting standards prescribed by the International Accounting Standards Board and the International Accounting Standards and Standing Interpretations Committee will also be considered to be compliant with CMB accounting standards. However, on March 17, 2005, the CMB issued a resolution and declared that the application of inflation accounting is no longer required for companies operating in Turkey. Reporting in accordance with CMB accounting standards became effective from January 1, 2005.

The "disclosure communiqué" of the CMB requires the following conditions, among others, to be disclosed to the public:

- any direct or indirect change of control of the company;
- any direct or indirect acquisition of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of such public company by a person or persons acting together, and thereafter of their transactions in the shares or voting rights of such company when the total number of shares or voting rights traded falls below or exceeds such thresholds, and of acquisition or divestment of 10% or more of the capital of or voting power in another company;
- acknowledgement of voting agreements by the company;
- any direct or indirect acquisition of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of such public company by investment funds belonging to the same sponsor, and thereafter of their transactions in the shares or voting rights of such company when the total number of shares or voting rights traded falls below or exceeds such thresholds;
- any purchase or sale of the shares of the company by the directors, senior managers, any other employees with the authority to make material decisions with respect to the company and direct or indirect holders of 5% of the share capital or voting rights of such company;
- when large amounts of shares are sold on the ISE; and
- any information that may affect investors' investment decisions or the value of the securities.

Disclosure of Beneficial Interests in Shares

Persons becoming direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey are required to notify the CMB, the ISE and the public company of the acquisition and, thereafter, to notify the ISE and the public company of their transactions in the shares or voting rights of the public company when the total number of the shares or voting rights traded falls below or exceeds these thresholds. The names, domiciles and the numbers of shares or voting rights purchased by such persons should be included in a notice sent to the CMB and the ISE. The identity of such persons is publicly disclosed by the ISE.

Insider Trading

Insider trading is defined in the Capital Markets Law as benefiting from, or permitting others to benefit from, or avoiding losses through, or enabling others to avoid losses through, the use of non-public information which may affect the value of securities. Insider trading violations are punishable by prison terms of two to five years and by fines ranging from YTL 50,000 to YTL 125,000. For an act to constitute an insider trading violation, the information must be utilised in a manner which provides an unfair advantage over other investors. Activities such as market manipulation, disseminating misleading information and engaging in activities unauthorised by the CMB are also punishable by the same penalties applicable to insider trading. The minimum fine imposed as a result of any of the above listed acts is three times the monetary gain obtained through such actions. Notwithstanding these sanctions, the effectiveness of this legislation depends largely on the extent to which its provisions are observed by intermediaries and investors and enforced by the CMB. To the extent these provisions are not observed or enforced, prices of securities traded on the ISE may be affected by trading based on material non-public information. Recently, a number of court decisions have imposed insider trading sanctions.

Market Volatility

The ISE is also a highly volatile market, and the ISE-100 has fluctuated between US cent 0.46 to US cent 3.55 since 2001 (as of April 12, 2006). Trading on the ISE has traditionally been characterised by a high degree of short-term speculative trading, which is at least partially attributable to the relatively underdeveloped institutional investor base in Turkey and to the relatively small (but growing) size of the retail investor base, which is composed of mainly high net worth individuals. The average daily trading volume in the shares of the ten most traded companies on the ISE was YTL 193,887,000 during 2001, YTL 214,437,000 during 2002, YTL 338,100,000 during 2003, YTL 427,562,000 during 2004, and YTL 437,760,000 during 2005.

As of December 31, 2005, 304 Turkish companies were listed on the ISE (12 companies were suspended from trading). As of December 31, 2005, the total market capitalisation of all companies with equity securities regularly traded on the ISE was approximately YTL 216,524 million. The average daily trading value of the stocks of all companies whose shares were listed on the ISE was approximately YTL 837,040,000 in 2004 and was approximately YTL 1,045,000,000 in 2005. The free float of shares listed on the ISE is approximately YTL 66,594 million, with approximately 66% of this amount held by persons not resident in Turkey.

A disproportionately large percentage of the market capitalisation and trading value of the ISE is represented by a small number of listed companies that are mainly listed on the ISE-30 Index. The total market capitalisation of the companies trading on the ISE-30 Index as of December 31, 2005 was YTL 143,497 million, representing approximately 66% of the market capitalisation of all companies trading on the ISE as of such date. As of December 31, 2005, the combined market capitalisation of the ten companies with the greatest market capitalisations whose shares regularly trade on the ISE was approximately YTL 110,914 million, which represented approximately 51% of the market capitalisation of all companies regularly trading on the ISE as of such date.

In 1997, the ISE began to calculate a new series of stock market indices. Today, there are eleven indices:

- The ISE National-All Shares Index, which is composed of all National Market companies except investment trusts;
- The ISE National-30, which is composed of the 30 largest National Market companies based, in part, on market and trading values;
- The ISE National-50, which is composed of the 50 largest National Market companies based, in part, on market and trading values;
- The ISE National-100, which has been calculated since the inception of the ISE and is composed of the 100 largest National Market companies in terms of market and trading values;
- The ISE National-Industrials Index, which is a sectorial index composed of food, beverage, textile, leather, wood, paper, printing, chemical, petroleum, plastic, non-metal mineral products, basic metals, metal products and machinery manufacturers;
- The ISE National-Services Index, which is a sectorial index composed of electricity, transportation, tourism, wholesale and retail trade, telecommunications and sports companies;
- The ISE National-Financials Index, which is a sectorial index composed of banks, insurance, leasing, factoring, holding and investment, and real estate investment trust companies;
- The ISE National-Technology Index, which is a sectorial index composed of information technology and defence companies;
- The ISE Investment Trusts Index, which is a sectorial index composed of investment trust companies;
- The ISE Second National Index, composed of companies trading on the Second National Market;
- The ISE New Economy Index, which is a sectorial index composed of companies trading in the new economy market.
- The Corporate Governance Index, which is composed of companies complying with the Corporate Governance Principles of the CMB (the index was established on February 23, 2005).

All of the indices are weighted by the publicly held portion of each constituent company and, for the convenience of foreign investors, are also computed and maintained in U.S. dollar terms. The compositions of the ISE National-30 and ISE National-100 are adjusted quarterly, on the first trading day of January, April, July and October. In order to be included in the ISE National-30, at the end of the evaluation period, the market value of a stock must be greater than the median market value of all stocks traded in the National Market (among the top

75% in the case of the ISE National-100), and the daily average traded value of the stock, excluding primary, special and block sales, must be greater than the median daily average traded value of the National Market (among the top 75% in the case of the ISE National-100). The ISE indices are displayed on the screens of various domestic and international data vendors.

The total trading value of the ISE between 2001 and 2005 was an average of $120,168 million per year and ranged from $80,400 million in 2001 to $201,763 million in 2005. The average daily trading value between 2001 and 2005 was an average of $482 million per quarter and ranged from $186 million in 2001 to $920 million in 2005.

The following table sets forth, for each period indicated, the number of trading days on the ISE during such period, the total trading value during such period and the average daily trading value during such period, in both nominal New Turkish Lira and U.S. dollars.

	Number of Trading Days	Total Trading Value	Average Daily Trading Value[(1)]	
		($ millions)	(in nominal YTL)	($ millions)
2000				
1st quarter	58	62,647	603,507,084	1,080
2nd quarter	64	50,881	481,369,487	795
3rd quarter	64	31,058	312,889,366	485
4th quarter	60	37,347	422,156,984	622
2001				
1st quarter	59	24,208	306,960,209	410
2nd quarter	64	24,246	443,225,336	379
3rd quarter	63	11,737	256,532,949	186
4th quarter	62	20,209	491,615,874	326
2002				
1st quarter	60	18,670	421,388,660	311
2nd quarter	64	13,432	289,081,644	210
3rd quarter	65	12,436	314,713,025	191
4th quarter	63	26,219	667,642,086	416
2003				
1st quarter	58	13,487	382,011,381	233
2nd quarter	63	20,926	502,601,213	332
3rd quarter	66	21,878	457,656,581	331
4th quarter	59	43,875	1,061,340,604	744
2004				
1st quarter	60	45,436	1,003,955,937	757
2nd quarter	63	28,814	654,305,579	457
3rd quarter	65	33,648	763,787,015	518
4th quarter	61	39,857	939,642,324	653
2005				
1st quarter	62	54,910	1,168,591,716	886
2nd quarter	64	35,376	749,257,673	553
3rd quarter	65	53,530	1,097,846,225	824
4th quarter	63	57,947	1,240,731,915	920
2006				
1st quarter	60	73,801	1,637,257,730	1,230
2nd quarter (through April 12)	8	9,426	1,385,987,449	1,034

(1) Translated for each day using daily historical exchange rates.

The following table sets forth, for each of the quarters indicated, the ISE National-100 Index on the first business day of each quarter, the lowest and highest levels of the ISE National-100 Index during such quarter, the ISE National-Industrial Index on the first business day of such quarter and the lowest and highest levels of the ISE National-Industrial Index during such quarter, in both nominal New Turkish Lira and U.S. cents.

	ISE National-100 Index						ISE National-Industrials Index					
	On 1st Business Day of Quarter		Low During Quarter		High During Quarter		On 1st Business Day of Quarter		Low During Quarter		High During Quarter	
	(YTL)	(cents)	(YTL)	(cents)	(YTL)	(cents)	(YTL)	(cents)	(YTL)	(cents)	(YTL)	(cents)
2002												
1st quarter	14,078	0.98	10,594	0.78	15,000	1.08	11,578	0.80	8,985	0.66	12,409	0.89
2nd quarter	11,622	0.87	8,627	0.53	12,606	0.97	9,385	0.70	8,234	0.51	9,960	0.77
3rd quarter	9,565	0.61	8,748	0.53	10,782	0.65	9,017	0.57	8,532	0.52	10,242	0.62
4th quarter	9,057	0.55	8,809	0.54	14,058	0.89	8,736	0.53	8,644	0.53	13,183	0.84
2003												
1st quarter	10,599	0.64	8,893	0.51	11,775	0.73	10,100	0.61	9,055	0.52	11,394	0.70
2nd quarter	9,774	0.58	9,774	0.58	11,579	0.82	10,018	0.59	10,018	0.59	12,062	0.77
3rd quarter	10,750	0.77	10,352	0.74	14,031	1.04	10,803	0.77	10,405	0.74	13,372	0.99
4th quarter	13,444	0.97	13,444	0.97	18,625	1.34	12,800	0.92	12,800	0.92	16,299	1.17
2004												
1st quarter	19,148	1.38	16,966	1.27	20,887	1.59	16,651	1.20	15,207	1.15	18,376	1.40
2nd quarter	20,322	1.56	15,922	1.04	20,485	1.57	18,193	1.39	14,586	0.96	18,401	1.41
3rd quarter	18,290	1.25	18,077	1.26	22,307	1.50	15,807	1.08	15,690	1.09	19,900	1.33
4th quarter	21,723	1.45	21,613	1.44	24,972	1.85	19,626	1.31	19,589	1.31	21,375	1.46
2005												
1st quarter	25,445	1.90	24,423	1.77	28,396	2.22	21,046	1.57	20,399	1.48	23,385	1.83
2nd quarter	25,741	1.92	23,286	1.70	27,136	2.02	21,586	1.61	18,820	1.37	22,129	1.65
3rd quarter	27,617	2.08	27,378	2.04	33,864	2.54	22,195	1.67	22,108	1.65	27,489	2.06
4th quarter	34,301	2.53	30,767	2.25	39,837	2.96	26,915	1.99	24,740	1.84	31,290	2.33
2006												
1st quarter	39,791	2.95	39,791	2.95	47,729	3.63	30,938	2.29	30,938	2.29	35,245	2.68
2nd quarter (through April 12)	44,028	3.27	42,505	3.17	44,284	3.31	33,289	2.47	33,283	2.48	34,351	2.57

FOREIGN INVESTMENT AND EXCHANGE CONTROLS

Until the promulgation of Decrees 28 and 30 on the Protection of the Value of the Turkish Currency in 1983, which granted Turkish citizens limited rights to hold and trade foreign currencies, Turkish exchange regulations strictly controlled exchange movements. After the establishment of a foreign exchange market in August 1988, the exchange rate of the Turkish Lira began to be determined by market forces, and today, banks in Turkey set their own foreign exchange rates independently of those announced by the Central Bank. Pursuant to Decree 32, issued in August 1988 and amended in June 1991, the Government abolished restrictions on the convertibility of the Turkish Lira by facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, enabling Turkish citizens to purchase securities on foreign securities exchanges, permitting residents and non-residents to buy foreign exchange without limitation and to transfer such foreign exchange abroad, and permitting Turkish companies to invest abroad, without ministerial approval, up to $5 million.

Decree 32 provides that persons not resident in Turkey may purchase and sell shares of Turkish companies, provided that such transactions are effected through a bank or broker authorised by Turkish capital markets legislation. Decree 32 further provides that a non-resident person may freely repatriate dividends received and proceeds of their sale in respect of such shares. Decree 32 requires that the dividends received and the proceeds of sale of the shares be transferred through Turkish banks or participation banks.

Law No. 4875 on Direct Foreign Investments, which replaced Law No. 6224 on June 17, 2003, defines foreign direct investment as, among other things, share acquisitions, outside a stock exchange or through a stock exchange, where the foreign investor owns 10% or more of the shares or voting power. Pursuant to Law No. 4875, foreign investment in Turkey is no longer subject to prior approval. As a result of the adoption of Law No. 4875, and subject to the provisions of Decree 32, foreign investors are now subject to the same requirements as a domestic investor when investing in a Turkish company.

Law No. 4875 requires a public Turkish company to notify the Foreign Investment Directorate, in the event non-resident holders acquire 10% or more of the share capital or voting rights of such public company. Also, the Capital Markets Law requires shareholders that become direct or indirect holders of 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔% or 75% or more of the issued share capital or voting rights of a public company in Turkey to notify the CMB and the ISE of such acquisition and of their subsequent transactions in the shares or voting rights of such company until the total number of shares or voting rights of such public company traded falls below such thresholds. The names, domiciles and the number of shares or voting rights purchased by such investors must be provided to the CMB and ISE. The identity of such investors is publicly disclosed by the ISE.

Under Turkish law, Turkish citizens are permitted to buy unlimited amounts of foreign currency from banks and to hold foreign exchange in corporate banks. Capital transfers outside of Turkey of more than $5 million for the purpose of setting up a representative office, branch or subsidiary or participating in an existing company, however, continue to require permission from the Ministry with which the Undersecretariat of Treasury is affiliated.

TAXATION

The following discussion is a summary of certain Turkish tax and U.S. federal income tax considerations relating to an investment in our Shares. The discussion is based on current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of our Shares. You should consult your own tax advisors concerning the tax considerations applicable to your particular situation. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Offering Circular, all of which are subject to change, possibly with retroactive effect.

The Republic of Turkey

The following summary of certain Turkish tax matters which are in force on the date of this Offering Circular was prepared by Eratalar Yönetim Danışmanlığı Anonim Şirketi and describes the principal tax consequences of the purchase, ownership and disposition of Shares. It is not a complete description of all the possible tax consequences and you should consult your own tax advisors concerning the Turkish laws and other tax considerations applicable to your particular situation.

Corporate Taxation

A corporation which has been incorporated in Turkey or has its principal place of management in Turkey, which we refer to as a resident corporation, is subject to a corporate tax which is levied at a rate of 30% of the corporation's taxable income. As noted below, dividends distributed to resident and non-resident individuals and to non-resident corporations acting without creating a permanent establishment in Turkey are subject to 10% income withholding tax while the dividends distributed to resident corporations and non-resident corporations acting through a permanent establishment in Turkey are not subject to an income withholding tax. The transfer of earnings and of reserves to capital is not deemed to be a distribution of dividends and, thus, no withholding tax applies in case of such a transfer. Furthermore, the following is not subject to any withholding: (a) dividends distributed with respect to 1998 and previous years' corporate profits, (b) dividends distributed with respect to corporate exempted income between 1999 and 2002 and (c) dividends distributed under the scope of Temporary Article 61 of the Turkish Income Tax Law.

Under the Draft Corporate Tax Code that is currently under discussion and is expected to become effective retroactively from January 1, 2006, the corporate tax rate would decrease to 20%. Furthermore, under the Draft Corporate Tax Code, dividends distributed to non-resident corporations acting without a permanent establishment or permanent representative in Turkey would be subject to a 15% withholding tax. However, notwithstanding the withholding tax rate set forth in the Draft Corporate Tax Code, the Council of Ministers has the discretion to reset the withholding tax rate. If the Council of Ministers chooses not to exercise this power, the rate will remain at the 10% rate previously determined by the Council of Ministers.

Furthermore, under the Draft Code related to the Amendments to the Income Tax Code, the regulation related to investment allowances would be abolished effective from January 1, 2006. These investment allowances allow taxpayers to deduct a part of their investment expenditures from their tax base. After January 1, 2006, only the following investment expenditures would be entitled to allowances:

- investment expenditures that began before January 1, 2006 and continued after January 1, 2006 under investment incentive certificates issued before April 4, 2003;
- investment expenditures realised after January 1, 2006 that are unified with an economic or technical standpoint with investments started before January 1, 2006;
- investment allowance amounts as of December 31, 2005 that have not been deducted from the previous years' income because of insufficient taxable profits.

The foregoing investment allowances must be used prior to December 31, 2008. In the event the taxpayer benefits from such investment allowances in 2006, 2007 and 2008, the profits of these years will become subject to taxation at a rate of 30%.

Taxation of Dividends

Dividends Paid to Non-Resident Individuals and Corporations

Dividends paid on our Shares to an individual who is not resident in Turkey or to a non-resident corporation which does not have a permanent representative or permanent establishment in Turkey are subject to income withholding tax at a rate of 10%. As described above, under the Draft Corporate Tax Code such rate will be increased to 15% (however the rate will remain 10% if the Council of Ministers does not issue a new decree). However, the provisions of bilateral tax treaties will continue to apply.

Dividends distributed to non-resident corporations acting through a permanent establishment or permanent representative in Turkey are not subject to income withholding tax. However, a 10% withholding tax will be imposed if and when dividends are transferred by the permanent establishment or permanent representative to its headquarters outside Turkey. As noted above, under the Draft Corporate Tax Code this withholding rate is 15% (however the rate will remain 10% if the Council of Ministers does not issue a new decree).

Non-cash dividends (including bonus shares) are not subject to withholding tax.

Dividends Paid to Resident Individuals and Corporations

Dividends distributed to resident individuals are subject to income withholding tax at a rate of 10%. In addition, half of the gross amount of the dividend paid to resident individuals is exempt from income tax. The rest will be subject to declaration in the event the amount, when combined with certain other income, exceeds a specified amount (expected to be YTL 18,000 for 2006). The amount subject to declaration will become subject to tax at a rate between 20% and 40% (expected to be 15% and 35% under the Draft Code related to the Amendments to the Income Tax Code). The withholding tax calculated on the dividend distribution is offset against the income tax.

Income tax declarations are required to be filed annually in March of the year following the year of the payment of the dividend. The payment shall be made in two installments, in March and in July.

Non-cash dividends (stock dividend) gained through the addition of profits into capital are not subject to the declaration requirement.

Dividends distributed to resident corporations are not subject to income withholding tax. Furthermore, dividends paid to resident corporations by the resident corporations are exempt from the corporate tax.

Tax Treaty Effect

If a double taxation treaty is in effect between Turkey and the country of the holder of the Shares (in some cases, for example, within the treaties with the United Kingdom and the United States, the term "beneficial owner" is used), which provides for the application of a lower income withholding tax rate than the rate otherwise paid, then either the lower rate will be applied on the dividend or the holder of the Shares may, in certain circumstances, recover a portion of the income withholding tax paid. In order to receive benefits under an applicable double taxation treaty, purchasers of Shares will be required to present to the custodian of the Shares in Turkey an original copy of a certificate of residence drawn up and signed by the competent authority referred to in Article 3 of the treaty (including a copy translated by the translation office) verifying that the purchaser is subject to taxation over its worldwide income in its country on the basis of full liable taxpayer status.

Taxation of Capital Gains

According to an amendment made to the Income Tax Law by Law No. 5281 published in the Official Gazette dated December 31, 2004, the taxation and declaration methods for capital gains derived from disposal of shares through authorised intermediary banks and brokerage houses in Turkey have been changed significantly. These changes have become effective on January 1, 2006, and will be valid for a ten year period between January 1, 2006 and December 31, 2015.

In this respect banks and intermediary institutions in Turkey are obliged to withhold a 15% tax on the capital gains derived by any kind of investors from the trading of shares excluding any shares quoted on the ISE that are held for longer than one year. Furthermore, the Ministry of Finance is authorised to give responsibility to the parties or the intermediaries of the transactions for withholding the tax. Pursuant to this authority, the Ministry of Finance authorised the custody banks to withhold the tax on transactions consummated by non-resident investors.

Withholding taxation for capital gains is applied on a quarterly basis. Therefore, the capital gains of an investor derived from the sale of shares for a three-month period shall be calculated and shall become subject to a 15% withholding tax. The tax base shall be calculated as the difference between the sale price and the purchase price including the commissions and Banking and Insurance Transaction Taxes paid. The “first in first out” method of accounting is required to be applied for calculating the tax base. However, for same day transactions, the weighted average method may be used. Profits and losses relating to the same type of securities may be offset but losses may not be carried forward to the next calendar year. The aggregate amount withheld for the first three quarters of the same calendar year will be adjusted based on the aggregate net gain (or loss) for the full calendar year. This is effected through a voluntary tax declaration and refund of any excess tax payments.

The provisions of any applicable bilateral tax treaties are not affected by the foregoing. Under the Communiqué No. 257 related to the application of the new withholding tax regime it is stipulated that the benefits of bilateral tax treaties should be applied at the source. Accordingly, the resident of a contracting State that demands the exemption of withholding tax or the application of withholding tax at a reduced rate to benefit from the provisions of the bilateral tax treaty concluded between Turkey and the concerned State, is required to present a certificate of residence drawn up and signed by the competent authority referred to in Article 3 of the Treaty, verifying that the concerned party is subject to taxation over its worldwide gains in that State on the basis of fully liable taxpayer status, as a resident of the concerned State. The Certificate of Residence should then be translated into Turkish and delivered to the custody bank in Turkey that is responsible for applying the withholding tax.

This withholding tax will be the final tax on the capital gains derived by resident individuals and non-resident individuals and non-resident corporations.

Resident corporations are required to include such capital gains in their annual profit; the withholding tax may be offset against the corporate tax calculated on the capital gain. Resident entities may benefit from a corporate tax exemption with respect to shares that they hold at least two years provided that certain conditions are met.

Taxation of Non-Resident Investment and Mutual Funds

As of January 1, 2006, non-resident investment funds will be subject to the same taxation principles as other non-resident entities with respect to shares purchased after January 1, 2006.

Tax Treaties

The Republic of Turkey has concluded bilateral tax treaties with certain countries. The existence of the treaties may affect the application of the general tax law.

A list of countries with which the Republic of Turkey currently has bilateral tax treaties is provided below:

Albania
Algeria
Austria
Azerbaijan
Bangladesh
Belarus
Belgium
Bulgaria
China
Croatia
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Germany
Greece
Hungary
India
Indonesia
Iran
Israel
Italy
Japan
Jordan
Kazakhstan
Kyrgyz Republic
Kuwait
Latvia
Lithuania
Luxembourg
Macedonia
Malaysia
Moldova
Mongolia
Morocco
Netherlands
The Turkish Republic of Northern Cyprus
Norway
Pakistan
Poland
Romania
Saudi Arabia
Singapore
Slovakian Republic
Slovenia
South Korea
Spain
Sudan
Sweden
Syria
Tajikistan
Thailand
Tunisia
Turkmenistan
Ukraine
Uzbekistan
United Arab Emirates
United Kingdom
United States of America

United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of our Shares. This description addresses only the U.S. federal income tax considerations of holders that are initial purchasers of our Shares pursuant to the international offering and that will hold such Shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- Banks, financial institutions or insurance companies;
- Real estate investment trusts, regulated investment companies or grantor trusts;
- Dealers or traders in securities or currencies;
- Tax-exempt entities;
- Persons that received our Shares as compensation for the performance of services;
- Persons that will hold our Shares as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- Certain former citizens or residents of the United States;
- Persons that have a “functional currency” other than the U.S. dollar; or
- Holders that own or are deemed to own 10% or more, by voting power or value, of our Shares.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of our Shares.

This description is based on the Internal Revenue Code of 1986, as amended (the “Code), United States Treasury Regulations and judicial and administrative interpretations thereof, as well as on the tax treaty between the United States and Turkey (the “Treaty”), in each case as in effect and available on the date of this Offering Circular.

All the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a "U.S. Holder" is a beneficial owner of our Shares, that for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a partnership or corporation (or other entity treated as a partnership or corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A "Non-U.S. Holder" is a beneficial owner of our Shares that is not a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our Shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of our Shares.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF TREASURY DEPARTMENT CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Distributions

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," if you are a U.S. Holder, for U.S. federal income tax purposes, the gross amount of any distribution made to you of cash or property, other than certain distributions, if any, of our Shares distributed pro rata to all our shareholders, with respect to your Shares, before reduction for any Turkish taxes withheld therefrom, will be includible in your income as dividend income to the extent such distributions are paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. Subject to the discussion below under "—Passive Foreign Investment Company Considerations," so long as we are eligible for benefits under the Treaty, non-corporate U.S. Holders generally will be taxed on such dividends received before January 1, 2009 at the lower rates applicable to long-term capital gains. However, non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as "investment income" pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Further, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under "—Passive Foreign Investment Company Considerations," to the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in your Shares and thereafter as capital gain. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles.

If you are a U.S. Holder, and we pay a dividend in New Turkish Lira, any such dividend will be included in your gross income in an amount equal to the U.S. dollar value of New Turkish Lira on the date of receipt. The amount of any distribution of property other than cash will be fair market value of such property on the date of distribution.

If you are a U.S. Holder, dividends paid to you with respect to your Shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. If you are a U.S. Holder, you may not be eligible for a foreign tax credit against your U.S. federal income tax liability for any Turkish dividend withholding tax imposed due to the nature of such tax. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally will constitute "passive income," or, in the case of certain U.S. Holders, "financial services income." U.S. Holders should note that the foreign tax credit limitation categories will be limited to "passive category income" and "general category income" with respect to taxable years beginning after December 31, 2006. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Subject to the discussion below under "—Backup Withholding Tax and Information Reporting Requirements," if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on dividends received by you on your Shares, unless you conduct a trade or business in the United States and such income is effectively connected with that trade or business.

Sale or Exchange of Shares

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," if you are a U.S. Holder, you generally will recognise gain or loss on the sale or exchange of your Shares equal to the difference between the amount realised on such sale or exchange and your adjusted tax basis in your Shares. Such gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for such Shares exceeds one year. As described under "—The Republic of Turkey—Taxation of Capital Gains," under current law a holder of Shares may be subject to Turkish tax upon the disposition of such Shares under certain circumstances. Although gain or loss, if any, generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes, U.S. shareholders who are eligible for benefits under the Treaty may treat such gain or loss as foreign source (subject to certain limitations under the U.S. rules regarding foreign tax credits applicable to foreign source capital gains). If you are not eligible for Treaty benefits, you may have insufficient foreign source income to utilise foreign tax credit attributable to any such Turkish tax imposed on a sale or disposition.

If you are a U.S. Holder, the initial tax basis of your Shares will be the U.S. dollar value of the New Turkish Lira denominated purchase price determined on the date of purchase. If our Shares are treated as traded on an "established securities market," a cash basis U.S. Holder or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. If you convert U.S. dollars to New Turkish Lira and immediately use that currency to purchase Shares, such conversion generally will not result in taxable gain or loss to you.

With respect to the sale or exchange of Shares, the amount realised generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If our Shares are treated as traded on an "established securities market", a cash basis taxpayer, or, if it elects an accrual basis taxpayer, will determine the U.S. dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under "—Backup Withholding Tax and Information Reporting Requirements," if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on any gain realised on the sale or exchange of such Shares, unless:

- such gain is effectively connected with your conduct of a trade or business in the United States; or
- you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A Non-U.S. corporation will be classified as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

- at least 75% of its gross income is "passive income;" or
- at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from the sale of stock (including gains from the sale of stock of certain subsidiaries), partnership interests, securities or commodities.

Based on certain estimates of our gross income and gross assets and the nature of our business, we were not classified as a PFIC in 2005 and we believe that we will not be classified as a PFIC in 2006. Our status in future years will depend on our assets and activities in those years. We have no reason to believe that our assets or activities will change in a manner that would cause us to be classified as a PFIC, but there can be no assurance that we will not be considered a PFIC for any taxable year. If we were classified as a PFIC, certain distributions by us to U.S. Holders, as well as gain recognised on the disposition of our Shares by U.S. Holders, would be treated as received in prior tax years. Such distributions or gain generally would be subject to the highest rates of tax on ordinary income in effect for such tax years and tax owed would be subject to an interest charge. In addition, if you are an individual beneficial holder of our Shares, you will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2009, if we are classified as a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if the Shares are held in any year in which we are classified as a PFIC.

If we were classified as a PFIC, you could make a variety of elections that may alleviate certain of the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of our Shares. You should consult your own tax advisor regarding the tax consequences that would arise if we were classified as a PFIC.

Backup Withholding Tax and Information Reporting Requirements

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of Shares, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, Shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% for years through 2010.

In the case of such payments made within the United States to a foreign simple trust, a foreign grantor trust or a foreign partnership (other than payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that qualifies as a "withholding foreign trust" or a "withholding foreign partnership" within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of trade or business in the United States) the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that it is not a U.S. person only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certification is incorrect.

Any amounts withheld under the backup withholding tax rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Underwriting

Deutsche Bank Bender is acting as sole global co-ordinator and international bookrunner of the international offering. Subject to the terms and conditions of the international underwriting agreement dated April 13, 2006 (the "Underwriting Agreement") among us, the Selling Shareholder and the Manager, the Manager has agreed, severally but not jointly, with us and the Selling Shareholder to purchase the number of Shares set forth opposite its name below:

Underwriters	Number of Shares
Deutsche Bank AG	36,400,000
Total	36,400,000

The Underwriting Agreement provides that the obligations of the Manager are subject to certain conditions precedent, including the closing of the domestic offering. The Underwriting Agreement also entitles Deutsche Bank AG to terminate it in certain circumstances prior to the closing date. As more fully set forth in the Underwriting Agreement, we and the Selling Shareholder have agreed to indemnify, jointly and severally, the Manager against certain liabilities in connection with the offer and sale of the Shares, including liabilities under U.S. securities laws, or to contribute to payments that the Manager may be required to make because of any of those liabilities. In addition, we and the Selling Shareholder have agreed to reimburse certain expenses of the Manager incurred in connection with the global offering.

The offer price is YTL 3.20 per Share. We and the Selling Shareholder will pay to the Manager a combined management, selling and underwriting commission equal to YTL .096 per Share. Therefore, the Manager will receive in total commissions of YTL 3,494,400 million in connection with the international offering.

Concurrently with the international offering, we and the Selling Shareholder are offering for sale in the domestic offering 15,600,000 Shares to the public in Turkey at a price of YTL 3.20 per Share. DenizYatırım is acting as the domestic bookrunner of the domestic offering pursuant to an underwriting and consortium agreement with a syndicate of Turkish financial institutions. The domestic offering was open from April 11, 2006 to April 12, 2006.

In connection with the global offering, the Selling Shareholder has granted to the Manager and the underwriters of the domestic offering an over-allotment option, which, due to applicable Turkish law requirements, is exercisable only, in whole or in part, upon notice by DenizYatırım, subject to consultation with and approval of Deutsche Bank, to the extent permitted by applicable laws and regulations, until 30 days after the commencement of trading of the Shares on the ISE to purchase up to an aggregate of 7,800,000 additional Shares at the offer price set out above solely for the purpose of covering over-allotments, if any.

Prior to the global offering, there has been no public market for our Shares. The initial offering price for the Shares offered in the global offering has been determined by agreement between us, the Selling Shareholder and the Manager. Among the factors considered in making such determination were the history of and the prospects for the industry in which we compete, an assessment of our management, our present operations, the historical results of our operations and the trend of our net sales, our prospects for future earnings, the general condition of the securities markets at the time of the offering and the prices of similar securities of generally comparable companies. No assurance can be given as to the liquidity of the trading market for the Shares.

We and the Selling Shareholder have been advised by the Manager that it, through its U.S. affiliates ("Rule 144A Selling Agents"), proposes to resell a portion of the Shares in the United States to QIBs in reliance on Rule 144A, and that the Manager proposes to resell a portion of the Shares in offshore transactions outside the United States in reliance on Regulation S.

Lock-Up Agreements

We have agreed, subject to certain exceptions, that for a period of 180 days from the closing of the international offering, we will not, without the prior written consent of Deutsche Bank AG, offer, sell, issue, contract to sell, pledge or otherwise dispose of any of our Shares or securities convertible into, or exchangeable for, Shares.

In addition, the Selling Shareholder has agreed, subject to certain exceptions, that for a period of 180 days from the closing of the international offering, it will not offer, sell, contract to sell, pledge or otherwise dispose of any Shares or any securities convertible into, or exchangeable for, Shares. The foregoing does not apply to the Shares to be sold by the Selling Shareholder in the global offering.

Deutsche Bank AG, in its sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

Stabilisation and Market-Making

In connection with the global offering, DenizYatırım as stabilising manager may engage in transactions with the objective of stabilising, maintaining or otherwise affecting the market price of the Shares. In accordance with the regulations of the CMB, stabilising activities may only be carried on for a maximum period of 30 days following the commencement of trading of the Shares on the ISE and orders can be given only in the case of a decline in the price of the Shares. In connection with such stabilisation activities and during the stabilisation period, DenizYatırım, subject to consultation with and approval of Deutsche Bank AG, to the extent permitted by applicable laws and regulations, may stabilise or maintain the price of the Shares by bidding for or purchasing the Shares in the open market. No representation is made as to the magnitude or effect of any such stabilising or other transactions. DenizYatırım is not obligated to engage in these activities and may, upon notice to the ISE, discontinue any of these activities at any time. Any such activities or transactions would not constitute a guarantee of any share price.

Selling Restrictions

General

Except in connection with offers and sales of Shares in Turkey, no action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or the possession, circulation or distribution of any offering document or any other material relating to us, the Selling Shareholder or the Shares, in any jurisdiction where action for such purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, nor may this Offering Circular or any other offering material or advertisement in connection with the Shares be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

The Shares have not been and will not be registered under the Securities Act or with any securities regulatory agency of any state or territory within the jurisdiction of the United States and, subject to certain exceptions, may not be offered, sold or delivered within the United States. The Shares are being offered and sold outside the United States in reliance on Regulation S. The Underwriting Agreement provides that the Manager may directly or through the Rule 144A Selling Agents arrange for the offer and resale of the Shares within the United States to QIBs only in reliance on Rule 144A. Resale of the Shares purchased and sold pursuant to Rule 144A is restricted as described under "Transfer Restrictions—Rule 144A".

In addition, until 40 days after the commencement of the global offering, an offer or sale of Shares within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

Turkey

The global offering will be registered with the CMB pursuant to the provisions of the Capital Markets Law. Such registration does not constitute a guarantee by the CMB or any other public authority with respect to the Shares or us. Neither this Offering Circular nor any other offering material related to the international offering of Shares may be used in connection with any general offering of Shares to the public within the Republic of Turkey without the prior approval of the CMB.

United Kingdom

The Manager has represented and agreed that (i) it has not offered or sold, and will not offer or sell, prior to the date six months after the sale of the Shares, any Shares to persons in the United Kingdom except, in each case, to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public within the meaning of section 102b of the Financial Services and Markets Act 2000 (the "FSMA"), (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom, (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Shares in circumstances in which Section 21(1) of the FSMA would not, if it was not an authorised institution, apply to us, and (iv) it has not offered or sold and will not offer or sell any Offer Shares to persons in the United Kingdom, except (a) to persons who have professional experience in matters relating to investments which fall within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities falling within Article 49(1) of the Order.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of Shares which are the subject of the offering contemplated by this Offering Circular may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Manager to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company or the Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state.

Japan

The Manager has represented and agreed that it has not offered or sold and will not offer or sell any Shares, directly or indirectly, in Japan or to or for the account of any resident of Japan except (A) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (B) in compliance with any other applicable requirements of Japanese law.

Canada

The Manager has acknowledged that the Shares have not been and will not be qualified for sale in Canada or in any province or territory thereof and has represented and agreed that it will not offer or sell the Shares directly or indirectly in any province or territory of Canada except pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with the applicable securities laws and regulations including registration requirements, if any, of such province or territory.

Australia

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Corporations Act and will not be lodged with the Australian Securities and Investments Commission. The Shares will be offered to persons who receive offers in Australia only to the extent that such offers of Shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Corporations Act. Any offer of Shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by Section 708 of the Corporations Act. Any person to whom Shares are issued or sold pursuant to an exemption provided by Section 708 of the Corporations Act must not (within 12 months after the issue or sale) offer those Shares in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Other Relationships

The Manager has performed investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The Manager may, from time to time, engage in other transactions with us in the ordinary course of business.

Settlement

Prospective purchasers of the Shares who do not maintain a custody account in Turkey must open a custody account with a recognised Turkish depositary. Prospective purchasers will need to provide details of their custody accounts to Deutsche Bank no later than April 13, 2006. The Shares will be delivered to the Turkish custody accounts of the purchasers maintained with the Central Registry on or about the closing date of this offering by means of book-entry registration, subject to timely and satisfactory provision to Deutsche Bank of account details.

TRANSFER RESTRICTIONS

As a result of the following restrictions, we advise you to contact legal counsel prior to making any resale, pledge or transfer of the Shares.

The global offering is being made in reliance on Rule 144A and Regulation S. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S. Terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as so defined.

Regulation S

Each purchaser of the Shares outside the United States, by accepting delivery of this Offering Circular and the Shares, will be deemed to have represented and agreed as follows:

(1) It is aware that the sale of the Shares to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S and it is, or at the time such Shares are purchased will be, the beneficial owner of those Shares; and it is located outside the United States (within the meaning of Regulation S) and it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S.

(2) It is not our affiliate or a person acting on behalf of such an affiliate.

(3) It understands that the Shares have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or (b) to a person whom the seller and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, in each case in accordance with any applicable securities laws of any state of the United States.

(4) It acknowledges that we, the Selling Shareholder, the Manager and our respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognise any resale or other transfer, or attempted resale or other transfer, in respect of the Shares made other than in compliance with the above-stated restrictions.

Rule 144A

Each purchaser of the Shares within the United States, by accepting delivery of this Offering Circular and the Shares, will be deemed to have represented and agreed as follows:

(1) It acknowledges that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.

(2) It is (i) a qualified institutional buyer, (ii) aware, and each beneficial owner of such Shares has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) acquiring such Shares for its own account or for the account of a qualified institutional buyer.

(3) It agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer those Shares except: (a) to a person whom it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or (c) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Shares of the resale restrictions referred to in (a), (b) and (c) above. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the Shares.

(4) Notwithstanding anything to the contrary in the foregoing paragraphs, the Shares may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, unless and

until such time as those Shares are no longer “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

(5) If it is acquiring Shares for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(6) It acknowledges that we, the Selling Shareholder, the Manager and our respective affiliates will reply upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognise any resale or other transfer, or attempted resale or other transfer, in respect of the Shares made other than in compliance with the above-stated restrictions.

Prospective purchasers are hereby notified that sellers of our Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Shares

Subject to the limitations described below, the Shares may be sold and transferred by delivery or by means of book-entry registration with accounts maintained with the Central Registry.

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares of a company quoted on a Turkish stock exchange exclusively on such exchange. Accordingly, following the global offering, non-resident investors may transfer the Shares only on the ISE, through a bank or a brokerage firm.

The global offering will be registered with the CMB under the provisions of the Capital Markets Law. This registration does not constitute a guarantee by the CMB or any other public authority with respect to the Shares or us. Neither this Offering Circular nor any other offering material related to the international offering may be utilised in connection with any general offering of Shares to the public within the Republic of Turkey without prior approval of the CMB.

LEGAL MATTERS

Certain legal matters will be passed upon for us and the Selling Shareholder by Chadbourne & Parke LLP, United States counsel and Chadbourne & Parke, English legal advisors to us and the Selling Shareholder. Certain legal matters relating to Turkish law will be passed upon for us and the Selling Shareholder by Pekin & Bayar Ortak Avukat Bürosu our Turkish legal advisors. Chadbourne & Parke LLP and Chadbourne & Parke may rely upon the opinion of Pekin & Bayar Ortak Avukat Bürosu as to matters of Turkish law. Certain legal matters will be passed upon for the Manager by White & Case LLP, United States counsel and English legal advisors to the Manager. Certain legal matters relating to Turkish law will be passed upon for the Manager by Derman Ortak Avukat Bürosu. White & Case LLP may rely upon the opinion of Derman Ortak Avukat Bürosu as to matters of Turkish law.

INDEPENDENT AUDITORS

Our IFRS financial statements as of and for the years ended December 31, 2003, December 31, 2004 and December 31, 2005 were audited by Grant Thornton, our independent auditors in Turkey, whose report thereon is included in this Offering Circular.

[THIS PAGE INTENTIONALLY LEFT BLANK]

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT OF VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş. FOR THE YEAR ENDED DECEMBER 31, 2005, 2004 AND 2003

To the shareholders and Board of Directors of
Vestel Beyaz Eşya Sanayi ve Ticaret Anonim Şirketi

We have audited the accompanying balance sheets of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the "Company"), a Turkish corporation, at December 31, 2005, 2004 and 2003 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in the equivalent purchasing power of Turkish currency ("YTL") as of December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2005, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards.

ARKAN & ERGİN Uluslararası Denetim ve Yeminli Mali Müşavirlik AŞ
Member Firm of Grant Thornton International

Aykut HALİT
Partner

İstanbul,
February 20, 2006

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş.

BALANCE SHEETS
AT DECEMBER 31, 2005, 2004 AND 2003

(Currency: All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

	Note	2005	2004	2003
ASSETS				
Current Assets				
Cash and cash equivalents	*4*	8,376,929	2,725,800	2,435,463
Trade receivables	*5*	143,664,580	137,194,256	26,312,101
Inventories	*6*	101,588,396	85,158,101	48,748,743
Other current assets	*7*	8,554,409	4,025,044	2,946,018
Total Current Assets		**262,184,314**	**229,103,201**	**80,442,325**
Non Current Assets				
Property, plant and equipment, net	*8*	318,152,005	238,660,907	195,174,342
Intangible assets, net	*9*	2,513,835	2,919,588	3,474,093
Deferred tax asset	*13*	4,952,273	8,333,838	15,858,337
Total Non Current Assets		**325,618,113**	**249,914,333**	**214,506,772**
Total Assets		**587,802,427**	**479,017,534**	**294,949,097**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Borrowings	*10*	20,301,145	17,752,509	9,836,974
Trade payables	*11*	178,111,187	183,894,855	74,319,589
Taxation on income	*13*	795,805	12,394,560	—
Other liabilities	*12*	54,680,841	5,621,998	3,889,092
Total Current Liabilities		**253,888,978**	**219,663,922**	**88,045,655**
Non Current Liabilities				
Borrowings	*10*	77,377,142	59,638,941	56,577,988
Reserve for retirement pay	*14*	2,291,625	2,023,490	1,150,080
Other liabilities	*12*	—	—	21,882,260
Deferred tax liability	*13*	17,211,711	10,325,845	12,646,310
Total Non Current Liabilities		**96,880,478**	**71,988,276**	**92,256,638**
Shareholders' Equity				
Capital	*15*	153,720,137	92,419,567	92,419,567
General reserves		33,645,199	22,227,237	(39,339,000)
Net income		49,667,635	72,718,532	61,566,237
Total Shareholders' Equity		**237,032,971**	**187,365,336**	**114,646,804**
Total Liabilities and Shareholders' Equity		**587,802,427**	**479,017,534**	**294,949,097**

The accompanying notes are an integral part of these statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş.

INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Currency: All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

	Note	2005	2004	2003
Net sales	*17*	810,072,731	731,263,359	448,953,377
Cost of sales	*18*	(721,566,385)	(611,262,404)	(377,126,248)
Gross Profit		**88,506,346**	**120,000,955**	**71,827,129**
Research and development expenses		(8,247,505)	(5,571,245)	(1,762,129)
Selling expenses		(8,179,317)	(5,505,691)	(3,569,233)
General and administrative expenses		(11,580,374)	(10,519,842)	(5,755,251)
Other income (expense), net	*19*	(2,219,231)	3,949,289	6,541,568
Operating Income		**58,279,919**	**102,353,466**	**67,282,084**
Financing income (expense), net	*20*	(1,471,982)	(16,885,760)	(7,661,302)
Monetary gain		3,923,800	4,849,716	9,690,379
Income Before Tax		**60,731,737**	**90,317,422**	**69,311,161**
Taxation				
Current	*13*	(796,670)	(12,394,856)	—
Deferred	*13*	(10,267,432)	(5,204,034)	(7,744,924)
Taxation on income		(11,064,102)	(17,598,890)	(7,744,924)
Net Income		**49,667,635**	**72,718,532**	**61,566,237**

The accompanying notes are an integral part of these statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Currency: All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

		General Reserves			
	Capital	Legal Reserves	Undistributed Profit/(Loss)	Net Income for the year	Total Shareholders' Equity
Balance at December 31, 2003	**92,419,567**	**—**	**(39,339,000)**	**61,566,237**	**114,646,804**
Transfer	—	309,696	61,256,541	(61,566,237)	—
Net income	—	—	—	72,718,532	72,718,532
Balance at December 31, 2004	**92,419,567**	**309,696**	**21,917,541**	**72,718,532**	**187,365,336**
Capital increase					
—General Reserves	61,300,570	—	(61,300,570)	—	—
Transfer	—	—	72,718,532	(72,718,532)	—
Net income	—	—	—	49,667,635	49,667,635
Balance at December 31, 2005	**153,720,137**	**309,696**	**33,335,503**	**49,667,635**	**237,032,971**

The accompanying notes are an integral part of these statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET A.Ş.

CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Currency: All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

	Note	2005	2004	2003
Cash flow provided by operating activities				
Net income		49,667,635	72,718,532	61,566,237
Adjustment to reconcile net income to net cash provided from operating activities:	*23*	35,811,194	47,891,699	28,026,249
Operating profit before changes in working capital		**85,478,829**	**120,610,231**	**89,592,486**
Changes in operating assets and liabilities	*23*	19,584,718	(41,335,796)	(19,953,523)
Taxes paid		(12,394,560)	(294)	—
Net cash provided by operating activities		**92,668,987**	**79,274,141**	**69,638,963**
Cash flow from financing activities				
Changes in current borrowings, net		2,133,174	6,865,282	(65,028,115)
Changes in non current borrowings, net		17,738,201	3,060,953	54,287,867
Increase in capital		—	—	30,064,398
Net cash provided by financing activities		**19,871,375**	**9,926,235**	**19,324,150**
Cash flow provided by investing activities				
Purchase of property, plant and equipment, net		(106,496,847)	(66,374,858)	(64,578,566)
Purchase of intangible fixed assets, net		(392,386)	(652,921)	(2,027,794)
Changes in other investing activities		—	(21,882,260)	(19,955,517)
Net cash used in investing activities		**(106,889,233)**	**(88,910,039)**	**(86,561,877)**
Net increase in cash and cash equivalents		**5,651,129**	**290,337**	**2,401,236**
Cash and cash equivalents at beginning of year		**2,725,800**	**2,435,463**	**34,227**
Cash and cash equivalents at end of year		**8,376,929**	**2,725,800**	**2,435,463**

The accompanying notes are an integral part of these statements.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated 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 İstanbul, Turkey. The registered office address of the Company is located at Ambarlı, Petrol Ofisi Dolum Tesisleri Yolu, Zorlu Plaza, Avcılar / İstanbul- 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 are 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 outdoor area of 272,000 square meters and indoor area of 149,340 square meters.

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

In accordance with Law No. 5083 in respect of "the Currency of the Turkish Republic" published in the Legal Gazette dated January 31, 2004, numbered 25363, which came into force from January 1, 2005, a new local measurement and reporting currency unit has been introduced. Turkish Lira (TL) currency units formerly used have been converted to New Turkish Lira (YTL) at the rate of 1,000,000 TL= 1 YTL. Both notes and coins of the former (TL) as well as the new currency units (YTL) were in circulation during 2005. According to the resolution of the Capital Markets Board dated November 30, 2004, numbered 47/1566, all financial statements which will be publicly declared as of December 31, 2004 or relating to a prior period (including those with a different fiscal year end or referring to an interim period) and the comparatives presented, must be prepared in terms of YTL. Hence, the accompanying prior year financial statements have been presented on the basis of YTL for comparison purposes only.

The Company adheres to the Turkish Commercial Code ("TCC"), tax regulations and the Uniform Chart of Accounts issued by the Ministry of Finance in keeping its records and preparation of its statutory financial statements. The accompanying financial statements have been prepared on the basis of the Company's statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

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 most recent 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%. The restatement of previous periods in the accompanying financial statements has been based on the conversion factors obtained from the Wholesale Price Indices ("WPI") published by the State Institute of Statistics of Turkey. These indices and the conversion factors are shown below:

Year	2005	2004	2003
Index	8,785.7	8,403.8	7,382.1
Conversion factor	1.000	1.045	1.190

The main guidelines for the above mentioned restatement are as follows:

- The financial statements of the prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current for the year ended December 31, 2005.

- Monetary assets and liabilities reported in the balance sheet as of December 31, 2005 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- The inflation adjusted share capital is derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property, transferred to share capital from the date they were contributed and registered so.
- The financial statements of the prior periods are restated with current purchasing power of money at the most recent balance sheet date.
- All items in the income statement are restated by applying the monthly conversion factors except for depreciation, amortization, gain or loss on disposal of non-monetary assets which are calculated based on the restated gross book values and accumulated depreciation or amortization of the related values.
- The effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Company could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Company could return or settle the same values of equity to its shareholders.

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

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.

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

	2005	2004	2003
U.S. dollar	1.3418	1.3421	1.3958
Euro	1.5875	1.8268	1.7451

Property, Plant and Equipment Depreciation

Property, plant and equipment is stated at cost as restated in the equivalent purchasing power of YTL at December 31, 2005 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:

	Useful life in years
Land	Nil
Land improvements	8.5 – 25
Buildings	25 – 50
Leasehold improvements	5
Property, plant and equipment	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.

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.

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

Capitalized leased assets are depreciated in accordance with the depreciation policy noted above.

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.

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.

Computer Software Development Costs

Generally, costs associated with developing or maintaining computers software programs are recognized as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company, and have probable economic benefit exceeding the cost beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs are recognized as assets and amortized on a pro-rata basis over their estimated useful lives, not exceeding a period of 5 years.

Other Intangible Assets

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

Trade Receivables

Trade receivables are carried at original amount less an estimate made for doubtful receivables. The Company's management believes that the estimated amount will be adequate to absorb possible future losses on existing receivables that may become uncollectible due to economic conditions and inherent risks in the receivables. Bad debts are written off when identified.

Allowance for Unearned Interest

Unearned interest is calculated at the rate of 13.8% (December 31, 2004: 21% and December 31, 2003: 48%) per year for Turkish Lira and 3.5 % (December 31, 2004: 2.6% and December 31, 2003: 2.1%) per year for foreign currency on receivables and payables at the balance sheet date.

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.

Inventories

Inventories are stated at the lower of cost, restated at the equivalent purchasing power at December 31, 2005, and net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads (based on normal operating capacity) that have been incurred in bringing the inventories to their present location and condition but excludes borrowing cost. Cost is calculated by using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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.

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.

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.

Income Taxes

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

Provisions

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.

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.

Warranty Provision

This provision reflects the costs and expenses for which the Company responsible under Turkish regulations for servicing its products sold in Turkey which malfunction due to production defects. Technical service cost 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.

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, all restated in equivalent purchasing power at December 31, 2005.

Related Parties

Companies and their related parties, investments and affiliates controlled by Zorlu Holding Group or otherwise under the control of Ahmet Nazif Zorlu and his family (including the companies in the Vestel Group) are considered and referred to as related parties.

Financial Instruments

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise bank loans, overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

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

Interest Rates Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign Currency Risk

The Company's operations are conducted in Turkey. The products sold to Vestel Foreign Trade are primarily exported to Europe. The Company is exposed to transactional and contractual foreign exchange risks resulting from currency exposures primarily with respect to the euro and U.S. dollar.

Funding Risk

Funding risk of existing and probable future debt requirement is monitored by maintaining the continuity and accessibility of highly qualified credit providers in sufficient number.

Liquidity Risk

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

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables from Vestel Foreign Trade and Vestel Domestic Marketing. Vestel Foreign Trade requires most of its customers to provide guarantees or letters of credit to secure payment. The receivables of Vestel Domestic Marketing from its customers are substantially secured by collaterals and mortgages.

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. 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

Balances denominated in foreign currencies are translated at year-end exchange rates. The fair value of certain financial assets carried at cost, including cash at 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 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 stated with market value.

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. The fair values of long-term bank borrowings and accrued interests are considered to approximate their carrying values.

Cash Flow Reporting

Cash and cash equivalents presented in the cash flow statements include cash, bank deposits and repurchase transactions 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.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

The computation of the basic earnings per share:

Number of shares outstanding	2005	2004	2003
1 January	46,000,000	46,000,000	46,000,000
Bonus shares out of reserves	92,000,000	—	—
	138,000,000	**46,000,000**	**46,000,000**
Net income	49,667,635	72,718,532	61,566,237
Weighted average number of ordinary shares outstanding during the year	138,000,000	138,000,000	138,000,000
Earnings per share (YTL)	**0,36**	**0,53**	**0,45**

4. CASH AND CASH EQUIVALENTS

	2005	2004	2003
Cash	23,764	14,918	21,030
Banks			
—Demand deposits	234,846	—	121,885
—Repurchase transactions	8,118,319	2,710,882	2,292,548
	8,376,929	**2,725,800**	**2,435,463**

The maturity of repurchase transactions was January 2, 2006 and the interest rate was 2% per year for foreign currency and 14% per year for New Turkish Lira (December 31, 2004: January 03, 2005 and the interest rate was 1.5% per year for foreign currency and 18.2% per year for New Turkish Lira; December 31, 2003: January 2, 2004 and the interest rate was 25.2% per year for New Turkish Lira).

5. TRADE RECEIVABLES

	2005	2004	2003
Third parties			
—Current accounts	15,598	101,943	78,025
—Cheques received	—	—	2,773,933
Related parties			
—Current accounts	16,188,439	38,610,739	23,985,779
—Notes receivable	131,490,327	104,544,849	—
Deposits and guarantees given	18,902	23,490	31,201
Less :			
—Allowance for doubtful receivables	—	(1,201)	(1,367)
—Unearned interest on receivables	(4,048,686)	(6,085,564)	(555,470)
	143,664,580	**137,194,256**	**26,312,101**

6. INVENTORIES

Raw materials and components	57,756,170	59,026,999	30,772,395
Work in process	5,610,385	3,810,744	2,911,509
Finished goods	36,175,536	17,329,736	12,980,482
Merchandise	78,592	77,579	75,445
Spare parts and supplies	11,624	30,544	159,319
Provision for inventories	(403,054)	—	—
Goods in transit	2,359,143	4,882,499	1,849,593
	101,588,396	**85,158,101**	**48,748,743**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

7. OTHER CURRENT ASSETS

Prepaid expenses	1,002,948	926,580	377,019
V.A.T. receivable	7,424,141	2,983,703	2,212,854
Due from personnel	90,134	113,100	352,289
Other	37,186	1,661	3,856
	8,554,409	**4,025,044**	**2,946,018**

8. PROPERTY, PLANT AND EQUIPMENT, net

	January 1, 2005	Additions	Disposals	Transfers	December 31, 2005
Cost					
Land	6,844,298	—	—	—	6,844,298
Land improvements	2,683,518	1,781	—	—	2,685,299
Buildings	47,741,771	1,009,525	—	8,991,699	57,742,995
Machinery and equipment	224,291,817	2,629,262	(1,117,035)	97,240,083	323,044,127
Motor vehicles	129,828	294,953	—	—	424,781
Furniture and fittings	6,171,999	3,409,115	(9,827)	943,417	10,514,704
Leasehold improvements	253,359	118,807	—	15,483	387,649
Construction in progress and advances given	27,167,647	100,074,235	(71,153)	(107,380,537)	19,790,192
	315,284,237	**107,537,678**	**(1,198,015)**	**(189,855)**	**421,434,045**
Accumulated depreciation					
Land improvements	663,594	159,501	—	—	823,095
Buildings	7,198,031	2,099,708	—	—	9,297,739
Machinery and equipment	66,819,220	23,323,149	(345,303)	—	89,797,066
Motor vehicles	21,282	40,485	—	—	61,767
Furniture and fittings	1,909,795	1,330,198	(1,736)	—	3,238,257
Leasehold improvements	11,408	52,708		—	64,116
	76,623,330	**27,005,749**	**(347,039)**	**—**	**103,282,040**
Net book value	**238,660,907**				**318,152,005**

	January 1, 2004	Additions	Disposals	Transfers	December 31, 2004
Cost					
Land	6,031,169	813,129	—	—	6,844,298
Land improvements	2,543,391	138,824	—	1,303	2,683,518
Buildings	46,663,697	203,816	—	874,258	47,741,771
Machinery and equipment	184,792,088	14,409,685	(18,143)	25,108,187	224,291,817
Motor vehicles	167,723	42,701	(80,596)	—	129,828
Furniture and fittings	4,514,613	1,189,525	(11,653)	479,514	6,171,999
Leasehold improvements	6,750	246,609	—	—	253,359
Construction in progress and advances given	4,290,219	49,340,690	—	(26,463,262)	27,167,647
	249,009,650	**66,384,979**	**(110,392)**	**—**	**315,284,237**
Accumulated depreciation					
Land improvements	506,953	156,641	—	—	663,594
Buildings	5,269,144	1,928,887	—	—	7,198,031
Machinery and equipment	46,776,330	20,058,614	(15,724)	—	66,819,220
Motor vehicles	83,741	18,137	(80,596)	—	21,282
Furniture and fittings	1,193,303	720,443	(3,951)	—	1,909,795
Leasehold improvements	5,837	5,571	—	—	11,408
	53,835,308	**22,888,293**	**(100,271)**	**—**	**76,623,330**
Net book value	**195,174,342**				**238,660,907**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated 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 during 2004 and 2005 to increase its refrigerator and washing machine production capacity and new investment made in cooker and dishwasher production during 2004 and 2005, respectively.

Leased assets included in the table above comprise plant and machinery amounting to YTL 34,231,324 net of accumulated depreciation.

As of December 31, 2005, fixed assets were insured for YTL 291,384,612 (December 31, 2004: YTL 382,114,246; December 31, 2003: YTL 166,266,468).

9. INTANGIBLE ASSETS, net

	January 1, 2005	Additions	Disposals	Transfers	December 31, 2005
Cost					
Rights	6,616,749	4,372	—	—	6,621,121
Research and development expenses	5,234,881	—	—	—	5,234,881
Other intangible assets	313,414	198,159	—	189,855	701,428
	12,165,044	**202,531**	**—**	**189,855**	**12,557,430**
Accumulated amortization					
Rights	6,127,482	147,703	—	—	6,275,185
Research and development expenses	3,072,062	537,143	—	—	3,609,205
Other intangible assets	45,912	113,293	—	—	159,205
	9,245,456	**798,139**	**—**	**—**	**10,043,595**
Net book value	**2,919,588**				**2,513,835**

	January 1, 2004	Additions	Disposals	Transfers	December 31, 2004
Cost					
Rights	6,606,599	10,150	—	—	6,616,749
Research and development expenses	4,882,762	352,119	—	—	5,234,881
Other intangible assets	22,763	290,651	—	—	313,414
	11,512,124	**652,920**	**—**	**—**	**12,165,044**
Accumulated amortization					
Rights	5,922,094	205,388	—	—	6,127,482
Research and development expenses	2,115,555	956,507	—	—	3,072,062
Other intangible assets	382	45,530	—	—	45,912
	8,038,031	**1,207,425**	**—**	**—**	**9,245,456**
Net book value	**3,474,093**				**2,919,588**

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.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

10. BORROWINGS

	Short term			Long term		
	Interest Rate %	Foreign Currency	YTL Balance	Interest Rate %	Foreign Currency	YTL Balance
2005						
Bank borrowings						
—U.S. dollars	5.5%	63,661	85,420	5.5%	8,000,000	10,734,400
—Euro	3% - 6.6%	10,307,199	16,362,678	3% - 6.6%	40,192,986	63,806,365
—YTL	—	—	59,335	—	—	—
Finance lease liabilities						
—U.S. dollars	4.5% - 10%	1,272,582	1,707,551	4.5% - 10%	1,773,838	2,380,136
—Euro	5% - 8%	1,314,117	2,086,161	5% - 8%	287,396	456,241
			20,301,145			**77,377,142**
2004						
Bank borrowings						
—U.S. dollars	4% - 5%	2,482,800	3,483,608	4%	660,000	926,044
—Euro	3% - 5.5%	4,870,983	9,302,727	3% - 5.5%	26,889,673	51,354,577
Finance lease liabilities						
—U.S. dollars	4.5% - 10%	1,436,022	2,014,877	4.5% - 10%	3,063,616	4,298,549
—Euro	5% - 8%	1,545,323	2,951,297	5% - 8%	1,602,121	3,059,771
			17,752,509			**59,638,941**
2003						
Bank borrowings						
—U.S. dollars	5%	2,001,001	3,324,144	—	—	—
—Euro	6% - 8%	1,199,572	2,491,370	3% - 3.5%	24,273,979	50,414,186
—YTL	—	—	33,890	—	—	—
Finance lease liabilities						
—U.S. dollars	8% - 10%	519,367	862,794	8% - 10%	590,743	981,367
—Euro	7% - 8%	1,504,552	3,124,776	7% - 8%	2,495,296	5,182,435
			9,836,974			**56,577,988**

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

	2005	2004	2003
Due in one year	16,507,433	12,786,335	5,849,404
Due between one and two years	27,327,441	17,707,111	19,809,082
Due between two and five years	39,403,619	27,743,830	23,508,948
Over five years	7,809,705	6,829,680	7,096,156
	91,048,198	**65,066,956**	**56,263,590**

New Turkish Lira borrowings are obtained for the purpose of financing daily payments and were repaid on January 1, 2006.

The Company obtained various loans from non-Turkish financial institutions with a maturity of 7 years in years 2003, 2004 and 2005 for financing investments in production machinery and equipment. As of December 31, 2005, the Company's borrowings under these facilities included a short term payable of EUR 10,057,560 (December 31, 2004: EUR 3,676,478; December 31, 2003: Nil) and long term payable of EUR 34,568,059 (December 31, 2004: EUR 15,069,947; December 31, 2003: EUR 24,273,979). The principal amount of these loans is repayable at six months intervals and the last repayment date is June 2012. The annual interest rate is 3%.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

As of December 31, 2005, the Company's borrowings included a loan of $8,000,000 for the purpose of financing its working capital. The annual interest rate is 5.5%. The loan matures in May 2007.

The Company's borrowings as of December 31, 2005 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 December 31, 2005, the remaining principal amount outstanding is EUR 7,875,000. The annual interest rate is 5.5%. Vestel group company Vestel Elektronik Sanayi ve Ticaret A.Ş. is a guarantor for this loan.

As of December 31, 2004 the Company had a loan for the purpose of financing its working capital amounting to YTL 2,684,200 ($2,000,000). The maturity of the loan was July 2005 with an interest rate of 4.2% per year. This loan was repaid in full on July 5, 2005 (December 31, 2003: 3,177,964 YTL ($2,000,000)).

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

Finance lease liabilities—minimum lease payments:

	2005	2004	2003
Total of finance lease installments			
Due in one year	4,166,984	5,797,403	4,957,002
Due between one to five years	3,000,967	7,952,349	6,792,923
Less : Future finance charges on finance leases	(537,862)	(1,425,258)	(1,598,553)
Present value of finance lease obligations	**6,630,089**	**12,324,494**	**10,151,372**
The present value of finance lease liabilities is as follows:			
Due in one year	3,793,712	4,966,175	3,987,478
Due between one to five years	2,836,377	7,358,319	6,163,894
	6,630,089	**12,324,494**	**10,151,372**

11. TRADE PAYABLES

Third parties			
—Current accounts	166,847,226	141,244,054	75,224,863
—Notes payable	4,548,776	43,003,569	219,061
Related parties			
—Current accounts	7,290,822	2,329,729	301,523
Deposits and guarantees obtained	960	1,004	1,143
Less:			
—Unearned interest on payables	(576,597)	(2,683,501)	(1,427,001)
	178,111,187	**183,894,855**	**74,319,589**

As of December 31, 2004 trade payables includes $30,000,000 provided by HSBC Bank for the purchase of compressors in the form of murabaha financing. The financing was obtained in March 2004 and the full amount was repaid in March 2005.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

12. OTHER LIABILITIES

	2005	2004	2003
Current			
Taxes payable	2,462,902	1,793,552	1,266,344
Social security premiums payable	2,400,078	1,058,954	776,165
Warranty provision	3,404,517	2,610,915	1,796,224
Due to personnel	1,394,216	454	35,751
Due to related parties (note 21)	44,867,652	—	—
Other	151,476	158,123	14,608
	54,680,841	**5,621,998**	**3,889,092**
Non current			
Due to related parties (note 21)	—	—	21,882,260
	—	**—**	**21,882,260**

13. TAXATION ON INCOME

The corporation tax rate on the profits in Turkey is 30% (2004: 33%). The corporation tax rate for the taxable profits thereafter is 30%. Taxable profits are calculated by addition of tax disallowed expenses to and deduction of tax exemptions (investment income exemption) and deductions (investment incentive deductions) from the profit disclosed in the statutory income.

The tax legislation provides for a provisional tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, provisional taxes for the year 2004 was calculated and paid at the rate of 33%.

The part of profits distributed in dividend to individuals and non-resident companies are subject to withholding tax as follows:

- Up to April 24, 2003, the rate was 5.5% and 16.5% respectively for public and non public companies.
- April 24, 2003 – December 31, 2003 the rate was 11%.
- After January 1, 2004 (applicable to profits of year 2003 distributed in year 2004) the rate has become 10%.

However the following are exempt from withholding tax:

- Dividends out of profits obtained up to December 31, 1998.
- Dividends out of profits exempted from Corporation Tax obtained up to December 31, 2002.
- Investment allowances relating to fixed assets purchased before April 24, 2003 which allowances bare tax at 19.8%.
- No withholding tax has been payable on undistributed profits, profits added to share capital (bonus shares) and dividends paid to other resident companies.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003 the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above (note 16).

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

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

The Law nr. 5024 published on December 30, 2003 has introduced changes and additions to the taxation of companies with effect from January 1, 2004, as follows:

- Taxable profits as from January 1, 2004 will be based on financial statements adjusted for the effects of inflation; such adjustments for inflation will be made in respect of each quarterly tax period during the year.
- The adjustments for inflation will be based on the increase in Wholesale Price Indices published by the Turkish Institute of Statistics.
- The adjustment for inflation has to be made if cumulative inflation rate for previous 36 months exceeds 100% and the inflation rate for previous 12 months exceeds 10%. If the 100% and the 10% condition do not apply simultaneously there will be no requirement to adjust for inflation. The Council of Ministers may reduce the ceiling from 100% to 35% or increase the 12 monthly limits from 10% to 25%.
- The financial statements at December 31, 2003 must be adjusted for inflation through the following formula:

  Total of adjusted assets

  Less: - total of adjusted liabilities (-)

  - Adjusted share capital (-)

  - Adjusted share premium account

  "Difference"
- The "difference" will be termed "accumulated profit/loss" and will form part of shareholders' equity.
- The accumulated profit ascertained as above will not be subject to any tax. If the difference results in an accumulated loss, this loss will not be deductible from future profits. The losses deductible from profits of 2004 and future years will only be the losses for 2003 and previous years as disclosed in the Corporation tax declarations for 2003 and previous years on historical basis.
- The adjustments to share capital and to other accounts forming part of shareholders' equity may be added to share capital by way of bonus shares. Issue of such bonus shares will not considered as distribution of profit.
- Corporation Tax calculation for year 2003 will be based on the regulations valid up to December 31, 2003.
- The following will be discontinued as from January 1, 2004.

  - fiscally allowed revaluation of fixed assets

  - valuation of stocks on a LIFO basis

  - cost increase reserve for fixed assets

  - the part of financing costs disallowed for tax purposes

  - depreciation of up to 20% which as left to the option of the taxpayer. Instead depreciation rates will be ascertained by the tax administration on basis of economic life time.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

Law Nr: 5024 related to inflation accounting for tax purposes calls for a cumulative inflation rate of over 100% for previous 36 months and over 10% for previous twelve months. As the 36 months inflation rate has fallen under 100% and 12 months inflation to 10%, No application for inflation accounting up to the reporting date.

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

	2005	2004	2003
Profit before tax	60,731,737	90,317,422	69,311,161
Tax effect of expenses not deductible for tax purposes	2,342,231	2,317,507	2,218,863
Tax effect of income deductible for tax purposes	—	(173,946)	(523,625)
Tax effect of permanent differences and valuation allowances, net	16,813,907	7,454,298	(23,091,772)
Research and development expenses	2,158,290	—	—
Investment incentive allowances 100% deductible and subject to withholding tax at 19.8%	(4,023,590)	(62,600,282)	—
Investment incentive allowances 40% deductible and not subject to withholding	(43,797,802)	(19,968,219)	(10,515,159)
Utilization of previously unrecognized losses	—	—	(11,583,055)
Taxable income	34,224,773	17,346,780	25,816,413
Tax at the rate of 30%	10,267,432	5,204,034	7,744,924
Withholding tax on investment incentives at 19.8%	796,670	12,394,856	—
Taxation per financial statements	**11,064,102**	**17,598,890**	**7,744,924**

Taxes included in the balance sheet are shown below:

	2005	2004	2003
Corporation tax	796,670	12,394,856	—
Less: Prepaid taxes	(866)	(296)	—
Deferred tax assets	(4,952,273)	(8,333,838)	(15,858,337)
Deferred tax liabilities	17,211,711	10,325,845	12,646,310
	13,055,242	**14,386,567**	**(3,212,027)**

Deferred taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences between its financial statements as reported for International Accounting Standards ("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.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

Cumulative temporary differences and the related deferred tax assets/liabilities in respect of items for which deferred tax has been provided at December 31, 2005, 2004 and 2003 using the expected future tax rates were as follows:

	Cumulative temporary differences			Deferred tax		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Deferred tax asset						
Provision for severance pay	2,291,625	2,023,490	1,150,080	687,488	607,047	345,024
Finance lease liabilities	2,056,207	5,680,317	10,151,278	616,862	1,704,094	3,045,383
Investment allowances	21,495,745	25,974,136	109,152,114	2,192,566	2,649,364	11,196,981
Warranty provision	3,404,517	2,610,915	1,796,224	1,021,355	783,275	538,867
Other	577,203	970,656	1,044,006	173,161	291,197	313,202
Unearned interest expense		6,085,564	555,471		1,825,669	166,640
Temporary differences arising from restating inventories	869,473	1,577,308	840,802	260,841	473,192	252,240
				4,952,273	**8,333,838**	**15,858,337**
Deferred tax liability						
Temporary differences arising from restating tangible and intangible assets	53,882,075	31,735,973	40,727,366	16,164,623	9,520,793	12,218,210
Unearned interest income	3,471,204	2,683,501	1,427,001	1,041,361	805,052	428,100
Other	19,091			5,727		
				17,211,711	**10,325,845**	**12,646,310**

Deferred income taxes are calculated using a principal tax rate of 30% and investment incentives at 10.2%.

Deferred tax assets related to investment allowances are reflected in the financial statements only if it is probable that there will be sufficient profits from which such allowances may be deducted.

14. 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 1,727.15 as of December 31, 2005 (December 31, 2004: YTL 1,547.7; December 31, 2003: YTL 1,389.9) on historical cost basis).

The provision for retirement pay is not funded and there is no legal requirement in respect of such funding. The related provision is calculated on the basis of the estimated present value of the probable liability which may arise in the future as a result of the severance of employees of the Company.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

In the accompanying financial statements the Company reflected a liability for termination benefits based upon factors derived using management's experience of termination of personnel eligible to receive retirement pay, with the amount 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:

	2005	2004	2003
Discount rate	6.2%	16%	16%
Average yields	12%	10%	10%

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

January 1,	**2,023,490**	**1,150,080**	**822,312**
Provision for the period	356,101	1,013,232	427,741
Monetary gain	(87,966)	(139,822)	(99,973)
December 31,	**2,291,625**	**2,023,490**	**1,150,080**
Number of personnel employed as of year end:	2,978	2,567	1,959
Personnel cost:			
Gross salaries and wages	39,637,346	31,571,747	18,685,267
Employer's share of social insurance	8,508,982	6,621,153	3,884,863
	48,146,328	**38,192,900**	**22,570,130**

15. SHARE CAPITAL

The authorized and paid-in capital of the Company was YTL 138,000,000 consisting of 138,000,000 Ordinary Shares of par value YTL 1 each at December 31, 2005 and YTL 46,000,000 consisting of 4,600,000,000 Ordinary Shares of par value TL 10,000 each at December 31, 2004 and 2003.

The shareholders of the Company and their percentage shareholdings were as follows:

Shareholding percentage	2005	2004	2003
Vestel Elektronik Sanayi ve Ticaret A.Ş.	35.0%	35.0%	35.0%
Ahmet Nazif Zorlu	26.5%	26.5%	26.5%
Olgun Zorlu	26.5%	26.5%	26.5%
Zorlu Holding A.Ş.	10.0%	10.0%	10.0%
Other	2.0%	2.0%	2.0%
	100.0%	100.0%	100.0%
Shareholding amount			
Vestel Elektronik Sanayi ve Ticaret A.Ş.	48,300,000	16,100,000	16,100,000
Ahmet Nazif Zorlu	36,570,000	12,190,000	12,190,000
Olgun Zorlu	36,570,000	12,190,000	12,190,000
Zorlu Holding A.Ş.	13,800,000	4,600,000	4,600,000
Other	2,760,000	920,000	920,000
Share capital (Nominal)	138,000,000	46,000,000	46,000,000
Capital inflation adjustment	15,720,137	46,419,567	46,419,567
Restated share capital equivalent to purchasing power of New Turkish Lira	**153,720,137**	**92,419,567**	**92,419,567**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

The share capital has been increased from YTL 46,000,000 to YTL 138,000,000 on the basis of the resolution of the general meeting of shareholders dated March 18, 2005 and published in the Gazette of the Commercial Registry on March 24, 2005 number 6267. The increase was as follows:

Out of inflation reserves	32,668,000
Out of general reserves	59,332,000
	92,000,000

16. COMMITMENTS AND CONTINGENCIES

Contingent liabilities

a. As of December 31, 2005, the Company has contingent liabilities amounting to YTL 4,670,635 in respect of bank loans, letters of credit and other guarantees arising in the ordinary course of business.

b. Due to the export and investment incentive certificates obtained for tax purposes, the Company has committed to realise exports amounting to $158,113,409 as of December 31, 2005.

c. The Company has operating lease agreements amounting to YTL 90,703 (total commitment at December 31, 2005).

d. Vestel Group signed a guarantee and credit agreement with Vakıflar Bankası for $114.4 million. Group companies and the majority shareholder of the Company were beneficiaries of and guarantors to the agreement. Additionally, a Group company has signed a guarantee and credit agreement with the same financial institution for YTL 20 million and the Company and Vestel Group companies were beneficiaries of and guarantors to this facility.

e. 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.

f. 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.

g. A law suit has been initiated against the Company by two companies which engaged in the production of household appliances for the invalidity of the patent certificate. The Company has initiated a counter law suit with a claim to cancel the patent certificate from the related registry and invalidity of the same. The law-suits are still pending and at the stage of expert evaluation. 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.

h. Lawsuits opened against the Company amounted to YTL 28,448.

i. The value of the law-suits which have been finalized in favour of the Company is YTL 562,782. The matters have been taken to the Court of Appeal.

Contingent assets

a. Letters of guarantee, cheques and notes obtained from suppliers and customers amounted to YTL 12,992,291.

b. The Company has Incentive Certificates related to investments in fixed assets obtained from the Treasury of the Prime Ministry of Turkey; these investment incentive certificates entitle the Company to deductions (investment allowances) of YTL 21,495,745 from future taxable income.

Investment allowances may be deducted from profits subject to corporation tax. Up to April 24, 2003 the allowance was based on 100% of the investment value and was deductible from taxable profit but was subject to tax at 19.8%. The allowance percentage was reduced to 40% after April 24, 2003 but the tax of 19.8% was cancelled after the same date.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

Investment Certificates obtained by the Company were as follows:

Subject	Certificate No:	Certificate Date:	Date of completion	Deductible Incentive
Refrigerator expansion investment	68906	19.08.2002	19.08.2005	15,736,745
Washing machine plant	76569	02.08.2004	02.04.2007	—
Air conditioning unit plant	76913	23.08.2004	23.08.2007	—
Cooker plant	77067	17.09.2004	17.09.2007	—
Refrigerator plant	77497	01.11.2004	01.11.2007	—
Air conditioning unit plant	69151	02.09.2002	02.09.2004	5,759,000
Total				**21,495,745**

The investment certificates listed above entitles the Company to the following incentives:

1. Exemption from corporation tax (investment allowance) of 40% of the investment in tangible fixed assets.
2. VAT postponement.
3. Exemption from customs duties for imported machinery and equipment (100%).
4. Exemption from duties and transactions taxes.

17. NET SALES

	2005	2004	2003
Total sales-UNITS			
Refrigerators	1,694,465	1,417,181	1,127,936
Air conditioning units	332,395	279,862	177,547
Washing machines	1,015,578	693,432	49,342
Cookers	72,441	—	—
Total sales-YTL			
Domestic sales	362,108,949	342,328,263	182,332,989
Export sales	447,134,545	388,365,416	266,026,574
Other sales	1,153,733	920,664	856,741
Gross sales	**810,397,227**	**731,614,343**	**449,216,304**
Less: Sales returns and discounts	**(324,496)**	**(350,984)**	**(262,927)**
Net sales	**810,072,731**	**731,263,359**	**448,953,377**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

18. COST OF SALES

	2005	2004	2003
Total production-UNITS			
Refrigerators	1,718,091	1,415,188	1,133,771
Air conditioning units	369,497	287,379	177,111
Washing machines	1,020,850	712,858	58,209
Cookers	76,982	—	—
Cost –YTL			
Direct material	649,958,070	532,317,618	325,688,142
Direct labor	36,594,376	31,303,632	18,809,657
General overhead	29,327,826	29,300,180	18,476,388
Depreciation and amortization	26,226,668	22,577,232	17,153,169
Cost of goods produced	**742,106,940**	**615,498,662**	**380,127,356**
Work in process			
Beginning inventory	3,810,744	2,911,509	1,553,983
Ending inventory	(5,610,385)	(3,810,744)	(2,911,509)
Changes in finished goods			
Beginning inventory	17,329,736	12,980,482	11,223,578
Ending inventory	(36,175,536)	(17,329,736)	(12,980,482)
Cost of goods sold	**721,461,499**	**610,250,173**	**377,012,926**
Purchases	77,579	75,445	1,845
Beginning merchandise inventory	105,899	1,014,365	186,922
Ending merchandise inventory	(78,592)	(77,579)	(75,445)
Cost of merchandise sold	**104,886**	**1,012,231**	**113,322**
Cost of sales	**721,566,385**	**611,262,404**	**377,126,248**

19. OTHER INCOME (EXPENSE), net

	2005	2004	2003
Rent income	71,242	1,701,866	2,401,831
Income from scrap sales	1,911,776	1,224,848	3,103,422
Other income	561,117	381,273	810,871
Grant received	3,151,898	745,993	211,624
Insurance refunds	216,123	25,540	17,367
Profit on sale of fixed assets	—	15,751	1,094
Other income	**5,912,156**	**4,095,271**	**6,546,209**
Loss on sale of fixed assets	(457,593)	(833)	(1,811)
Other expense	(86,881)	—	(2,830)
Idle capacity expenses	(7,170,433)	(145,149)	—
Provision for inventories	(403,054)		
Insurance losses	(13,426)	—	—
Other expense	**(8,131,387)**	**(145,982)**	**(4,641)**
	(2,219,231)	**3,949,289**	**6,541,568**

Grant received is related to reimbursements made by the Directorate for Technology Follow up and Evaluation ("TIDEB") 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 2005.

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

20. FINANCING INCOME (EXPENSE), net

	2005	2004	2003
Foreign exchange gain	16,202,333	7,601,749	9,467,807
Interest income from repurchase transactions	3,034,521	805,926	488,334
Unearned interest income on payables	6,614,011	3,171,439	1,465,799
Financing income	**25,850,865**	**11,579,114**	**11,421,940**
Foreign exchange loss	(9,887,201)	(11,842,476)	(5,743,839)
Interest expense	(5,776,897)	(3,887,546)	(4,718,144)
Letter of credit expenses	(2,847,332)	(2,267,573)	(1,070,840)
Bank borrowing commission expenses	(130,517)	(1,713,626)	(488,558)
Term difference expenses	(796,144)	(419,730)	(3,604,629)
Guarantee letter commission expenses	(72,090)	(79,537)	(139,184)
Other financing expenses	(216,318)	(60,269)	(29,641)
Finance lease interest expenses	(768,028)	(855,040)	(548,296)
Unearned interest expense on receivables	(6,828,320)	(7,339,077)	(2,740,111)
Financing expense	**(27,322,847)**	**(28,464,874)**	**(19,083,242)**
	(1,471,982)	**(16,885,760)**	**(7,661,302)**

21. RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Company's Board of Directors and their families. In the course of conducting its business, the Company conducted various business transactions with related parties on commercial terms.

The related parties of the Company for the years ended December 31 2005, 2004 and 2003 were as follows:

Related Party	Location	Field of Activity
Vestel Elektronik A.Ş.	Turkey	Production of television
Vetsel Dijital A.Ş.	Turkey	Production of electronic devices
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. (“Vestel Domestic Marketing”)	Turkey	Domestic marketing of household appliances
Vestel Komünikasyon A.Ş.	Turkey	Production of electronic devices
Vestel Holland BV	Holland	Overseas marketing of household appliances
Vestel France SAS	France	Overseas marketing of household appliances
Vestel Dış Ticaret A.Ş. (“Vestel Foreign Trade”)	Turkey	Overseas marketing of household appliances
Korteks Mensucat A.Ş.	Turkey	Textile production
Zorlu Linens Pazarlama A.Ş.	Turkey	Domestic marketing of textile goods
Zorlu Holding A.Ş.	Turkey	Management
Deniz Destek Oto Kiralama A.Ş.	Turkey	Car rental services
Zorlu Sigorta Aracılık Hizmetleri A.Ş.	Turkey	Insurance services
Zorpet Zorlu Petrol A.Ş.	Turkey	Petrol stations
Denizbank A.Ş.	Turkey	Banking
Vestelnet Elektronik İletişim A.Ş.	Turkey	Computer software
Deksar Multimedya A.Ş.	Turkey	Information Technology
Vestel U.K.	UK	Overseas marketing of household appliances
Vestel Benelux B.V.	Holland	Overseas marketing of household appliances
Collar Holding B.V.	Holland	Management
VESEG GmbH	Germany	Overseas marketing of household appliances
Vestel USA	USA	Overseas marketing of household appliances
Vestel Iberia Ltd.	Spain	Overseas marketing of household appliances
Cabot Communications Ltd.	UK	Computer software
Zorlu Doğalgaz A.Ş.	Turkey	Petrol stations
Vestel Italy SRL.	Italy	Overseas marketing of household appliances
Vestel Hong Kong	Hong Kong	Overseas marketing of household appliances
Deniz Yatırım Menkul Kıymetler A.Ş.	Turkey	Finance
Deniz Finansal Kiralama A.Ş.	Turkey	Finance
Deniz Faktoring A.Ş.	Turkey	Factoring
Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş.	Turkey	Energy
Zorlu Endüstriyel Enerji İnşaat Tic.A.Ş.	Turkey	Energy
Zorlu Air Havacılik A.Ş.	Turkey	Aviation
Zorlu Turizm İnşaat San. ve Tic. A.Ş.	Turkey	Tourism
Zorlu Ambalaj San. ve Tic. A.Ş.	Turkey	Packaging
Zorlu Grand Hotel İşletmeleri A.Ş.	Turkey	Tourism
Zorluteks Tekstil Tic. ve San. A.Ş.	Turkey	Textile
Zorlu Hometeks San. ve Tic. A.Ş.	Turkey	Textile
Zorlu Mensucat San. ve Tic. A.Ş.	Turkey	Textile
Zorlu Belair Mensucat San. ve Tic. A.Ş.	Turkey	Textile
Zorlu Ev Tekstil Ürünleri ve Tic. A.Ş.	Turkey	Textile
Zorlu Tekstil Ürünleri Pazarlama A.Ş.	Turkey	Marketing
Zorlu Dış Ticaret A.Ş.	Turkey	Overseas marketing of textile goods
Bel Air Industries S.A.	France	Textile
Korteks Tekstil (Africa) Ltd.	Africa	Textile
Zorlu Haskova (Bulgaria)	Bulgaria	Textile
Zorlu USA Inc.	USA	Marketing
Zorlu Financial Services	Ireland	Finance

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

Related Party	Location	Field of Activity
Bel Air Gardinen GmbH	Germany	Textile
Zorlu MFG Co.L.L.C.	USA	Textile
Zorlu UK LTD.	UK	Textile
Anadolu Kredi Kartı(AKK)	Turkey	Finance
Intertech	Turkey	Finance
Zorluteks D.O.O.	Macedonia	Marketing
Atlas-Tac Co.	Iran	Textile
Zorlu Türkmenistan	Turkmenistan	Textile
Deniz İnşaat Tekstil A.Ş.	Turkey	Textile

i) The most significant of these transactions carried out with related parties is given below:

As of December 31, 2005, cash and cash equivalents including demand deposits of YTL 232,287 and repurchase transactions of YTL 3,355,000 at Denizbank A.Ş.. The average interest rate was 14 % per year on new Turkish Lira and 2% per year on foreign currency, with an average of two days maturity (December 31, 2004: demand deposits of YTL 11,656 and repurchase transactions of YTL 2,579,728 with an average interest rate of 18.2 % per year on New Turkish Lira and 1.5% per year on foreign currency, with an average maturity of three days; December 31, 2003: demand deposits of YTL 120,879 and repurchase transactions of YTL 2,292,548 with an average interest rate of 25.5 % per year on new Turkish Lira, with an average maturity of one day).

The Company obtained interest-free loans amounting to YTL 15,129 from Denizbank A.Ş. (December 31, 2004: 27,493 YTL; December 31, 2003: Nil).

As of December 31, 2004, the Company borrowed YTL 7,513,111 from Denizbank A.Ş. with an average interest rate of 4.4% per year maturing in June 2006. These loans were repaid in full as of December 30, 2005.

December 31, 2005	Due from related parties		Due to related parties	
	Trade Receivables	Other Receivables	Trade Payables	Other Payables
Vestel Elektronik A.Ş.	—	—	3,987,355	—
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. (Vestel Domestic Marketing)	147,516,841	—	—	—
Vestel Komünikasyon A.Ş.	—	—	63,457	—
Vestel Holland BV	—	—	3,083,197	—
Vestel Dış Ticaret A.Ş. (Vestel Foreign Trade)	—	—	—	44,867,652
Korteks Mensucat A.Ş.	—	—	476	—
Zorlu Linens Pazarlama A.Ş.	—	—	67,629	—
Zorlu Holding A.Ş.	—	—	54,882	—
Vestel Dijital A.Ş.	—	—	26,755	—
Zorpet Zorlu Petrol Nakliyat A.Ş.	161,925	—	—	—
Deniz Destek Oto Kiralama A.Ş.	—	—	6,086	—
Other	—	—	985	—
	147,678,766	**—**	**7,290,822**	**44,867,652**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

December 31, 2004	Due from related parties		Due to related parties	
	Trade Receivables	Other Receivables	Trade Payables	Other Payables
Vestel Elektronik A.Ş.	—	—	1,899,825	—
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. (Vestel Domestic Marketing)	109,048,134	—	—	—
Vestel Komünikasyon A.Ş.	665,073	—	—	—
Vestel Holland BV	—	—	122,056	—
Vestel Dış Ticaret A.Ş. (Vestel Foreign Trade)	33,442,381	—	—	—
Vestel France SA	—	—	1,198	—
Korteks Mensucat A.Ş.	—	—	1,056	—
Zorlu Holding A.Ş.	—	—	276,305	—
Zorpet Zorlu Petrol Nakliyat A.Ş.	—	—	29,289	—
	143,155,588	**—**	**2,329,729**	**—**

December 31, 2003	Due from related parties		Due to related parties	
	Trade Receivables	Other Receivables	Trade Payables	Other Payables
Vestel Dayanıklı Tüketim Malları Pazarlama A.Ş. (Vestel Domestic Marketing)	23,943,017	—	—	—
Vestel Komünikasyon A.Ş.	42,762	—	22,544	—
Vestel Holland BV	—	—	10,771	—
Vestel Dış Ticaret A.Ş. (Vestel Foreign Trade)	—	—	—	21,882,260
Zorlu Holding A.Ş.	—	—	244,132	—
Zorpet Zorlu Petrol Nakliyat A.Ş.	—	—	24,076	—
	23,985,779	**—**	**301,523**	**21,882,260**

ii) Purchases from and sales to related parties:

2005	Sales	Purchases and other expenses
Vestel Elektronik A.Ş.	255,549	2,519,934
Vestel Dayanıklı Tüketim Malları A.Ş.	315,613,206	49,138
Vestel Komünikasyon A.Ş.	6,340	35,930
Zorpet Zorlu Petrol Nakliyat A.Ş.	704,465	—
Vestel Dış Ticaret A.Ş.	447,668,193	2,472,098
Vestel Digital A.Ş.	218	25,051
	764,247,971	**5,102,151**

2004	Sales	Purchases
Vestel Elektronik A.Ş.	230,055	931,140
Vestel Dayanıklı Tüketim Malları A.Ş.	307,970,990	—
Vestel Komünikasyon A.Ş.	690,806	—
Vestel Dış Ticaret A.Ş.	389,023,320	—
	697,915,171	**931,140**

2003	Sales	Purchases
Vestel Elektronik A.Ş.	93,516	1,338,666
Vestel Dayanıklı Tüketim Malları A.Ş.	157,524,559	—
Vestel Dış Ticaret A.Ş.	259,398,022	—
	417,016,097	**1,338,666**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

2005	Rent income	Financing income	Financing expense
Vestel Elektronik A.Ş.	19,016	396,096	356,457
Vestel Dayanıklı Tüketim Malları A.Ş.	52,277	2,631,980	—
Vestel Komünikasyon A.Ş.	—	70,611	—
Vestel Dış Ticaret A.Ş.	—	695,374	4,882,091
	71,293	**3,794,061**	**5,238,548**
2004			
Vestel Elektronik A.Ş.	1,142,591	—	—
Vestel Dayanıklı Tüketim Malları A.Ş.	464,499	151,803	152,880
Vestel Komünikasyon A.Ş.	94,776	98,999	17,986
Vestel Dış Ticaret A.Ş.	—	5,134,752	—
	1,701,866	**5,385,554**	**170,866**
2003			
Vestel Elektronik A.Ş.	1,232,169	96,869	96,865
Vestel Dayanıklı Tüketim Malları A.Ş.	958,415	—	225,402
Vestel Komünikasyon A.Ş.	211,247	—	—
Vestel Dış Ticaret A.Ş.	—	2,267,258	3,049,578
	2,401,831	**2,364,127**	**3,371,845**

As of December 31, 2005, interest expense paid and accrued for loans obtained from Denizbank A.Ş. amounted to YTL 1,560,418 (December 31, 2004: YTL 30,321, December 31, 2003: Nil).

As of December 31, 2005, repurchase transactions at Denizbank A.Ş. earned YTL 286,780 (December 31, 2004: YTL 594,582, December 31, 2003: YTL 317,282).

22. FOREIGN CURRENCY POSITION

2005	$	EUR	Total YTL balance
Cash and cash equivalents	34.996	5.059.444	8.078.825
Advances given	231.711	3.420.237	5.740.536
Total foreign currency assets	266.707	8.479.681	13.819.361
Current borrowings	1.336.243	11.621.316	20.241.810
Trade payables	24.501.908	68.373.233	141.419.168
Other payables	—	27.960.175	44.386.778
Total foreign currency current liabilities	25.838.151	107.954.724	206.047.756
Non current borrowings	9.773.838	40.480.382	77.377.142
Foreign currency position, net	**(35.345.282)**	**(139.955.425)**	**(269.605.537)**

2004	$	EUR	Total YTL balance
Cash and cash equivalents	519,786	958,642	2,560,149
Trade receivables	23,834,699	—	33,442,381
Total foreign currency assets	24,354,485	958,642	36,002,530
Current borrowings	6,982,438	8,018,427	25,110,828
Trade payables	56,690,199	23,350,101	124,136,429
Total foreign currency current liabilities	63,672,637	31,368,528	149,247,257
Non current borrowings	660,000	26,889,673	52,280,622
Foreign currency position, net	**(39,978,152)**	**(57,299,559)**	**(165,525,349)**

(All amounts in New Turkish Lira in equivalent purchasing power at December 31, 2005 pursuant to IAS 29 unless stated otherwise.)

2003	$	EUR	Total YTL balance
Cash and cash equivalents	68,156	7,646	129,103
Total foreign currency assets	68,156	7,646	129,103
Current borrowings	2,520,368	2,704,124	9,803,084
Trade payables	13,175,531	15,018,516	53,079,407
Total foreign currency current liabilities	15,695,899	17,722,640	62,882,491
Non current borrowings	590,743	26,769,275	56,577,987
Other payables	14,188,776	—	21,882,259
Foreign currency position, net	**(30,407,262)**	**(44,484,269)**	**(141,213,634)**

23. SUPPLEMENTARY CASH FLOW INFORMATION

Depreciation and Amortisation:

These are included in the following captions:

	2005	2004	2003
Cost of sales	26,226,668	22,577,232	17,153,169
Research and development expenses	1,173,586	1,057,669	695,533
Selling expenses	57,576	22,643	2,582
General and administrative expenses	346,058	438,175	143,439
	27,803,888	**24,095,719**	**17,994,723**

Adjustment to reconcile net income to net cash provided from operating activities:

Depreciation expenses	27,005,749	22,888,293	16,311,307
Amortization	798,139	1,207,426	1,683,416
Severance pay	268,135	873,409	327,768
Deferred tax	10,267,431	5,204,033	7,744,924
Accrued interest expense on borrowings	415,462	1,050,253	683,154
Allowance for doubtful receivables	1,201	(166)	1,367
Provision for taxes	795,805	12,394,856	—
Unearned interest expense on receivables	(2,036,878)	5,530,093	516,673
Provision for inventories	403,054	—	—
Unearned interest income on payables	(2,106,904)	(1,256,498)	757,640
	35,811,194	**47,891,699**	**28,026,249**

Changes in operating assets and liabilities:			
Trade receivables	(4,434,647)	(116,412,082)	(21,076,137)
Inventories	(16,833,349)	(36,409,358)	(16,499,759)
Other current assets	(4,529,365)	(1,079,026)	466,382
Trade payables	(3,676,764)	110,831,764	36,558,965
Other current liabilities	49,058,843	1,732,906	(19,402,974)
	19,584,718	**(41,335,796)**	**(19,953,523)**

24. SUBSEQUENT EVENTS

a. On January 3, 2006, the Company obtained various loans from Denizbank A.Ş. amounting to $11,550,000. Interest rate is 4.25% and the loan matures in stages between November 2006 and March 2007.

b. On February 10, 2006, Vestel Group obtained a syndicated letter of credit facility from a foreign financial institution amounted to $120,000,000. The maturity of this facility is one year. The aggreement is signed by Vestel Elektronik Sanayi ve Ticaret A.Ş., Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş., Vestel Dijital Üretim Sanayi A.Ş., Vestel Komünikasyon Sanayi ve Ticaret A.Ş. and Vestel Holland B.V.. These companies were borrowers and guarantors to this facility.

ANNEX A

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP

We maintain our books of accounts and prepare our statutory financial statements in New Turkish Lira in accordance with accounting principles required by the Turkish Commercial Code, Turkish tax legislation and the Capital Markets Law. Our annual financial statements included in this Offering Circular are presented in New Turkish Lira and have been prepared and presented in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board and the International Accounting Standards and Standing Interpretations Committee.

IFRS differs from U.S. GAAP in certain respects that may be material to the financial information included in this Offering Circular. In making an investment decision, investors must rely upon their own examination of us, the terms of the international offering and the financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and U.S. GAAP and how those differences might affect the financial information included in this Offering Circular.

We have summarised below certain significant differences between IFRS and U.S. GAAP relevant to our IFRS Financial Statements. However, this summary does not purport to provide a comprehensive analysis of such differences but rather a list of potential differences in accounting principles related to our IFRS Financial Statements. We have not quantified these differences, nor have we undertaken a reconciliation of our IFRS Financial Statements to U.S. GAAP. Had we undertaken any such quantification or reconciliation, other potentially significant accounting and disclosure differences may have come to our attention that are not identified below. Accordingly, we cannot assure you that the identified differences in the summary below represent all of the principal differences relating to our IFRS Financial Statements.

The regulatory bodies that promulgate IFRS and U.S. GAAP have significant ongoing projects that could affect a future comparison such as this. We have not attempted to identify future differences between IFRS and U.S. GAAP resulting from prescribed changes in accounting standards. Neither have we attempted to identify all future differences between IFRS and U.S. GAAP that may affect our IFRS Financial Statements as a result of transactions or events that may occur in the future.

General

U.S. GAAP is detailed and rule-based, giving very specific rules on particular topics, whereas IFRS normally address the principles that underlie an accounting issue. U.S. GAAP is more prescriptive with respect to disclosure requirements and the detail of disclosures with respect to substantially similar accounting policies may vary between U.S. GAAP and IFRS.

Revaluation and Impairment of Property

Under IFRS, there are two possible approaches to the revaluation of fixed assets. The benchmark treatment requires an asset to be carried at cost less its accumulated depreciation and impairment. Under the alternative treatment, the revaluation of fixed assets at fair value is permitted. An increase in the carrying amount of an asset as a result of a revaluation must be credited directly to equity under the revaluation surplus, unless such credit reverses a revaluation decrease for the same asset that was previously recognised as an expense. In such a case, the increase must be recognised in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense. An entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount.

Under U.S. GAAP, revaluations of fixed assets are not permitted, while recognition of an impairment is required if certain conditions are met. An impairment will be indicated if the undiscounted expected future cash flows from an asset are determined to be lower than the carrying value of such asset. Once it is determined that a fixed asset is impaired, the amount of the impairment is calculated as the difference between the carrying value of the fixed asset and the expected future cash flows from that asset on a discounted basis. Furthermore, impairments under U.S. GAAP cannot be reversed.

Business Combinations

A business combination involves the bringing together of separate entities into one economic entity. In practice, there are three types of business combination: acquisitions (one of the combining entities obtains control over the other, enabling an acquirer to be identified); a uniting of interests or pooling (where it is not possible to identify an acquirer and the shareholders of the combining entities join in substantially equal arrangements to share control); and a group reorganisation (transactions among entities which operate under common control).

Under IFRS, business combinations are almost always accounted for as acquisitions and they require use of the purchase method of accounting to portray the financial effect of an acquisition. IFRS severely restricts the circumstances in which transactions can be recognised as a uniting of interests. Moreover, specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control.

U.S. GAAP requires the use of the purchase method of accounting for all business combinations.

Under IAS 22 there is less prescriptive guidance with respect to recognition of intangible assets other than goodwill than is contained in U.S. GAAP (FAS 141).

IAS 22 allows alternative measurement of minority interest at historical or fair value.

U.S. GAAP provides more descriptive guidance with respect to identification of whether an acquisition represents a business which may result in identification of a goodwill intangible asset or whether acquired activities are less than a business and therefore would not result in recognition of goodwill.

Amortisation of Goodwill (Business Combination)

Under IFRS, all acquired identifiable intangibles and goodwill are capitalised and amortised. Negative goodwill is recognised in the income statements, first to match any identified expected costs, and then over the lives of the acquired depreciable assets.

Under U.S. GAAP, positive goodwill and certain identifiable intangibles (with indefinite lives) are capitalised, but not amortised. Negative goodwill is deducted proportionally from the purchase price allocated to certain acquired assets, but the carrying amounts of these assets cannot be reduced below zero. Any remaining negative goodwill is recognised as an extraordinary gain. Recognition is deferred if contingent consideration exists.

Under IFRS, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. In certain limited cases, goodwill may be demonstrated to have a useful life in excess of 20 years. If the useful life does exceed 20 years, amortisation is still mandatory and the reasons for rebutting the 20-year maximum useful life presumption must be disclosed.

Under U.S. GAAP, following the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortised. Existing goodwill is required to be tested annually for impairment.

Under IFRS, in determining the cost of acquisition, the fair value of equity securities issued by the acquirer is determined at the date control is obtained.

Under U.S. GAAP, in determining the cost of acquisition, the fair value of listed equity securities issued by the acquirer generally is determined by reference to their market price for a reasonable period before and after the terms of the acquisition are agreed to and announced.

Under IFRS, contingent consideration is recognised when it is probable and reliably measurable. Under U.S. GAAP, contingent consideration is recognised when the contingency is resolved and the consideration becomes payable/issuable.

Consolidation and Investment in Subsidiaries

Under IFRS, subsidiaries must be excluded from consolidation if there are severe long-term restrictions on the exercise of the parent's rights to obtain cash flows or if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale in the near future. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. Under IFRS, entities that are excluded from consolidation may be classified as either available-for-sale or held for trading financial assets and measured at fair value.

Under U.S. GAAP, all investments in which a parent company has a controlling financial interest represented by the direct or indirect ownership of a majority voting interest (more than 50%) are required to be consolidated, except those in which control of the entity is not deemed to rest with the majority owner as a result of limitations in the rights of shareholders incorporated in the formation of the entity, or as a result of external actions that remove the control from the majority owner such as bankruptcy or nationalisation. Subsidiaries excluded from consolidation will be accounted for under the cost or equity method depending on the nature of equity interest and external restrictions.

Investments in Debt and Equity Securities

Upon acquisition or origination of a financial asset, IFRS requires that a company designate and subsequently account for the asset in one of the following four classifications:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; or
- available-for-sale financial assets.

IFRS allows that non-derivative financial instruments and non-securitised financial assets, including loans, may be designated as a financial asset at fair value, or as available-for-sale financial asset, with fair value changes reported through equity. After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables, not initially designated as financial assets at fair value or as available-for-sale financial assets, which shall be measured at amortised cost using the effective interest method;
- held-to-maturity investments, which shall be measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

An entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

U.S. GAAP requires that all derivative transactions be accounted for at fair value and provides for elective fair value accounting for select debt and equity investment securities. With respect to investment securities that have readily determinable fair values, and for all investments in debt securities, U.S. GAAP requires that upon acquisition those investments are to be classified in three categories and accounted for as follows:

- debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortised cost.
- debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealised gains and losses included in earnings.
- debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealised gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

In limited circumstances an entity may transfer securities into or out of a trading category.

Under IFRS, a held-to-maturity asset or an originated loan or receivable is impaired if it is probable that the enterprise will not be able to collect all amounts due (principal and interest) according to the contractual terms. The impairment loss recognised in the income statement is the difference between the carrying amount and the recoverable amount, which is calculated by discounting the expected future cash flows at the original effective interest rate (i.e. the rate that is used to accrete interest). If the recoverable amount later increases due to an event subsequent to the write-down, then the impairment is reversed, but the reversal is limited to an amount that does not state the asset at more than what its amortised original cost would have been in the absence of an impairment.

Under U.S. GAAP, for individual securities classified as either available-for-sale or held-to-maturity, an enterprise shall determine whether a decline in fair value below the amortised cost basis is other than temporary.

For example, if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realised loss). The new cost basis shall not be changed for subsequent recoveries in fair value. Subsequent increases in the fair value of available-for-sale securities shall be included in the separate component of equity. Subsequent decreases in fair value, if not an other-than-temporary impairment, also shall be included in the separate component of equity.

Hedging Contracts and Derivatives

IFRS allows for initial designation of financial assets and liabilities as fair value instruments and allows companies to designate economically matched assets and liabilities as fair value instruments with current income statement recognition of changes in fair value. IFRS also allows for special hedge accounting for the fair value changes of recognised assets, liabilities, unrecognised firm commitments, highly probable forecasted transactions and net investments in foreign operations. Where such positions are appropriately identified along with derivative instruments in qualifying hedge relationships, IFRS requires that the current period impact on earnings of the change in fair value of the derivative instrument be offset by adjustment to the carrying value of recognised hedged assets or liabilities, or with respect to net investments and unrecognised hedged positions as an adjustment within the equity accounts. Where specified conditions are met, IFRS permits fair value hedge accounting to be used for a portfolio hedge of interest rate risk where the hedged item to be designated is an amount of a currency rather than as individual assets (or liabilities).

U.S. GAAP does not allow for designation of non-derivative or non-securitised financial assets as fair value instruments, nor does it allow for designation of financial liabilities as fair value instruments. U.S. GAAP allows for special hedge accounting for the fair value changes of recognised assets, liabilities, unrecognised firm commitments, highly probable forecasted transactions and net investments in foreign operations. Similar to IFRS, where such positions are appropriately identified along with derivative instruments in qualifying hedge relationships, U.S. GAAP requires that the current period impact on earnings of the change in fair value of the derivative instrument be offset by adjustment to the carrying value of recognised hedged assets or liabilities, or with respect to net investments and unrecognised hedged positions as an adjustment within the equity accounts. U.S. GAAP does not, however, allow for fair value hedge accounting to be used for a portfolio of interest rate risk but requires that hedge designation and accounting be applied at the individual transaction level.

Foreign Currency Transactions

Under IFRS, at the balance sheet date, foreign currency monetary balances are reported using the closing exchange rate. All differences that arise are recorded in the income statement.

Under U.S. GAAP, all receivables and payables outstanding at the balance sheet date are to be translated at the year-end exchange rate and all differences that arise are recorded in the income statement as unrealised foreign exchange gain/(loss).

Under IFRS, when financial statements are translated into a presentation currency other than the measurement currency, equity (excluding the current year's profit or loss) is retranslated at the closing rate at each balance sheet date. Under U.S. GAAP, when financial statements are translated into a reporting currency other than the functional currency, equity is not retranslated at the closing rate at each balance sheet date.

Under IFRS, fair value adjustments and goodwill arising on the acquisition of a foreign entity need not be retranslated at the closing rate at each balance sheet date. Under U.S. GAAP, fair value adjustments and goodwill arising on the acquisition of a foreign entity must be retranslated at the closing rate at each balance sheet date.

Under IFRS, fair value changes of financial assets designated as available-for-sale which are attributable to changes in currency exchange rates are reported in current earnings. Under U.S. GAAP, the fair value changes in investment securities classified as available-for-sale are reported as a component of accumulated other comprehensive income within the shareholder's equity accounts.

Provision for Risks and Charges

Under IFRS, a provision should only be made when (i) an enterprise has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable (more likely than not) that a future outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate of the amount of the obligation can be made. The entity must discount the anticipated cash flows expected to be required to settle the obligation if the impact is material.

The treatment of loss contingencies under U.S. GAAP is similar to IFRS. However, if a range of estimates for the obligation is determined and no amount in the range is more likely than any other amount in the range, the "minimum" (rather than the mid-point) amount must be used to measure the liability. The entity must discount the anticipated cash flows expected to he required to settle the obligation if the impact is material.

Sale and Leaseback

Under IFRS, capital gains from property sold are recognised at the time of sale when an operating lease is signed with the new owner under certain conditions. Under U.S. GAAP, any gain realised is deferred over the duration of the lease contract.

Fixed Assets

Under IFRS, a company has the alternative to account for certain fixed assets at amortised historical cost or re-value to fair value. Useful lives and methods of depreciation are reviewed periodically.

Under U.S. GAAP, historical cost is the only alternative, and thus fixed asset re-valuations would not be allowed. A periodic review of the method of depreciation is not required.

Deferred Taxes

IFRS measures deferred taxes using the tax rate enacted, or substantially enacted, where U.S. GAAP measures deferred taxes only on the enacted tax rate.

Under IFRS, deferred taxes are calculated on the temporary differences that arise on the measurement of assets and liabilities of a hyperinflationary country into the reporting currency. U.S. GAAP prohibits the recognition of such deferred tax liabilities or assets.

Under IFRS, deferred tax assets are recognised when recovery is probable. Under U.S. GAAP, deferred tax assets are recognised (i.e. no valuation allowance) to the extent that they are more likely than not to be recovered.

Under IFRS, deferred tax in respect of temporary differences on subsidiaries, associates and joint ventures is not recognised in some circumstances. Under U.S. GAAP, such differences on equity method investments, other than certain foreign corporate joint ventures, is recognised in full.

Under IFRS, deferred tax is classified as non-current on the balance sheet. Under U.S. GAAP, deferred tax is split into current and non-current components on the balance sheet.

Under U.S. GAAP, an entity would look to currently enacted tax laws in providing for deferred taxes. In the case of available for sale securities if the current law allowed an exemption from income taxes that expired in the current year and the entity did not expect to sell such securities in the current year, deferred taxes would be provided on related unrealised gains based on the enacted rates for periods in which the temporary differences were expected to reverse.

Under IFRS, current tax expense is based on enacted or substantively enacted tax rates while under U.S. GAAP, current tax expense is based on enacted tax rates.

Earnings Per Share ("EPS")

Under IFRS, there is no requirement to disclose separate EPS data for continuing operations, discontinuing operations, extraordinary items and the cumulative effect of accounting changes.

Under U.S. GAAP, EPS data for continuing operations, discontinuing operations, extraordinary items and the cumulative effect of accounting changes are disclosed, in addition to the disclosure of basic and diluted earnings per share based on net income. There is more detailed guidance than under IFRS.

[THIS PAGE INTENTIONALLY LEFT BLANK]

OUR HEAD OFFICE

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.
Zorlu Plaza
Avcılar
İstanbul, Turkey

LEGAL ADVISORS TO US AND THE SELLING SHAREHOLDER

As to U.S. Law

Chadbourne & Parke LLP
30 Rockefeller Plaza
New York, New York 10112
United States

As to English Law

Chadbourne & Parke
(a multinational partnership)
Regis House
45 King William Street
London EC4R 9AN
England

As to Turkish Law

Pekin & Bayar Ortak Avukat Bürosu
Ahular Sokak, No. 15
Etiler 34337
İstanbul, Turkey

LEGAL ADVISORS TO THE MANAGER

As to U.S. Law

White & Case LLP
1155 Avenue of the Americas
New York, New York 10036
United States

As to English Law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
England

As to Turkish Law

Derman Ortak Avukat Bürosu
Maya Akar Center
Büyükdere Caddesi No. 100, Kat 17
Esentepe 34394
İstanbul, Turkey

AUDITORS

Arkan & Ergin Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş., member firm of Grant Thornton International
Yıldız Posta Caddesi
Dedeman İşhani
No. 48 Kat 5-6
İstanbul,80700
Turkey

Printed by RR Donnelley, 79093