

ARÇELİK ANONİM ŞİRKETİ

**CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
AT 31 MARCH 2004 TOGETHER WITH AUDITOR'S REVIEW REPORT**

AUDITOR'S REVIEW REPORT

To the Board of Directors of
Arçelik Anonim Şirketi A.Ş.

1. We have reviewed the accompanying consolidated condensed balance sheet of Arçelik Anonim Şirketi A.Ş. ("the Company") at 31 March 2004 and the related consolidated condensed statements of income and of cash flows for the three month period then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 31 March 2004. These consolidated condensed interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated condensed interim financial statements based on our review.
2. We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance about whether the consolidated condensed interim financial statements are free of material misstatement. A review is limited primarily to inquires of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
3. As disclosed in Note 2 the Company prepared the consolidated condensed interim financial statements in accordance with International Financial Reporting Standards ("IFRS") at 31 March 2004 for the first time. Thus, the consolidated condensed statement of income, the statements of changes in shareholders' equity, the statement of cash flows and related notes for the three month period ended 31 March 2004 were not presented on a comparative basis with the financial statements for the three month period ended 31 March 2003 as required by International Accounting Standards 34 (IAS 34 - "Interim Financial Reporting").
4. Based on our review, except that the consolidated condensed interim financial statements are not presented on a comparative basis as explained in the paragraph three, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements have not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM

Istanbul, 8 June 2004

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED BALANCE SHEETS

AT 31 MARCH 2004 AND 31 DECEMBER 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

	Notes	31 March 2004	31 December 2003
ASSETS			
Current assets:			
Cash and cash equivalents	3	315,240	322,983
Investment securities			
- Held-to-maturity	4.a	91,820	91
Trade receivables	5	893,004	1,010,738
Due from related parties	6	87,020	88,029
Inventories		436,901	443,872
Other current assets		39,386	31,414
Total current assets		1,863,371	1,897,127
Non-current assets:			
Investment securities			
- Available-for-sale	4.b	114,555	114,537
- Held-to-maturity	4.b	15,993	18,587
Investments in associated companies	7	94,813	96,579
Property, plant and equipment	8	556,030	584,807
Intangible assets	9	23,865	27,623
Other non-current assets		3,364	3,938
Total non-current assets		808,620	846,071
Total assets		2,671,991	2,743,198

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED BALANCE SHEETS

AT 31 MARCH 2004 AND 31 DECEMBER 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

	Notes	31 March 2004	31 December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank borrowings	10	20,112	18,807
Current maturities of long-term bank borrowings	10	64,081	64,583
Trade payables		249,910	289,027
Due to related parties	6	350,153	347,824
Taxes on income	11	25,430	22,845
Other current liabilities	12	288,219	290,159
Total current liabilities		997,905	1,033,245
Non-current liabilities			
Long-term bank borrowings	10	231,085	278,085
Provision for employment termination benefits	13	34,151	36,654
Deferred taxes	11	25,559	25,611
Other non-current liabilities		40,309	44,711
Total non-current liabilities		331,104	385,061
Total liabilities		1,329,009	1,418,306
Minority interest		16,630	19,055
Shareholders' equity:			
- Share capital		399,960	399,960
- Adjustment to share capital		412,821	412,821
Total paid-in share capital		812,781	812,781
Share premium		250,073	250,073
Translation reserve		(22,702)	(9,225)
Retained earnings	14	286,200	252,208
Total shareholders' equity		1,326,352	1,305,837
Total liabilities and shareholders' equity		2,671,991	2,743,198
Commitments and contingent liabilities	17		

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

	Notes	31 March 2004
Net sales	6, 20	997,247
Cost of sales	6	(744,488)
Gross profit		252,759
Research and development expenses		(8,947)
Sales and distribution expenses		(86,596)
General and administrative expenses		(71,797)
Other operating income – net		3,110
Operating profit		88,529
Financial (expenses)/income - net	15	4,837
Loss from investments in associated companies	6	(1,765)
Loss on net monetary position		(30,614)
Income before tax and minority interest		60,987
Taxation on income	11	(26,249)
Income before minority interest		34,738
Minority interest		(746)
Net income		33,992
Earnings per share in full TL		
- ordinary shares		89
- founders' and usufruct shares		89

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

	Notes	31 March 2004
Operating activities:		
Net income for the period		33,992
Adjustments for:		
Cash used in operations	19	(4,067)
Depreciation and amortisation	8,9	31,281
Amortization of goodwill	9	1,906
Interest income	15	(12,586)
Interest expense	15	3,632
Net loss on sale of property, plant and equipment, and available-for-sale investments		(287)
Minority interest		745
Taxes paid		(11,124)
Net cash provided by operating activities		43,492
Investing activities:		
Proceeds from the sale of property, plant and equipment, and available-for-sale investments		1,031
Purchase of property, plant and equipment and intangible assets	8,9	(1,398)
Change in investment securities	6	4,342
Net cash used in investing activities		3,975
Financing activities:		
Interest received		9,810
Interest paid		(3,501)
Repayment of bank borrowings-net		(46,328)
Net cash used in financing activities		(40,019)
Effect of exchange rate changes		(15,191)
Net decrease in cash and cash equivalents		(7,743)
Cash and cash equivalents at the beginning of the period		322,983
Cash and cash equivalents at the end of the period		315,240

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

	Share capital	Adjustment to share capital	Total paid-in share capital	Share premium	Translation reserve	Retained earnings		Shareholders' equity	
						General and legal reserves	Unappropriated profit/(loss)		
Balance at 1 January 2004	399,960	412,821	812,781	250,073	(9,225)	90,457	161,751	252,208	1,305,837
Transfers	-	-	-	-	-	161,751	(161,751)	-	-
Currency translation differences	-	-	-	-	(13,477)	-	-	-	(13,477)
Net income for the period	-	-	-	-	-	-	33,992	33,992	33,992
Balance at 31 March 2004	399,960	412,821	812,781	250,073	(22,702)	252,208	33,992	286,200	1,326,352

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

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Arçelik Anonim Şirketi (a Turkish corporation - “Arçelik” or “the Company”) and its subsidiaries and associates (collectively, “the Group”) undertake all commercial and industrial activities in respect of the production, sales, exportation and importation of electrical household appliances and their main and supplementary materials. The Group operates nine manufacturing plants in Turkey, Germany and Romania. The Company is a member of the Koç Group of companies, which holds a majority stake in the Company. The Company’s head office is located at Tuzla, 34950 Istanbul, Turkey.

The Company has enhanced its presence in international markets through organic growth and company acquisitions. In 2002, the Company acquired an interest in-Blomberg Werke GmbH and Blomberg Vertriebsgesellschaft mbH in Germany, Elektra Bregenz AG and Elektra Bregenz Produktion GmbH in Austria and SC Arctic SA in Romania.

The Company is registered with the Capital Markets Board (“CMB”) and its shares have been quoted on the Istanbul Stock Exchange since 1986. At 31 March 2004 the shares quoted on the Istanbul Stock Exchange are approximately 20.4% of the total shares. At 31 March 2004, the principal shareholders and their respective shareholdings in the Company are as follows:

	%
Koç Holding A.Ş.	39.14
Teknosan A.Ş.	14.68
Koç Family	10.75
Burla Makina Ticaret ve Yatırım A.Ş.	7.66
Koç Holding Emekli ve Yardım Sandığı Vakfı	4.50
Other	23.27
	100.00

The Group conducts a significant portion of its business with corporations that are affiliates of Koç Holding A.Ş. (“Koç Holding”).

Starting from January 2001, the Company obtained the right to use the Beko brand from Beko Ticaret A.Ş. and to undertake the marketing, sales and distribution activities of Beko branded products for 20 years. The rights to use the Beko brand will be transferred to the Company at the termination of the contract.

The Company performs export sales directly and through Ram Dış Ticaret A.Ş. (“Ram Dış Ticaret”).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The consolidated condensed financial statements are prepared in accordance with IAS 34 - ("Interim Financial Reporting"). The Company and its Turkish Subsidiaries and Associates maintain their books of account and prepare their statutory financial statements in Turkish lira based on the Turkish Commercial Code, tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign Subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements are based on the statutory records which are maintained under the historical cost convention (except for the revaluation of property, plant and equipment), with adjustments and reclassifications including restatement for changes in the general purchasing power of the Turkish lira, for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies used in the preparation of these consolidated condensed interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2003. Accordingly, these consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2003.

Since the Company has prepared its consolidated condensed interim financial statements at 31 March 2004 for the first time, the consolidated condensed statement of income, the statement of changes in shareholders' equity, the statement of cash flows and related notes for the 3 month period ended 31 March 2004 were not presented on a comparative basis with the financial statements for the 3 month period ended 31 March 2003.

The Turkish nationwide wholesale price index ("WPI") and conversion factors used to restate these consolidated condensed financial statements at 31 March 2004 in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies") are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>	<u>3-years cumulative %</u>
31 March 2004	7,862.2	1.000	159.1%
31 December 2003	7,382.1	1.065	181.1 %

As discussed in Note 11, the Company calculated tax provision in the consolidated condensed financial statements at 31 March 2004 in accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure, Income Tax and Corporate Tax Law" over inflation adjusted figures since the conditions for the application of inflation accounting are most likely to occur.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 March 2004	31 December 2003
Cash in hand	97	120
Cash at banks		
- demand deposits	76,080	76,093
- time deposits	218,116	232,564
Liquid funds	20,297	11,092
Other	650	3,114
	315,240	322,983

The maturity period of time deposits is up to one year. The interest rate for the TL time deposits ranges from 21-23% (31 December 2003:25-26%). The interest rates range from 1.7-4.8% for foreign currency time deposits and liquid funds (31 December 2003:1.9-4.25%).

NOTE 4 - INVESTMENT SECURITIES

(a) Current investment securities:

All short-term investment securities are held-to-maturity and the breakdown of such investments at 31 March 2004 and 31 December 2003 are as follows:

	31 March 2004	31 December 2003
Government bonds	91,820	91
Held-to-maturity investments	91,820	91

The analysis of the cost of short-term investment securities by maturities and applicable interest rates at 31 March 2004 and 31 December 2003 are as follows:

	31 March 2004	31 December 2003
Up to 90 days	-	91
90-180 days	89,014	-
Accrued interest income	2,806	-
	91,820	91

Interest rate for the Turkish lira marketable securities held at 31 March 2004 is 22.60-24.15 % (31 December 2003: 23.9%).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 4 – INVESTMENT SECURITIES (Continued)

(b) Non-current investment securities:

The long-term investments at 31 March 2004 are as follows:

	31 March 2004	31 December 2003
Available-for-sale investments	114,555	114,537
Held-to-maturity investments	15,993	18,587
	130,548	133,124

i. Available-for-sale investments:

	31 March 2004	31 December 2003
Investments in subsidiaries excluded from scope of consolidation	820	802
Investments in associates carried at cost	-	-
Other available-for-sale investments	113,735	113,735
	114,555	114,537

Investments in subsidiaries excluded from scope of consolidation:

	31 March 2004		31 December 2003	
	%	TL billion	%	TL billion
Archin Limited	99.99	20	99.99	2
Arcelitalia	100.00	179	100.00	179
Arus	100.00	621	100.00	621
		820		802

Investments in associates carried at cost:

	31 March 2004		31 December 2003	
	%	TL billion	%	TL billion
Basic International Investment Ltd.	20.00	-	20.00	-
Arctic Service	100.00	-	100.00	-
		-		-

The available-for-sale investments in which the Group has attributable interests of 20% or more, which are either immaterial or where a significant influence is not exercised by Arçelik, are carried at cost less impairment and restated to equivalent purchasing power at 31 March 2004.

Impairment loss provision for Basic International Investment Ltd. and Arctic Service carried at cost amount to TL 6,622 billion at 31 March 2004 (31 December 2003: TL 6,622 billion).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Other available-for-sale investments:

	31 March 2004		31 December 2003	
	%	TL billion	%	TL billion
<u>Equity securities</u>				
Koç Finansal Hizmetler A.Ş.	6.96	93,121	6.96	93,121
Entek Elektrik A.Ş.	7.2	20,073	7.2	20,073
Idea A.Ş.	2.67	361	2.67	361
Tat Konserve Sanayii A.Ş.	0.34	178	0.34	178
Çerkezköy Enerji A.Ş.	2.16	1	2.16	1
ArticPro SRL	0.99	1	0.99	1
Pavcom SA	1.2	-	1.2	-
Banca Internationala a Religiflor	0.8	-	0.8	-
Srcsb SA	8.3	-	8.3	-
Ubicom Inc.	0.54	-	0.54	-
Anetr	12.5	-	12.5	-
		113,735		113,735

Impairment loss provision for other available-for-sale investments, which arose from remeasuring the carrying amount of the available-for-sale investment to its fair value, amount to TL 64,942 billion at 31 March 2004 (31 December 2003: TL 64,942 billion).

Available-for-sale investment in Entek Elektrik A.Ş. of TL 4,746 billion has increased to TL 20,073 billion as a result of a fair value adjustment.

ii. **Held-to-maturity investments:**

	31 March 2004	31 December 2003
Eurobonds	15,993	18,587
	15,993	18,587

Interest rate for Eurobonds held at 31 March 2004 is 9.88% (31 December 2003: 9.88%).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 5 - TRADE RECEIVABLES

	31 March 2004	31 December 2003
Trade receivables	611,425	506,951
Notes receivables	281,339	434,033
Cheques receivables	88,190	162,783
Other	382	39
	981,336	1,103,806
Provision for impairment	(22,318)	(25,536)
Unearned credit income	(66,014)	(67,532)
Trade receivables, net	893,004	1,010,738

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 31 March 2004 and a summary of major transactions with related parties during the year are as follows:

(i) Balances with related parties

(a) Due from related parties

	31 March 2004	31 December 2003
Ram Dış Ticaret	52,747	55,887
Türk Demir Döküm Fabrikaları A.Ş. ("Türk Demir Döküm")	27,347	28,816
Beko Elektronik	1,762	2,002
Other	5,164	1,324
	87,020	88,029

(b) Due to related parties

	31 March 2004	31 December 2003
Beko Elektronik	148,052	151,561
Ram Dış Ticaret	118,792	120,932
Arçelik-LG	23,661	19,096
Kofisa Trading Company SA	20,428	9,032
Türk Demir Döküm	18,637	6,954
Beko Ticaret A.Ş.	5,196	11,665
Other	20,823	30,998
	355,589	350,238
Less: Unearned credit finance charged to related parties	(5,436)	(2,414)
	350,153	347,824

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

(c) Other

At 31 March 2004, the bank balance includes time deposits and demand deposits at Koçbank amounting to TL 21,047 billion (31 December 2003: TL 116,051 billion) and TL 23,463 billion (31 December 2003: TL 963 billion), respectively. There is no balance of short-term borrowings including loans at Koçbank at 31 March 2004 (31 December 2003: TL 110 billion).

(ii) Transactions with related parties

(a) Sales

	31 March 2004
Ram Dış Ticaret	34,635
Bursa Gaz ve Ticaret A.Ş.	9,953
Other	3,699
	<hr/>
	48,287

(b) Purchases of materials and services

	31 March 2004
Beko Elektronik	152,194
Ram Dış Ticaret	123,351
Kofisa Trading Company S.A.	18,851
Arçelik-LG	18,318
Türk Demir Döküm	10,519
Beko Ticaret A.Ş.	6,011
İzocam Ticaret ve Sanayi A.Ş.	2,824
Other	30,366
	<hr/>
	362,434
	<hr/>
Less: Credit finance charges to related parties	(5,203)
	<hr/>
	357,231

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 6 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

(c) Income/(loss) from investment in associated companies, net

	31 March 2004
Beko Elektronik	3,119
Arçelik-LG	56
Tanı Pazarlama	(769)
Ram Dış Ticaret	(2,020)
Koç Tüketici Finans	(2,151)
	(1,765)

(d) Other transactions with related parties

	31 March 2004
Interest income	3,203
Dividends paid	1,195

NOTE 7 - INVESTMENTS IN ASSOCIATED COMPANIES

At 31 March 2004, the respective shares of the Company and its Subsidiaries in investments in associated companies were as follows:

	31 March 2004		31 December 2003	
	%	TL billion	%	TL billion
Beko Elektronik	22.36	53,171	22.36	50,052
Arçelik-LG	45.00	28,892	45.00	28,837
Koç Tüketici Finans	39.50	7,965	39.50	10,116
Tanı Pazarlama	32.00	3,335	32.00	4,105
Ram Dış Ticaret	26.75	1,450	26.75	3,469
		94,813		96,579

The Company and its Subsidiaries do not exert control over the financial and operating policy decisions of the above companies.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

	Balances at 1 January 2004	Additions	Disposals	Transfers	Foreign currency translation difference	Balances at 31 March 2004
Cost						
Land	15,488	19	-	-	(699)	14,808
Land improvement	15,053	7	-	-	(22)	15,038
Buildings	179,120	185	(182)	1,606	(5,719)	175,010
Machinery and equipment	1,459,285	7,398	(7,591)	3,496	(19,043)	1,443,545
Motor vehicles, furniture and fixtures	128,778	428	(24)	-	(1,670)	127,512
Leased assets	70,346	48	-	-	(3,874)	66,520
	1,868,070	8,085	(7,797)	5,102	(31,027)	1,842,433
Accumulated Depreciation						
Land improvement	(5,549)	(165)	-	-	-	(5,714)
Buildings	(76,900)	(1,595)	176	-	2,430	(75,889)
Machinery and equipment	(1,085,041)	(26,827)	6,870	-	13,769	(1,091,229)
Motor vehicles, furniture and fixtures	(99,667)	(2,211)	6	-	1,287	(100,585)
Leased assets	(23,098)	(486)	-	-	1,750	(21,834)
	(1,290,255)	(31,284)	7,052	-	19,236	(1,295,251)
Construction in progress	6,785	6,633	(67)	(5,102)	(469)	7,780
Advances given	207	861	-	-	-	1,068
Net book value	584,807					556,030

At 31 March 2004 there are mortgages amounting to TL 54,290 billion (31 December 2003: TL 5,777 billion) on property, plant and equipment.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 9 - INTANGIBLE ASSETS

	Balances at 1 January 2004	Additions	Disposals	Transfers	Foreign currency translation difference	Balances at 31 March 2004
Cost	53,560	142	-	-	(2,003)	51,699
Accumulated amortization	(36,305)	(1,211)	-	-	1,088	(36,428)
Net book value	17,255					15,271
Goodwill (Note 18)	91,267	-	-	-	-	91,267
Accumulated amortization	(37,348)	(2,000)	-	-	(1,079)	(40,427)
Net book value	53,919					50,840
Negative goodwill (Note 18)	(51,937)	-	-	-	-	(51,937)
Accumulated amortization	8,386	1,305	-	-	-	9,691
Net book value	(43,551)					(42,246)
Total net book value	27,623					23,865

NOTE 10 - BORROWINGS

(a) Short-term bank borrowings

	31 March 2004	31 December 2003
Open credits	-	4,490
Foreign currency loans	13,788	7,435
Eximbank loans	6,324	6,882
	20,112	18,807

Interest rates for short-term foreign currency loans for the period ended 31 March 2004 range from 3.8-5 % (31 December 2003: 3.6-4.98%).

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 10 - BORROWINGS (Continued)

(b) Long-term bank borrowings

	31 March 2004			31 December 2003		
	Interest rate per annum (%)	Original foreign currency	Balance outstanding TL billion	Interest rate per annum (%)	Original foreign currency	Balance outstanding TL billion
Foreign currency borrowings:						
USD	LIBOR + 0-3.25	50,243,573	66,433	LIBOR + 0-3.25	54,844,547	82,217
GBP	LIBOR + 2.75 - 3.75	28,000,000	68,456	LIBOR + 2.75-3.75	28,000,000	74,938
EURO	Euro Libor 2.60 – 3.25	98,928,570	160,255	Euro Libor 2.60 – 3.25	98,928,570	185,491
TL borrowings	15		22	15		22
			295,166			342,668
Less: Current maturities			(64,081)			(64,583)
			231,085			278,085

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 10 - BORROWINGS (Continued)

The Company has syndicated loans from IFC in the amount of USD 31,785,713, EUR 48,928,571, GBP 21,000,000 and from Netherlands Development Finance Company ("FMO") in the amount of EUR 20,000,000 and USD 3,000,000 as at 31 March 2004. Loans obtained for general corporate purposes consist of the purchase of equipment and other fixed assets for production and modernization purposes, research and development and new product development, as well as acquisitions and increased working capital requirements.

The redemption schedule of the long-term bank borrowings is as follows:

	31 March 2004	31 December 2003
2005	60,424	83,195
2006	66,464	76,188
2007-2011	104,197	118,702
	231,085	278,085

NOTE 11 – TAXATION

	31 March 2004	31 December 2003
Corporation and income taxes	25,638	115,535
Less: prepaid tax	(208)	(92,690)
Taxes on income	25,430	22,845
Deferred tax liabilities - net	25,559	25,611
	50,989	48,456

Taxes on income is recognised based on the best estimate of the annual income tax rate expected for the full financial year. Corporation tax rate on the total income of fiscal year 2004 will be 33%.

In accordance with Tax Law No: 5024 that was published on the Official Gazette No: 25332 on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the TL. Corporate tax payers are required to calculate tax provision based on inflation adjusted financial statements whereas the inflation is 100% in the preceding three fiscal periods (last 36 months) and 10% (last 12 months) in the current fiscal year in accordance with Tax Law No: 5024. The criteria for applying inflation accounting are to be checked quarterly during advance corporate tax periods. If the conditions for applying inflation accounting are met during any of the advance tax periods, the financial statements will be restated for inflation for the whole year including previous advance tax periods.

At 31 March 2004, the increases of WPI are 159.05% and 7.97% for the last 36 and 12 months, respectively. By taking the WPI changes for April 2004 into consideration, such increases are 132.53% and 8.91% for the last 36 and 12 months, respectively. The Company reflected the tax provision in its consolidated condensed financial statements based on inflation-adjusted figures, in accordance with Tax Law No: 5024, as the conditions for the application of inflation accounting are most likely to occur in 2004.

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 11 - TAXATION (Continued)

Provision for taxes for the three month period ended 31 March 2004 is summarized as follows:

	31 March 2004
Taxation on income	
- Current	(26,301)
- Deferred	52
Taxation on income	(26,249)

Deferred taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for IFRS purposes and their statutory tax financial statements.

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 31 March 2004. The rate for other temporary differences is 30%.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 31 March 2004 and 31 December 2003 using the enacted future tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 March 2004	31 December 2003	31 March 2004	31 December 2003
Net difference between the tax base and carrying amount of property plant and equipment	221,775	245,818	(68,455)	(74,564)
Portion of allowance for unearned credit finance income and expense that is currently non-tax deductible/taxable	(56,945)	(57,070)	18,791	18,833
Provision for warranties	(47,901)	(45,972)	15,309	14,433
Provision for employment termination benefits	(33,132)	(35,406)	9,939	10,622
Unused tax credit	-	(37,115)	-	4,899
Other provisions	2,840	(1,017)	(1,143)	166
Deferred tax liabilities-net			(25,559)	(25,611)

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 12 - OTHER CURRENT LIABILITIES

	31 March 2004	31 December 2003
Advances from customers	64,046	93,031
Warranty provision	56,599	57,749
Social taxes and funds payable	52,235	43,705
Provision for customer premiums	21,624	-
Accrual for advertising expenses	13,256	10,976
Provision for redundancy	11,286	16,569
Accrual for sales expenses	10,584	151
Montage provision	9,235	8,675
Payables to personnel	7,261	10,416
Other	42,093	48,887
	288,219	290,159

Advances from customers represents advances received in connection with the pre-payment sales campaigns.

The Company gives warranties ranging from 1 to 3 years on certain products and undertakes to repair or replace items that fail to perform satisfactorily.

The provision for redundancy is related to Blomberg Werke. An agreement has been reached with the local union representatives that specifies the number of staff involved and qualifies the amounts payable to those made redundant. The estimated full amount of these costs to be incurred has been recognized in the current year .

NOTE 13 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

Under Turkish Labour Law, the Company and its Turkish subsidiaries and associates are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service or who reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of TL 1,485,430,000 at 31 March 2004.

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 13 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

	31 March 2004	31 December 2003
Discount rate (%)	6	6
Turnover rate to estimate the probability of retirement (%)	%99	%99

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Movements in the provision for employment termination benefits during the period are as follows:

	Amount
1 January 2004	36,654
Charge for the period	538
Payments during the period	(948)
Monetary gain	(2,093)
31 March 2004	34,151

The number of employees of the Company is 10,130 at 31 March 2004 (31 December 2003: 8,536).

NOTE 14 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings, as per the statutory financial statements, other than legal reserves, are available for distribution, subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

The composition of prior periods earnings and dividends (per Statutory Financial Statements) of the Company at 31 March 2004 and 31 December 2003 (not adjusted for inflation) is as follows:

	31 March 2004	31 December 2003
- Legal reserves	33,762	33,762
- Undistributed general reserve	98,994	98,994
	132,756	132,756
Historical amounts of dividends distributed during year from previous periods' net income per Statutory Financial Statements	-	72,720

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NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2004

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NOTE 14 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

In accordance with the Communiqué No: XI-25 Section 15 paragraph 399, the accumulated deficit amounts arising from the first application of inflation adjustment, in line with CMB's profit distribution regulations, are considered to be deductible when computing the distributable profit. The accumulated deficit will first be netted off from net income and retained earnings, and the remaining amount of deficit from extraordinary reserves, legal reserves and adjustment to share capital.

Applicable from 1 January 2004, the IFRS net income computed in accordance with Communiqué No: XI-25 must be distributed in the ratio of a minimum of 20% of total distributable profit. This distribution may be made either as cash, as pro-rata shares or as a combination of both.

For the purposes of profit distribution in accordance with related CMB regulations, items of statutory shareholders' equity such as share capital, share premium, legal reserves, other reserves, special reserves and extraordinary reserves, are presented at their historical amounts. The difference between the inflated and historical amounts of these items is presented in shareholders' equity in total as restatement difference.

Restatement difference of shareholders' equity can only be netted off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted off against prior years' losses, used in distribution of bonus shares and distributions of dividends to shareholders.

In accordance with the above explanation, the composition of the Company's shareholders' equity, which is considered as the basis for profit distribution is as follows:

In accordance with the Communiqué No: XI-25, at 31 December 2003 the shareholders' equity schedule based on which the dividend distributed will be made is as follows:

	31 December 2003
Paid-up capital	399,960
Share premium	95
Legal reserves	33,762
Extraordinary reserves	98,994
Shareholders' equity restatement differences	1,557,406
Net income	161,751
Prior years' losses	(1,177,071)
Share premium arising from the fair value of the acquired assets/liabilities	240,165
Translation reserve	(9,225)
Total shareholders' equity	1,305,837

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(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 March 2004 unless otherwise indicated)

NOTE 14 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

The restated amounts and the shareholders' equity restatement differences of the aforementioned nominal values at 31 March 2004 are as follows:

	Nominal value	Restated amounts	Shareholders' equity restatement differences
Paid-up capital	399,960	812,781	412,821
Extraordinary reserves	98,994	838,115	739,121
Legal reserves	33,762	429,413	395,651
Share premium	95	9,908	9,813
	532,811	2,090,217	1,557,406

The Company has not netted off the "prior years' losses" with the other shareholders' equity accounts in the period ended 31 March 2004.

NOTE 15 - FINANCIAL INCOME-NET

The financial income and expenses for the years ended 31 March were as follows:

	31 March 2004
Financial income:	
Credit finance income	22,533
Foreign exchange gains	22,078
Interest income from bank deposits and loan to banks secured with	
Turkish government bonds and treasury bills	12,586
Other	410
Financial income	57,607
Financial expenses:	
Foreign exchange losses	(28,638)
Credit finance charges	(14,062)
Cash discount expense	(5,196)
Interest on borrowings	(3,632)
Financial expenses from order advances taken	(772)
Other	(470)
Financial expenses	(52,770)
Financial income -net	4,837

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NOTE 16 - GOVERNMENT GRANTS

The Company has obtained investment incentive certificates from the Turkish government authorities in connection with certain major capital expenditures, which entitle the Company, among other things, to:

- a) A 100% exemption from customs duty on machinery and equipment to be imported,
- b) Value Added Tax exemption with respect to purchases of assets in domestic market,
- c) Exemption of tax and funds (except for the incentives 61989, 62007/A, 62857/A, 67302, 67303 and 72396)
- d) A 100% investment allowance for purchases of assets and construction costs for investments; 61989, 62007/A, 62857/A, 67302 and 67303; 40% investment allowance for investments; 72396, 74349, 74387, 74408, 74840,

The investment allowance indicated in (c) above is deductible from current or future taxable profits for the purposes of corporation tax. However, such investment allowances are subject to withholding taxes.

Total investments subject to investment allowances amount to TL 3,134 billion in the current period.

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES

- a) Guarantees and commitments given were as follows at 31 March 2004 and 31 December 2003:

	31 March 2004	31 December 2003
Collateral obtained	632,596	661,909
Pledges given	19,221	22,487
Guarantee notes given	17,566	14,336
Other guarantees	1,534	3,871
Capital commitments	5,604	2,773
Forward commitments	23,814	22,287

- b) In connection with the investment incentives, the Company was committed to realize export sales amounting to USD 745,436,359 (31 December 2003: USD 331,075,820) at 31 March 2004.
- c) The export incentives and export commitments at 31 March 2004 amount to USD 21,000 (31 December 2003: USD 21,000).
- d) In connection with the investment incentives, the Company was committed to realize a capital increase amounting to TL 97,627 billion at 31 March 2004 (31 December 2003: TL 54,656 billion).
- e) Pledges have been given for the loans received from various banks.

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NOTE 18 - ACQUISITIONS, GOODWILL AND NEGATIVE GOODWILL

No acquisition was made by the Group in current period.

As a result of the acquisitions made by the Group in 2002, goodwill amounting to TL 6,885 billion, and negative goodwill amounting to TL 51,937 billion have been recognized.

NOTE 19 - SUPPLEMENTARY CASH FLOW INFORMATION

Cash used in operations during the period is detailed as follows:

	31 March 2004
Changes in reserves and provisions	
Changes in deferred taxation	(52)
Changes in montage provision	560
Changes in warranty expense provision	(1,150)
Changes in provision for employment termination benefit	(2,503)
Changes in redundancy provision	(5,283)
	(8,428)
Changes in operating assets and liabilities	
Held-to-maturity investments	(88,953)
Trade and notes receivable and due from related parties	118,744
Inventories	6,971
Other current assets and liabilities	9,672
Other non-current assets and liabilities	(3,828)
Trade payables and due to related parties	(38,245)
	4,361
Cash used in operations	(4,067)

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NOTE 20- SEGMENT INFORMATION

Primary reporting format - Business segment

The Group is engaged in the production and sale of electrical and manual household appliances. Since the products that the Group produces are not subject to different risks and returns, no distinguishable business segment is identified.

Secondary reporting format - Geographical segment

The Group's geographical segments are organized into Turkey and Euro Zones. Turkey, where the domestic activities are performed, is the home country of the parent company (Arçelik), which is also the main operating company.

	31 March 2004	31 December 2003
Segment assets		
Turkey	2,240,612	2,243,410
Europe	431,379	499,787
Other	-	-
	2,671,991	2,743,197

	31 March 2004
Segment sales	
Turkey	530,950
Europe	406,016
Other	60,281
	997,247

	31 March 2004
Capital expenditure	
Turkey	10,902
Europe	3,682
Other	-
	14,584

Segment revenue from external customers by geographical area is reported based on the geographical location of its customers. The total carrying amount of segment assets is reported based on the location of assets.

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NOTE 21 – POST BALANCE SHEET EVENTS

- a) At the Board of Directors meeting as of 10 May 2004, it was decided that authorization will be given to the management to donate up to TL 800,000 billion to Vehbi Koç Fund in 2004 with the condition of keeping in the limits of TL 800,000 billion budget, in the scope of the 8 years Corporate Social Responsibility Project, that is being planned to be applied at 290 regional elementary boarding schools.
- b) At the Board of Directors meeting as of 17 May 2004, it was decided that machinery and equipment in washing machine facilities belonging to the Blomberg-Werke GmbH in Germany Ahlen, one of the subsidiaries of the firm, will be purchased by Arçelik A.Ş. and moved to Çayırova washing machine facilities at a value of 3,700,000 EUR.
- c) At the Board of Directors meeting as of 17 May 2004, authorization has been given to the management to apply to the Undersecretariat of Foreign Trade to get producer-exporter status in accordance with the 95/7623 Export Regime arbitrament dated 22 December 1995 and No: 2003/14 notification of Undersecretariat of Foreign Trade dated 20 December 2003.
- d) As it was specified in the declaration made by the Company on 24 May 2004 in accordance with the Series VIII, No: 39 of the Capital Markets Board, between Arçelik A.Ş. and Sony Eurasia Pazarlama A.Ş., it was decided that products with the Sony brand with regard to home appliances that complete the product range, will be marketed by Arçelik A.Ş.

NOTE 22- DATE OF AUTORIZATION FOR ISSUE

The consolidated condensed financial statements as at and for the year ended 31 March 2004 have been approved for issue by the Board of Directors on 8 June 2004 and signed by Yağız Eyüboğlu, Chief Financial Officer and by Tamer Soyupak, Director of Finance.

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