

ARÇELİK ANONİM ŞİRKETİ

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT 30 JUNE 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 balance sheet of Arçelik Anonim Şirketi A.Ş. ("the Company") at 30 June 2004 and the related consolidated statements of income and of cash flows for the six month period then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 30 June 2004. These interim consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim consolidated 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 interim consolidated 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. International Accounting Standards 34 (IAS 34 - "Interim Financial Reporting") requires to present statements of income for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods of the immediately preceding financial year. As disclosed in Note 2 the Company prepared the consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") for the period 1 April-30 June for the first time. Thus, the consolidated statement of income and related notes for the three month period ended 30 June 2004 were not presented on a comparative basis with the financial statements for the period 1 April - 30 June 2003 as required by International Accounting Standards 34.
4. Based on our review, except that the interim consolidated 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 interim consolidated financial statements have not been properly prepared, in all material respects, in accordance with International Financial Reporting Standards ("IFRS").

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

Haluk Yalçın, SMMM

Istanbul, 31 August 2004

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2004

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ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2004 AND 31 DECEMBER 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

	Notes	30 June 2004	31 December 2003
ASSETS			
Current assets:			
Cash and cash equivalents	5	305,740	327,933
Investment securities			
-Held-to-maturity	6.a	96,566	92
Trade receivables	7	1,138,522	1,002,372
Due from related parties	8	113,679	113,236
Inventories	9	557,619	450,675
Other current assets		45,437	31,895
Total current assets		2,257,563	1,926,203
Non-current assets:			
Investment securities			
-Available-for-sale	6.b	116,313	116,293
-Held-to-maturity	6.b	18,579	18,872
Investments in associated companies	10	111,130	98,059
Property, plant and equipment	11	585,899	593,770
Intangible assets	12	24,487	28,046
Other non-current assets		3,738	3,998
Total non-current assets		860,146	859,038
Total assets		3,117,709	2,785,241

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2004 AND 31 DECEMBER 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

	Notes	30 June 2004	31 December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term bank borrowings	13	33,182	19,096
Current maturities of long-term bank borrowings	13	70,517	65,573
Trade payables	14	314,810	293,457
Due to related parties	8	421,141	353,155
Taxes on income	15	36,738	23,195
Other current liabilities	16	426,351	294,607
Total current liabilities		1,302,739	1,049,083
Non-current liabilities			
Long-term bank borrowings	13	247,317	282,347
Provision for employment termination benefits	17	36,326	37,216
Deferred taxes	15	17,225	26,003
Other non-current liabilities		55,002	45,394
Total non-current liabilities		355,870	390,960
Total liabilities		1,658,609	1,440,043
Minority interest		18,989	19,347
Shareholders' equity:			
- Share capital	18	399,960	399,960
- Adjustment to share capital	18	425,278	425,278
Total paid-in share capital		825,238	825,238
Share premium		253,905	253,905
Translation reserve		(11,255)	(9,366)
Retained earnings	19	372,223	256,074
Total shareholders' equity		1,440,111	1,325,851
Total liabilities and shareholders' equity		3,117,709	2,785,241
Commitments and contingent liabilities	24		

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

	Notes	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Net sales	8	2,248,577	1,647,284	1,236,046
Cost of sales	8	(1,672,533)	(1,235,553)	(916,635)
Gross profit		576,044	411,731	319,411
Research and development expenses		(18,352)	(22,958)	(9,268)
Sales and distribution expenses		(219,600)	(145,523)	(124,373)
General and administrative expenses		(139,190)	(138,923)	(73,597)
Other operating income – net	21	5,318	4,012	2,160
Operating profit		204,220	108,339	114,333
Financial income - net	20	17,806	15,049	12,895
Income from investments in associated companies	8.c	1,223	3,069	3,015
Loss on net monetary position		(34,471)	(44,904)	(3,388)
Income before tax and minority interest		188,778	81,553	126,855
Taxation on income	15	(70,627)	(44,613)	(43,976)
Income before minority interest		118,151	36,940	82,879
Minority interest		(2,002)	2,334	(1,246)
Net income		116,149	39,274	81,633
Earnings per share in full TL	4			
- ordinary shares		304	127	214
- founders' and usufruct shares		304	127	214

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

	Notes	30 June 2004	30 June 2003
Operating activities:			
Net income for the period		116,149	39,274
Adjustments for:			
Cash used in operations	26	(90,776)	(45,037)
Depreciation and amortisation	11	66,524	70,015
Amortization of goodwill	12	2,717	2,729
Interest income	20	(27,773)	(2,800)
Interest expense	20	9,518	9,743
Net gain on sale of property, plant and equipment, and available-for-sale investments		906	(7,456)
Minority interest		2,002	(2,334)
Taxes paid		34,481	(62,414)
Net cash provided by operating activities		113,748	1,720
Investing activities:			
Proceeds from the sale of property, plant and equipment, available-for-sale investments and associates		5,318	30,093
Purchase of property, plant and equipment and intangible assets	11,12	(64,036)	(17,505)
Change in investment securities	6,10	(12,798)	(16,566)
Net cash used in investing activities		(71,516)	(3,978)
Financing activities:			
Interest received		20,462	4,306
Interest paid		(10,016)	(10,837)
Dividends paid		-	(78,830)
Dividends paid to minority		(2,388)	-
Repayment of bank borrowings-net	13	(15,500)	(31,272)
Net cash used in financing activities		(7,442)	(116,633)
Effect of exchange rate changes		(1,862)	(22,040)
Net decrease in cash and cash equivalents		32,928	(140,931)
Cash and cash equivalents at beginning of period		328,025	264,298
Cash and cash equivalents at end of period		360,953	123,367

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX – MONTH PERIODS ENDED 30 JUNE

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 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)	Total	
Balance at 1 January 2003	145,440	583,981	729,421	253,905	3,548	187,741	76,084	263,825	1,250,699
Dividends	-	-	-	-	-	(78,831)	-	(78,831)	(78,831)
Transfers	-	-	-	-	-	76,084	(76,084)	-	-
Increase in share capital	254,520	(158,703)	95,817	-	-	(95,817)	-	(95,817)	-
Currency translation differences	-	-	-	-	(22,039)	-	-	-	(22,039)
Net income for the period	-	-	-	-	-	-	39,274	39,274	39,274
Balance at 30 June 2003	399,960	425,278	825,238	253,905	(18,491)	89,177	39,274	128,451	1,189,103
Balance at 1 January 2004	399,960	425,278	825,238	253,905	(9,366)	91,844	164,230	256,074	1,325,851
Transfers	-	-	-	-	-	164,230	(164,230)	-	-
Currency translation differences	-	-	-	-	(1,889)	-	-	-	(1,889)
Net income for the period	-	-	-	-	-	-	116,149	116,149	116,149
Balance at 30 June 2004	399,960	425,278	825,238	253,905	(11,255)	256,074	116,149	372,223	1,440,111

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

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 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, Türkiye.

The Company is registered with the Capital Markets Board ("CMB") and its shares have been quoted on the Istanbul Stock Exchange since 1986. At 30 June 2004 the shares quoted on the Istanbul Stock Exchange is 20.4% of the total shares. At 30 June 2004 the principal shareholders and their respective shareholdings in the Company are as follows (Note 18):

	%
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 Company’s subsidiaries (“Subsidiaries”) and investments in associated undertakings (“Associates”) are explained in Note 3. 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 twenty years. The rights to use 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 INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION

a) Turkish Lira financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board (“IASB”). 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, 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 IFRS.

Since the Company has prepared its interim consolidated financial statements for the period 1 April-30 June 2004 in accordance with IFRS for the first time, the interim consolidated statement of income and related notes for the period 1 April-30 June 2004 were not presented on a comparative basis with the financial statements for the period 1 April-30 June 2003.

The restatement for the changes in the general purchasing power of the Turkish lira at 30 June 2004 is based on IAS 29 “Financial Reporting in Hyperinflationary Economies”, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous years be restated in the same terms. Turkey meets the criteria for being defined as a hyperinflationary country as set out in IAS 29. The restatement was calculated by means of conversion factor derived from the Turkish nationwide wholesale price index (“WPI”) published by the State Institute of Statistics (“SIS”). Certain information in the financial statements has also been presented on a historical basis for information purposes. The indices and conversion factors used to restate these financial statements at 30 June 2004 are as follows:

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION (Continued)

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>	<u>Cumulative three-year inflation rate</u>
30 June 2004	7,982.7	1.000	110.3%
31 December 2003	7,382.1	1.081	181.1%
30 June 2003	7,222.2	1.105	207.8%

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and the corresponding figures for previous years are restated in the same terms.
- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components of shareholders' equity (except revaluation surplus which is eliminated), are restated by applying the relevant (monthly, year average, year end) conversion factors.
- Comparative financial statements are restated in terms of the measuring unit current at the currency purchasing power at the latest balance sheet date.
- All items in the statement of income are restated by applying the monthly conversion factors.
- The effect of inflation on the Company's net monetary position is included in the statement of income.

b) Translation of foreign subsidiary financial statements

The assets and liabilities of the Group's foreign undertakings are translated into Turkish lira at the closing rate for the year. The results of the Group's foreign undertakings are translated into Turkish lira at the average rate for the year. Exchange differences arising on retranslation of the opening net assets of foreign undertakings and differences between the average and year-end rates are included in the translation reserve under the shareholders' equity.

NOTE 3 - GROUP ACCOUNTING

- (a) The consolidated financial statements include the accounts of the parent company, Arçelik, and its Subsidiaries and Associates on the basis set out in sections (b), (c) and (d) below. The financial statements of the companies included in the consolidation have been prepared as of the date of the interim consolidated financial statements and are based on the statutory records, which are maintained under the historical cost convention (except for the revaluation of property, plant and equipment as discussed in Note 11), with adjustments and reclassifications including restatement for changes in the general purchasing power of the Turkish lira, and presented in uniform accounting policies.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

- (b) Subsidiaries are companies over which Arçelik has power to control the financial and operating policies for the benefit of Arçelik through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself.

The balance sheets and statements of income of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Arçelik and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Arçelik and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Arçelik in its Subsidiaries are eliminated from shareholders' equity and income for the period, respectively.

The table below sets out all Subsidiaries included in the scope of consolidation and shows their shareholding structure at 30 June 2004 and 31 December 2003:

	Direct and indirect control by Arçelik and its Subsidiaries (%) 30 June 2004	Direct and indirect control by Arçelik and its Subsidiaries (%) 31 December 2003
Beko Polska S.A. ("Beko Polska")	100.00	100.00
Artesis Teknoloji Sistemleri A.Ş. ("Artesis")	65.00	65.00
Beko France S.A. ("Beko France")	99.94	99.94
Ardutch B.V. ("Ardutch")	100.00	100.00
Beko Deutschland GmbH ("Beko Deutschland")	100.00	100.00
Beko Electronics Espana, S.L ("Beko Espana")	99.97	99.97
Blomberg Werke GmbH ("Blomberg Werke")	100.00	100.00
Blomberg Vertriebsgesellschaft mbH ("Blomberg Vertrieb")	100.00	100.00
Elektra Bregenz AG ("Elektra Bregenz AG")	100.00	100.00
Elektra Bregenz Produktion GmbH * ("Elektra Bregenz Produktion")	-	100.00
Raupach Wollert GmbH ("Raupach")	100.00	100.00
SC Arctic SA ("Arctic")	94.85	94.85
Beko Plc. (previously called Beko UK)	50.00	50.00

* Elektra Bregenz Produktion has been merged with Elektra Bregenz AG as of 2003.

Beko Polska, incorporated in Poland, was established to market and sell durable consumer goods.

Artesis, incorporated in Turkey in 1999, is engaged in developing technology and its application.

Beko France, incorporated in France, deals with the import, distribution and marketing of durable consumer goods.

Ardutch, incorporated in Netherlands, acts as a holding and finance company.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

Beko Deutschland, incorporated in Germany, is engaged in trading all kinds of brown goods, white goods and electro motors inclusive of import and exports.

Beko Espana, incorporated in Spain, primarily engages in the sales of electrical appliances purchased from the Group.

Blomberg Werke, incorporated in Germany, primarily manufactures washing machines, driers, heat pumps, wall-mounted and floor-standing storage heaters.

Blomberg Vertrieb, distributes washing machines, tumble driers and other kitchen equipment for fitted kitchens, heat pumps and storage heaters in Germany.

Elektra Bregenz AG is a public limited company which has been incorporated in Austria since 1992. The company is engaged in trading white goods and household products such as cookers, hobs, hoods, ovens, fridges and accessories.

Elektra Bregenz Produktion is a limited liability company incorporated in Austria. The company is engaged in the production of household products - cookers, hobs, hoods, ovens and accessories. Elektra Bregenz Produktion has been merged with Elektra Bregenz AG as of 2003.

Raupach is incorporated for the purposes of administration of property in the interest of itself or the third parties and purchase of holdings in other companies.

Arctic, incorporated in Romania, is engaged in the production of refrigerators and sales of durable consumer goods.

Beko Plc. (previously "Beko UK Ltd.") incorporated in the United Kingdom, deals with the import, distribution and marketing of durable consumer goods.

- (c) Associates are companies in which the Company and its Subsidiaries have an attributable interest of 20% or more of the ordinary share capital held for the long term and over which they exercise a significant influence. Associates are accounted for using the equity method based on their financial statements restated to the equivalent purchasing power at 30 June 2004. Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the period. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Provisions are recorded for long-term impairment in value (Note 10).

The table below sets out the Associates and shows their shareholding structure at 30 June 2004 and 31 December 2003:

	Direct and indirect control by Arçelik and its Subsidiaries (%) 30 June 2004	Direct and indirect control by Arçelik and its Subsidiaries (%) 31 December 2003
Beko Elektronik A.Ş. ("Beko Elektronik")	22.36	22.36
Ram Dış Ticaret A.Ş. ("Ram Dış Ticaret")	28.26	28.26
Koç Tüketici Finansmanı ve Kart Hizmetleri A.Ş. ("Koç Tüketici Finans")	41.18	41.18
Arçelik-LG Klima Sanayi ve Ticaret A.Ş. ("Arçelik - LG")	45.00	45.00
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. ("Tanı Pazarlama")	32.00	32.00

Beko Elektronik, incorporated in Turkey, was founded in 1966 for the manufacture and sales of televisions, household electronic appliances and electronic cash registers and provision of related services. Its shares have been quoted on the Istanbul Stock Exchange since 1992.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

Ram Dış Ticaret was founded as an export trading company of the Koç Group and became an international trading company in 1984. It exports merchandise and products of affiliated companies and renders intermediary export and import services.

Koç Tüketici Finans, incorporated in Turkey, was established in 1995 to finance the purchase of goods and services by customers.

Arçelik-LG, incorporated in Turkey in May 1999, was established to engage in the production, sales and export of air conditioning units.

Tanı Pazarlama, incorporated in Turkey in 2002, was established to serve consultancy services related to marketing and communication.

- (d) Available-for-sale investments, in which Arçelik and its Subsidiaries have controlling interests below 20%, or over which Arçelik does not exercise a significant influence, are carried at cost and restated to the equivalent purchasing power at 30 June 2004 less any provision for impairment.

Available-for-sale investments in which Arçelik and its Subsidiaries have attributable interests of 20% or more, which are either immaterial, or where a significant influence is not exercised by Arçelik, are carried at cost and restated to the equivalent purchasing power at 30 June 2004. These companies have not been accounted for using the equity method due to the insignificance of their combined impact on the net worth, financial position and results of Arçelik (Note 6).

- (e) The results of foreign Subsidiaries and Associates are translated into Turkish lira at the average rate for the period. The assets and liabilities of foreign undertakings of the Company are translated into Turkish lira at the closing rate for the period. Exchange differences arising on retranslation of the opening net assets of foreign subsidiaries and differences between the average and period-end rates are included in the translation reserve under the shareholders' equity.
- (f) The results of Subsidiaries and Associates are included or excluded from their effective dates of acquisition and disposal, respectively.
- (g) The minority shareholders' share in the net assets and results for the period of Subsidiaries is separately classified as minority interest in the consolidated balance sheets and the statements of income.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, other than Group accounting as described in Note 3, followed in the preparation of these consolidated financial statements are summarized below:

Related parties

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/or affiliated with them, associated companies and other companies within the Koç Holding group are considered and referred to as related parties. Transactions with related parties are priced predominantly at market rates (Note 8).

Trade receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortised cost. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 7).

Credit finance income/charges

Credit finance income/charges represent imputed finance income/charges on credit sales and purchases. Such income/charges are recognised as financial income or expenses over the period of credit sale and purchases, and included under financial income and expenses (Note 20).

Originated loans and provisions for loan impairment

Loans originated by the Company by providing money directly to a borrower, other than those that are originated with the intent to be sold immediately or in the short term, are classified as loans to banks under cash and cash equivalents (Note 5). All loans are recognized when cash is advanced to the borrowers and measured at amortized cost.

When the loan is originated by the Company by providing money directly to a bank, the loan is secured with marketable securities, Turkish government bonds and treasury bills, acquired under reverse repurchase agreements with banks with a predetermined sale price at fixed future dates and is stated at amortised cost. The accrued interest represents the apportionment to the current period of the difference between future sale prices and the amount provided by the Company. Such originated loans where original maturity at the time the money is directly transferred to the bank is less than three months, are considered and classified as cash equivalents for the purposes of statements of cash flows.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

A credit risk provision for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated loan at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the bad and doubtful debt expense.

Investments

Investment securities with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the intention of holding the investment securities for less than 12 months from the balance sheet date, or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investment securities at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments securities are recognised on the trading date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments that have quoted market prices in active markets and whose fair values can be reliably measured are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Available-for-sale investments that do not have quoted market prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated according to the equivalent purchasing power at 30 June 2004. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement.

Inventories

Inventories are valued at the lower of cost, restated to equivalent purchasing power at the balance sheet date or net realizable value. Cost elements included in inventories are materials, labor and an appropriate amount for factory overheads. The cost of inventories is determined on the moving average basis for each purchase (Note 9). Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant, equipment and related depreciation

Property, plant and equipment are carried at cost less accumulated depreciation, in each case restated to equivalent purchasing power at 30 June 2004 (Note 11). Depreciation is provided on restated amounts of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets. The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land	-
Land Improvements	25 years
Buildings	25 years
Machinery and equipment	10 years
Moulds	4 years
Vehicles and other	4-6 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposals of property, plant and equipment are included in the related income or expense accounts, as appropriate.

Finance leases

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset, net of grants and tax credits receivable, or at the present value of the lease payment, whichever is the lower. Lease payments are treated as comprising capital and interest elements, the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to the statement of loss. Depreciation on the relevant asset is also charged to the statement of income over its useful life.

Intangible assets including goodwill

Intangible assets comprise acquired trademarks, licenses and other identified rights. They are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives for a period not exceeding 10 years from the date of acquisition (Note 12). Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

Goodwill arising on consolidation, which represents the difference between the acquisition price and the attributable share of Arçelik A.Ş. and its Subsidiaries in the fair value of the underlying net assets of the company acquired, is capitalised and amortised. Goodwill is amortised using the straight-line method over its estimated useful life of 20 years. The carrying value of goodwill is reviewed annually and adjusted for permanent impairment where it is considered necessary.

Any excess as at the date of acquisition of the Company's and its Subsidiaries' interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition is recognized as negative goodwill. Negative goodwill is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets.

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NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. They are stated at amortized cost using the effective yield method; any difference between proceeds and the redemption value is recognized in the income statement over the period of borrowings (Note 13).

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax (Note 15).

The principal temporary differences arise from the restatement of property, plant and equipment and inventory over their historical cost, unused tax credits, the portion of allowance for unearned credit finance income and expense, warranty provision, provision for employment termination benefits.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority and deferred tax assets and deferred tax liabilities are offset accordingly.

Employment termination benefits

Employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 17).

Foreign currency transactions and translation

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish lira at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the consolidated statements of income.

Revenue recognition

Revenues are recognized on an accrual basis at the time deliveries or acceptances are made, at the invoiced values. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income in the period on an accrual basis.

ARÇELİK ANONİM ŞİRKETİ

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NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Repair and maintenance expenditure, research and development costs and borrowing costs

Repair and maintenance expenditure, research and development costs and borrowing costs are charged to the statement of income as they are incurred.

Dividends

Dividends receivable are recognised as income in the period when they are declared and dividends payable are recognized as an appropriation of profit in the period in which they are declared (Note 8).

Warranties

Warranty costs are recorded at amounts estimated by management based on relevant past experience of the level of repairs and returns (Note 16).

Government grants

Investment grants are recognised when the Company's grant claims are approved by the related authorities. Such grants are included in other income upon recognition (Note 23).

Share premium

Share premium represents (a) differences resulted from the sale of the Company's Subsidiaries and Associates' shares at a price exceeding face value of those shares (b) differences between the face value and the fair value of shares issued for acquired companies.

Financial instruments

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

Funding risk

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit risk

Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. The Group has in place effective credit evaluation, disbursement and monitoring procedures and those control procedures are supported by senior management. The credit risk is generally highly diversified due to the large number of entities comprising the customer bases.

Foreign exchange rate risk

The Group is exposed to foreign exchange rate risk through the impact of rate changes in the translation of Turkish lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

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

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

Monetary assets

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

The fair values of certain financial assets carried at cost, including cash and cash equivalents and held to maturity investments plus the respective accrued interest are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

The fair values of investment securities, which have been determined by reference to market values, approximate carrying values.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Monetary liabilities

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Trading liabilities, derivatives and foreign exchange instruments have been estimated at their fair values.

Borrowings that are denominated in foreign currencies are translated at period-end exchange rates and accordingly their fair values approximate their carrying values. The carrying values of borrowings along with the related accrued interest are estimated to be their fair values.

Earnings/loss per share

Earnings per share for each class of shares disclosed in the consolidated statements of income is determined by dividing the net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and each earlier year.

Bonus shares issued during the period were as follows:

Year	Number of shares issued attributable to transfers to share capital from		
	Retained earnings	Revaluation surplus	Total
30 June 2004	-	-	-
31 December 2003	72,720	181,800	254,520
30 June 2003	72,720	181,800	254,520

The earnings attributable to each class of shares have been determined by reference to their effective relative economic interest therein (i.e. their theoretical relative dividend rights assuming that a policy of maximizing distributions to each class of shares is followed). The earnings attributable to each class of shares for each year on this basis were as follows:

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Net earnings attributable to founders and usufruct shares	0.0005	0.0002	0.0003
Weighted average number (thousand) of founders and usufruct shares in issue (TL 1,000 each)	1.5	1.5	1.5
Earnings per share (expressed in TL per share)	304	127	214
Net earnings attributable to ordinary shares	116,149	39,274	81,633
Weighted average number (billion) of ordinary shares in issue (TL 1,000 each)	381.5	308.7	381.5
Earnings per share (expressed in TL per share)	304	127	214

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting of cash flows

For the purposes of cash flow statement, cash and cash equivalents include cash and amounts due from banks and marketable securities with maturity periods of less than three months, which include loan to banks secured with Turkish government bonds and treasury bills held for resale to bank with predetermined sales prices at fixed future dates.

The analysis of cash and cash equivalents included in these consolidated statement of cash flows at 30 June is as follows:

	30 June 2004	31 December 2003
Cash, cheques on hand, bank deposits and other liquid assets	305,740	327,933
Loan to banks, where remaining original maturities are less than three months	55,213	92
	360,953	328,025

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

NOTE 5 - CASH AND CASH EQUIVALENTS

	30 June 2004	31 December 2003
Cash in hand	122	122
Cash at banks		
- demand deposits	101,510	77,259
- time deposits	193,743	236,129
Liquid funds	10,353	11,262
Other	12	3,161
	305,740	327,933

The maturity periods of time deposits is up to six months. The interest rate for the TL time deposits is 24% (31 December 2003: 25%-26%). The interest rates are 1%-17% for foreign currency time deposits and liquid funds (31 December 2003: 1.9%-4.25%).

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 6 - INVESTMENT SECURITIES

a) Current investment securities:

All short-term investment securities are held-to-maturity and the breakdown of such investments at 30 June 2004 and 31 December 2003 are as follows:

	30 June 2004	31 December 2003
Government bonds	96,566	92
	96,566	92

The analysis of the cost of short-term investment securities by maturities and applicable interest rates at 30 June 2004 and 31 December 2003 are as follows:

	30 June 2004	31 December 2003
Up to 90 days	55,213	92
90-180 days	33,785	-
Accrued interest income	7,568	-
	96,566	92

Interest rates for Turkish lira marketable securities held at 30 June 2004 are 22.20%-24.15% (31 December 2003: 23.9%).

(b) Non-current investment securities:

The long-term investments at 30 June 2004 and 31 December 2003 are as follows:

	30 June 2004	31 December 2003
Available-for-sale investments	116,313	116,293
Held-to-maturity investments	18,579	18,872
	134,892	135,165

i. Available-for-sale investments:

	30 June 2004	31 December 2003
Investments in subsidiaries excluded from scope of consolidation	835	815
Investments in associates carried at cost	-	-
Other available-for-sale investments	115,478	115,478
	116,313	116,293

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 6 - INVESTMENT SECURITIES (Continued)

Investments in subsidiaries excluded from scope of consolidation:

	%	30 June 2004 TL billion	%	31 December 2003 TL billion
Archin Limited	99.99	23	99.99	3
Arcelitalia	100.00	182	100.00	182
Arus	100.00	630	100.00	630
		835		815

Investments in associates carried at cost:

	%	30 June 2004 TL billion	%	31 December 2003 TL billion
Basic International Investment Limited	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 and restated to equivalent purchasing power at 30 June 2004.

Impairment loss provisions are recognized for investments in Basic International Investment Ltd. and Arctic Service with an amount of TL6,724 billion (31 December 2003: TL6,724 billion) at 30 June 2004.

Other available-for-sale investments:

	%	30 June 2004 TL billion	%	31 December 2003 TL billion
<u>Equity securities</u>				
Koç Finansal Hizmetler A.Ş.	6.96	94,549	6.96	94,549
Entek Elektrik A.Ş.	7.20	20,380	7.20	20,380
Idea A.Ş.	2.67	366	2.67	366
Tat Konserve Sanayii A.Ş.	0.34	181	0.34	181
Çerkezköy Enerji A.Ş.	2.16	1	2.16	1
ArticPro SRL	0.99	1	0.99	1
Pavcom SA	1.20	-	1.20	-
Banca Internationala a Religiflor	0.80	-	0.80	-
Srceb SA	8.30	-	8.30	-
Ubicom Inc.	0.54	-	0.54	-
Anetr	12.50	-	12.50	-
		115,478		115,478

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 6 - INVESTMENT SECURITIES (Continued)

Impairment loss provisions for other available-for-sale investments, which arose from remeasuring the carrying amount of the available-for-sale investments to its fair value, amount to TL65,937 billion at 30 June 2004 (31 December 2003: TL65,937 billion).

In 2003 available-for-sale investment in Entek Elektrik A.Ş. was determined at a fair value as a result of which the cost value of TL4,816 billion increased to TL20,380 billion.

ii. Held-to-maturity investments:

	30 June 2004	31 December 2003
Eurobonds	18,579	18,872
	18,579	18,872

Interest rate for Eurobonds held at 30 June 2004 is 9.88% (31 December 2003: 9.88%).

NOTE 7 - TRADE RECEIVABLES

	30 June 2004	31 December 2003
Trade receivables	721,704	490,863
Notes receivable	380,786	440,685
Cheques receivable	136,324	165,278
Other	16	41
	1,238,830	1,096,867
Less: Provision for doubtful receivables	(23,106)	(25,928)
Less: Unearned credit income	(77,202)	(68,567)
Trade receivables, net	1,138,522	1,002,372

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 30 June 2004 and a summary of major transactions with related parties during the period are as follows:

(i) **Balances with related parties**

(a) **Due from related parties**

	30 June 2004	31 December 2003
Ram Dış Ticaret	54,452	56,743
Türk Demir Döküm Fabrikaları A.Ş. ("Türk Demir Döküm")	29,287	29,257
Bursa Gaz ve Ticaret A.Ş.	17,739	19,389
Beko Elektronik	3,203	2,033
Arçelik LG	3,128	4,468
Diğer	5,870	1,346
	113,679	113,236

(b) **Due to related parties**

	30 June 2004	31 December 2003
Beko Elektronik	204,581	153,884
Ram Dış Ticaret	98,890	122,785
Arçelik-LG	62,920	19,389
Kofisa Trading Company SA	21,267	9,170
Türk Demir Döküm	16,123	7,060
Beko Ticaret A.Ş.	4,671	11,844
Diğer	17,006	31,474
	425,458	355,606
Less: Unearned credit finance charged to related parties	(4,317)	(2,451)
	421,141	353,155

(c) **Other**

Bank balance includes time deposits and demand deposits at Koçbank amounting to TL51,692 billion (31 December 2003: TL117,829 billion) and TL60,818 billion (31 December 2003: TL978 billion), respectively at 30 June 2004. There is no balance of short-term borrowings include loans at Koçbank at 30 June 2004 (31 December 2003: TL111 billion).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

(ii) Transactions with related parties

(a) Sales

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Ram Dış Ticaret	79,152	72,532	43,986
Bursa Gaz ve Ticaret A.Ş.	24,921	23,283	14,815
Diğer	6,737	4,890	2,981
	110,810	100,705	61,782

(b) Purchases of materials and services

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Beko Elektronik	341,088	201,149	186,561
Ram Dış Ticaret	236,088	106,296	110,846
Arçelik-LG	80,051	64,359	61,452
Kofisa Trading Company S.A.	49,795	30,623	30,655
Türk Demir Döküm	22,689	19,552	12,009
Beko Ticaret A.Ş.	20,571	6,134	14,468
Diğer	53,494	41,787	19,796
	803,776	469,900	435,787
Less: Credit finance charges to related parties	(17,665)	(19,084)	(12,382)
	786,111	450,816	423,405

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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

(c) Income from investments in associated companies

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Beko Elektronik	3,940	(273)	774
Arçelik-LG	2,764	1,100	2,707
Koç Tüketici Finans	(1,362)	2,313	820
Tanı Pazarlama	(1,714)	-	(931)
Ram Dış Ticaret	(2,405)	(71)	(355)
	1,223	3,069	3,015

(d) Other transactions with related parties

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Interest income	5,492	14	1,698
Dividends paid	2,015	78,830	802
Dividend income	1,165	-	-
Technical assistance service income	935	-	427
Interest expense	169	9,695	169
Other income	1,434	626	1,215

NOTE 9 - INVENTORIES

	30 June 2004	31 December 2003
Raw materials and supplies	161,395	128,047
Semi-finished goods	18,062	13,702
Finished goods and merchandise	263,883	192,315
Goods-in-transit	123,333	128,223
	566,673	462,287
Less: Provision for slow-moving and obsolete inventory	(9,054)	(11,612)
	557,619	450,675

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 10 - INVESTMENTS IN ASSOCIATED COMPANIES

At 30 June 2004 and 31 December 2003, the respective shares of the Company and its Subsidiaries in investments in associated companies were as follows:

		30 June 2004		31 December 2003
	%	TL billion	%	TL billion
Beko Elektronik	22.36	54,760	22.36	50,820
Arçelik-LG	45.00	32,043	45.00	29,279
Koç Tüketici Finans	39.50	20,757	39.50	10,271
Tanı Pazarlama	32.00	2,454	32.00	4,168
Ram Dış Ticaret	26.75	1,116	26.75	3,521
		111,130		98,059

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	Balances at 1 January 2004	Additions	Disposals	Transfers	Foreign currency translation difference	Balances at 30 June 2004
Cost						
Land	15,725	20	-	-	(126)	15,619
Land improvement	15,284	64	-	-	2	15,350
Buildings	181,865	3,171	(395)	-	(711)	183,930
Machinery and equipment	1,481,650	35,264	(7,560)	(11,356)	(1,092)	1,496,906
Motor vehicles, furniture and fixtures	130,751	1,726	(1,843)	-	(357)	130,277
Leased assets	71,425	329	-	-	(1,125)	70,629
	1,896,700	40,574	(9,798)	(11,356)	(3,409)	1,912,711

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Balances at 1 January 2004	Additions	Disposals	Transfers	Foreign currency translation difference	Balances at 30 June 2004
Accumulated Depreciation						
Land improvement	(5,634)	(336)	-	-	-	(5,970)
Buildings	(78,078)	(3,604)	274	-	363	(81,045)
Machinery and equipment	(1,101,670)	(56,146)	6,448	7,404	1,329	(1,142,635)
Motor vehicles, furniture and fixtures	(101,195)	(4,608)	1,350	-	276	(104,177)
Leased assets	(23,452)	(1,830)	-	-	533	(24,749)
	(1,310,029)	(66,524)	8,072	7,404	2,501	(1,358,576)
Construction in progress	6,889	17,305	(566)	3,952	12	27,592
Advances given	210	4,112	(150)	-	-	4,172
Net book value	593,770					585,899

At 30 June 2004 there are mortgages amounting to TL64,702 billion (31 December 2003: TL5,865 billion) on property, plant and equipment.

NOTE 12 - INTANGIBLE ASSETS - NET

	Balances at 1 January 2004	Additions	Disposals	Transfers	Foreign currency translation difference	Balances at 30 June 2004
Restated cost	54,381	624	(1)	-	(625)	54,379
Accumulated amortization	(36,861)	(2,583)	(1)	-	343	(39,102)
Net book value	17,520					15,277
Goodwill (Note 25)	92,666	-	-	-	-	92,666
Accumulated amortization	(37,922)	(4,159)	-	-	133	(41,948)
Net book value	54,744					50,718
Negative goodwill (Note 25)	(52,733)	-	-	-	-	(52,733)
Accumulated amortization	8,515	2,710	-	-	-	11,225
Net book value	(44,218)					(41,508)
Total net book value	28,046					24,487

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NOTE 13 - BORROWINGS

(a) Short-term bank borrowings

	30 June 2004	31 December 2003
Foreign currency loans	27,080	7,549
Eximbank loans	6,102	6,988
Open credits	-	4,559
	33,182	19,096

Interest rates for short-term foreign currency loans for the period ended 30 June 2004 are 4.76%-9.03% (31 December 2003: 3.6%-4.98%).

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NOTE 13 - BORROWINGS (Continued)

(b) Long-term bank borrowings

	30 June 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	47,386,428	70,979	Libor + 0-3.25	54,844,547	83,476
GBP	Libor + 2.75 -3.75	28,000,000	76,949	Libor + 2.75 -3.75	28,000,000	76,087
EURO	Euro Libor +2.60-3.25	93,142,858	169,904	Euro Libor +2.60-3.25	98,928,570	188,334
TL borrowings	15		2	15		23
			317,834			347,920
Less: Current maturities			(70,517)			(65,573)
			247,317			282,347

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NOTE 13 - BORROWINGS (Continued)

The Company has loans from IFC in the amount of USD 28,928,570, EUR 43,142,858, GBP 21,000,000 and from Netherlands Development Finance Company ("FMO") in the amount of EUR 20,000,000 and USD 3,000,000 at 30 June 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:

	30 June 2004	31 December 2003
2005	54,227	84,470
2006	75,067	77,356
2007-2011	118,023	120,521
	247,317	282,347

NOTE 14 - TRADE PAYABLES

	30 June 2004	31 December 2003
Trade payables	321,442	301,164
Unearned credit finance charges	(6,632)	(7,707)
	314,810	293,457

NOTE 15 - TAXATION

	30 June 2004	31 December 2003
Corporation and income taxes	78,943	117,306
Less: prepaid tax	(42,205)	(94,111)
Taxes on income - current	36,738	23,195
Deferred tax liabilities	17,225	26,003
Total taxes payable	53,963	49,198

Corporation tax rate on the total income of fiscal year 2004 is 33%. Corporation tax rate on the total income of following years will be 30%. Corporation tax is payable at a rate of 33% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

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NOTE 15 - TAXATION (Continued)

In accordance with Tax Law No: 5024 “Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law” that was published in the Official Gazette 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 Turkish lira. Corporate taxpayers are obliged to prepare the opening balance sheets restated for inflation at 31 December 2003. Corporate taxpayers submitted their opening balance sheets restated for inflation at 31 December 2003 in accordance with the General Communiqué on Tax Procedure Law No: 328 (“Communiqué”) dated 28 February 2004 and declare the advance corporation tax for the second quarter (for the period January – June) of 2004 in accordance with Tax Law No: 5024 and 5228 with Tax Procedure Law circulars no 8, 9 and 10 and Tax Procedure Law General Communiqué no. 337, 338 and 339 as of 25 August 2004.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 33% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable held for not less than two years are tax exempt until 31 December 2004, if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures, with some exceptions, over TL6 billion are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 15th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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NOTE 15 - TAXATION (Continued)

The taxation on income expressed in terms of the purchasing power of the Turkish lira at 30 June 2004, is summarized as follows:

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Taxation on income			
- Current	(79,405)	(56,756)	(52,701)
- Deferred	8,778	12,143	8,725
Taxation on income	(70,627)	(44,613)	(43,976)

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 30 June 2004. The rate for other temporary differences is 30%.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided at 30 June 2004 and 31 December 2003 using the enacted future tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
Net difference between the tax base and carrying amount of property plant and equipment	241,105	249,586	(71,679)	(75,707)
Unused tax credit	(5,327)	(37,684)	1,332	4,974
Provision for warranties	(61,494)	(46,677)	19,773	14,655
Portion of allowance for unearned credit finance income and expense that is currently non-tax deductible/taxable	(65,853)	(57,945)	21,731	19,122
Provision for employment termination benefits	(35,167)	(35,949)	10,550	10,784
Other provision	(5,634)	(1,033)	1,068	169
Deferred tax liabilities-net			(17,225)	(26,003)

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NOTE 15 - TAXATION (Continued)

In accordance with law regarding the amendments to be brought to the Tax Procedure Law, Income Law and Corporation Tax Law which was published by in Official Gazette dated 30 December 2003 ("Law no. 5024"), corporations that determine their income on the basis of balance sheet are required to apply inflation adjustment to their statutory financial statements with effect from 1 January 2004. Corporations are required to apply inflation adjustment to the opening balance sheet at 31 December 2003.

In the preparation of the opening balance sheet at 1 January 2004 and the balance sheet at 30 June 2004 the Company applied adjustment procedures as set out in Law No. 5024 and 5028 along with Tax Procedure Law Circulars No 8, 9 and 10 and Tax Procedure Law General Communiqué no. 337, 338 and 339.

Accordingly, taxable and deductible temporary differences as at 31 December 2003 arising from the inflation adjustments in the prior periods have been partially eliminated. With respect to such temporary differences, deferred tax liability is reversed through the income statement.

NOTE 16 - OTHER CURRENT LIABILITIES

	30 June 2004	31 December 2003
Advances from customers	116,207	94,457
Warranty provision	71,974	58,635
Social taxes and funds payable	51,998	44,375
Provision for customer premiums	48,601	-
Accrual for sales	23,439	154
Deferred income	19,235	14,541
Accrual for advertising	17,811	11,144
Montage provision	13,317	8,808
Provision for cash discount	11,154	-
Provision for bonuses and premiums	7,830	4,390
Payables to personnel	7,236	10,576
Provision for redundancy	5,256	16,823
Other	32,293	30,704
	426,351	294,607

Advances from customers represent 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 full amount of these costs estimated to be incurred has been recognized in the current year (Note 21).

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NOTE 17 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

Under the 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 (20 years for women) and achieves 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 TL1,574,740,000 (31 December 2003: TL1,389,950,000) for each period of service at 30 June 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:

	30 June 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. As the maximum liability is revised semi-annually, the maximum amount of TL1,574,740,000 (31 December 2003: TL1,389,950,000) has been taken into consideration in calculating the reserve for employment termination benefit of the Company and its Turkish subsidiaries and associates.

Movements in the provision for employment termination benefits during the period/year are as follows:

	Billions TL
1 January 2003	34,968
Charge for the year	14,271
Payments during the year	(8,643)
Monetary loss	(3,380)
31 December 2003	37,216
Charge for the period	2,912
Payments during the period	(1,339)
Monetary loss	(2,463)
30 June 2004	36,326

The number of employees of the Company is 10,611 (31 December 2003: 8,536) as at 30 June 2004.

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NOTE 18 - SHARE CAPITAL

The Company adopted the registered share capital system available to companies registered with the Capital Markets Board ("CMB") and set a limit on its registered share capital representing registered type shares with a nominal value of TL5,000.

The Company's historical authorised and paid-in share capital amounts at 30 June 2004 and 31 December 2003 were as follows:

	30 June 2004	31 December 2003
Limit on registered share capital (historical)	500,000	500,000
Historical authorised and paid-in share capital	399,960	399,960

At 30 June 2004 and 31 December 2003, shareholders can be summarised as follows:

	30 June 2004	%	31 December 2003	%
Koç Holding	156,546	39.14	156,546	39.14
Teknosan A.Ş.	58,709	14.68	58,709	14.68
Koç Ailesi	42,995	10.75	42,995	10.75
Burla Makina Ticaret ve Yatırım A.Ş.	30,649	7.66	30,649	7.66
Koç Holding Emekli ve Yardım Sandığı Vakfı	17,982	4.50	17,982	4.50
Diğer	93,079	23.27	93,079	23.27
	399,960	100.00	399,960	100.00

Adjustment to share capital amounting to TL425,278 billion (31 December 2003: TL425,278 billion) represents the restatement effect of the cash and cash equivalent contributions to share capital in period-end equivalent purchasing power.

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NOTE 19 - 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 the (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) at 30 June 2004 and 31 December 2003 (not adjusted for inflation) are as follows:

	30 June 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

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.

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NOTE 19 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

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 (expressed in the equivalent purchasing power of the Turkish lira as of 30 June 2004):

	31 December 2003
	billion TL
Paid-up capital	399,960
Share premium	95
Legal reserves	33,762
Extraordinary reserves	98,994
Shareholders' equity restatement differences	1,589,439
Net income	164,230
Prior years' losses	(1,195,109)
Share premium arising from the fair value of the acquired assets and liabilities	243,846
Translation reserve	(9,366)
Total shareholder's equity	1,325,851

The restated amounts and the shareholders' equity restatement differences of the aforementioned nominal values are as follows (expressed in the equivalent purchasing power of the Turkish lira as of 30 June 2004):

	Nominal value	Restated amounts	Shareholders' equity restatement differences
Paid-up capital	399,960	825,238	425,278
Share premium	95	10,059	9,964
Legal reserves	33,762	435,995	402,233
Extraordinary reserves	98,994	850,958	751,964
	532,811	2,122,250	1,589,439

The Company has not netted off the "Prior years' losses" with the other shareholders' equity accounts in the period ended 30 June 2004.

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NOTE 20 - FINANCIAL INCOME - NET

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Financial income:			
Credit finance income	38,794	78,518	15,916
Foreign exchange gains	30,493	52,559	8,077
Interest income from bank deposits and loan to banks secured with			
Turkish government bonds and treasury bills	27,773	2,800	14,994
Other	1,404	444	987
Financial income	98,464	134,321	39,974
Financial expense:			
Foreign exchange losses	(31,762)	(66,444)	(2,685)
Credit finance charges	(27,591)	(33,067)	(13,313)
Interest on borrowings	(9,518)	(9,743)	(5,830)
Cash discount expense	(9,398)	(7,120)	(4,122)
Financial expenses from order advances taken	(1,796)	(2,062)	(1,012)
Other	(593)	(836)	(117)
Financial expenses	(80,658)	(119,272)	(27,079)
Financial income-net	17,806	15,049	12,895

NOTE 21 - OTHER OPERATING INCOME - NET

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Provisions no longer required	3,502	1,742	1,560
Amortization of negative goodwill	2,710	2,774	1,385
Intercompany charges	2,362	655	2,362
Dividend income	1,165	723	1,165
Income from scrap sales	1,090	-	906
Income from fixed asset sales	628	6,178	127
Fair value gain on investment securities	-	5,062	-
Other	5,759	13,631	2,184
Other operating income	17,216	30,765	9,689
Bad debt expenses	(86)	(1,524)	1,496
Amortization of goodwill	(4,159)	(2,382)	(3,778)
Loss from fixed asset sales	(1,534)	(136)	(1,324)
Restructuring expenses	(372)	(19,952)	(37)
Other	(5,747)	(2,759)	(3,886)
Other operating expense	(11,898)	(26,753)	(7,529)
Other operating income-net	5,318	4,012	2,160

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NOTE 22 - FOREIGN CURRENCY POSITION

Assets and liabilities denominated in foreign currency at 30 June 2004 and 31 December 2003 were as follows:

	30 June 2004			
	EUR	USD	GBP	Other
Cash and cash equivalents	88,563	53,888	1,643	4,641
Trade receivables	263,408	22,841	103,459	28,731
Notes receivables	-	-	-	-
Inventories	61,799	2,424	59,569	35,202
Other current assets	13,803	5	1,696	2,294
Due from related parties	681	1,754	33,387	-
Held to maturity investment securities	-	18,578	-	-
Other non-current assets	3,673	-	-	-
Total assets	431,927	99,490	199,754	70,868
Short-term bank borrowings	4,223	1,421	21,735	-
Current maturities of long-term bank borrowings	34,903	29,881	5,432	-
Trade payables	65,988	29,738	6,535	6,330
Taxes on income	2,361	-	1,757	2,016
Due to related parties	128,728	376	22,103	-
Other current liabilities	44,428	186	58,151	7,361
Short term finance leases	-	-	-	-
Long-term bank borrowings	135,115	40,818	71,383	-
Provision for employment termination benefits	1,069	-	-	-
Other non-current liabilities	13,470	-	386	6,782
Total liabilities	430,285	102,420	187,482	22,489
Off balance sheet liabilities	52,621	-	-	-
Net position	(50,979)	(2,930)	12,272	48,379

The net position of the Company as of 30 June 2004 is positive TL6,742 billion equivalent to EUR 3,731,000.

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NOTE 22 - FOREIGN CURRENCY POSITION (Continued)

	31 December 2003			
	EUR	USD	GBP	Other
Cash and cash equivalents	132,669	83,060	14,624	19,371
Trade receivables	299,920	12,017	80,146	36,667
Inventories	73,598	-	78,902	18,528
Other current assets	4,968	277	1,401	1,083
Due from related parties	51,938	-	-	-
Other non-current assets	3,912	-	-	-
Total assets	567,005	95,354	175,073	75,649
Short-term bank borrowings	7,549	-	-	-
Current maturities of long-term bank borrowings	24,801	37,304	-	-
Trade payables	95,172	17,689	7,381	8,490
Taxes on income	2,260	-	1,933	823
Due to related parties	131,955	-	-	-
Other current liabilities	51,489	-	52,820	8,062
Long-term bank borrowings	161,882	45,479	74,987	-
Deferred tax liability	566	-	(373)	6,672
Provision for employment termination benefits	1,272	-	-	-
Other non-current liabilities	10,291	-	458	10,784
Total liabilities	487,237	100,472	137,206	34,831
Off balance sheet liabilities	17,876	-	-	-
Net position	61,892	(5,118)	37,867	40,818

The net position of the Company as of 31 December 2003 is positive TL135,459 billion equivalent to EUR 77,623,000.

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NOTE 23 - 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. Investment incentive allowance of 40% are not subject to withholding tax.

Total investments subject to investment allowances amount to TL7,827 billion in the current period.

NOTE 24 - COMMITMENTS AND CONTINGENT LIABILITIES

- a) Guarantees and commitments given were as follows at 30 June 2004 and 31 December 2003:

	30 June 2004	31 December 2003
Collateral obtained	689,860	672,054
Pledges given	19,347	22,832
Guarantee notes given	13,796	14,556
Other guarantees	1,939	3,931
Capital commitments	1,957	2,816
Forward commitments	7,773	22,629

- b) In connection with the investment incentives, the Company was committed to realise export sales amounting to USD 299,098,678 (31 December 2003: USD 331,075,820) at 30 June 2004.
- c) The export incentives and export commitments at 30 June 2004 amount to USD21,000 (31 December 2003: USD 21,000).
- d) In connection with the investment incentives, the Company was committed to realise a capital increase amounting to TL96,126 billion (31 December 2003: TL55,493 billion) at 30 June 2004.
- e) Pledges have been given for the loans received from various banks.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 25 - 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 TL6,990 billion, and negative goodwill amounting to TL52,733 billion have been recognized.

NOTE 26 - SUPPLEMENTARY CASH FLOW INFORMATION

Cash provided by/(used in) operations during the period is detailed as follows:

	30 June 2004	30 June 2003
Changes in reserves and provisions		
Deferred taxation	(8,778)	(12,143)
Montage provision	4,509	513
Warranty provision	13,339	(6,855)
Provision for employment termination benefit	(890)	(1,413)
Customer premium provision	48,601	26,227
Restructuring provision	(11,567)	19,952
	45,214	26,281
Changes in operating assets and liabilities:		
Held-to-maturity investments	(34,041)	12,287
Trade and notes receivable and due from related parties	(136,592)	(10,196)
Inventories	(106,944)	(19,027)
Other current assets and liabilities	42,384	(9,139)
Other non-current assets and liabilities	9,863	10,594
Trade payables and due to related parties	89,340	(54,941)
Minority interest	-	(896)
	(135,990)	(71,318)
Cash used in operations	(90,776)	(45,037)

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2004

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 30 June 2004 unless otherwise indicated)

NOTE 27 - 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 required.

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.

	1 January - 30 June 2004	1 January - 30 June 2003	1 April - 30 June 2004
Segment Sales			
Turkey	1,253,425	800,010	471,745
Euro Zone	844,491	689,261	674,844
Other	150,661	158,013	89,457
	2,248,577	1,647,284	1,236,046
Segment assets			
		30 June 2004	31 December 2003
Turkey		2,624,309	2,277,794
Euro Zone		493,400	507,447
Other		-	-
		3,117,709	2,785,241
Capital expenditure			
Turkey	51,789	34,193	40,720
Euro Zone	10,202	13,561	6,463
Other	-	-	-
	61,991	47,754	47,183

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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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2004

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NOTE 28 - SUBSEQUENT EVENTS

In the explanation stated in accordance with Capital Market Board's Communiqué No: VIII –39 dated 16 July 2004, the Company is planning to embark on production, sales and marketing of consumer durable goods in Russia in addition to current export activities to this country. As a result, the Company has been authorized to make legal, financial and trading applications and to perform required activities.

The amount of the investments that has been planned and given authorization to the Company is million EUR 50.8. At the end of the first year after completion of the first stage of the principal investment with the amount of million EUR 37.5 million and starting mass production it is anticipated to generate approximately EUR 100 million sales. 50% of the investment at the minimum is planned to be financed externally.

NOTE 29 - OTHER EVENTS

For the period 1 September 2004 - 31 August 2006 the Company continues to hold negotiations on Collective Employment Agreement with Turkish Metal Industrialist Union.

NOTE 30 - DATE OF AUTORIZATION FOR ISSUE

The interim consolidated financial statements as at and for the period ended 30 June 2004 have been approved for issue by the Board of Directors on 31 August 2004 and signed by Yağız Eyüboğlu, Chief Financial Officer and by Tamer Soyupak, Director of Finance.

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