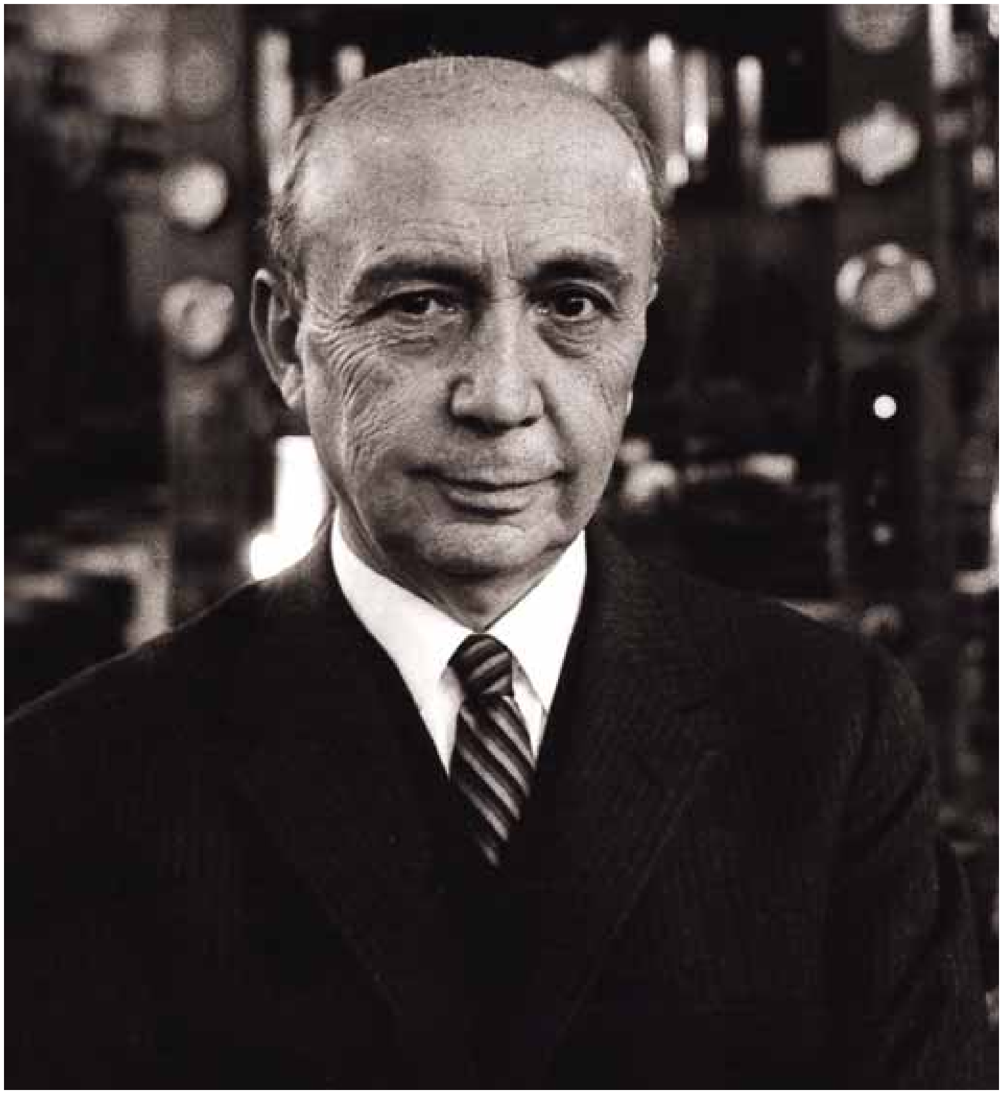
# 08 Grundig Elektronik A.Ş.

ANNUAL REPORT



Our most important asset is our people.

The quality of our products and services is based on the quality of our people. For the continuity of the Koç Group, we follow a policy of recruiting the best people, and providing opportunities for development and advancement. To fully utilize the talents, strength, and creativity of our people, we create a work environment which nourishes increased productivity, cooperation, and solidarity.

Vehbi Koç

"With its innovative products, Grundig Elektronik A.Ş. will continue to be an important player that leads technology in its sector."

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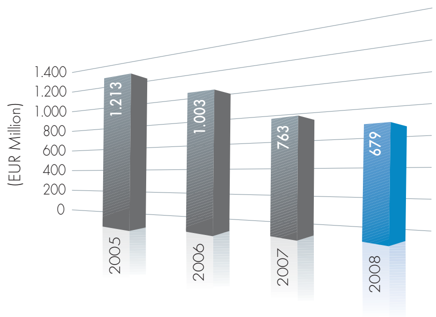
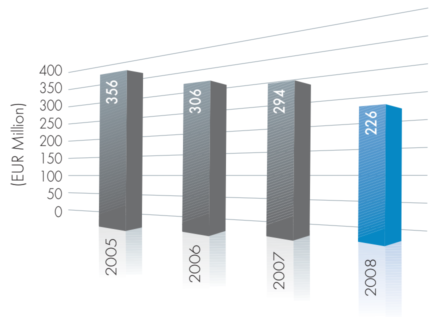
# FINANCIAL RATIOS

Regional Distribution of Sales Revenue

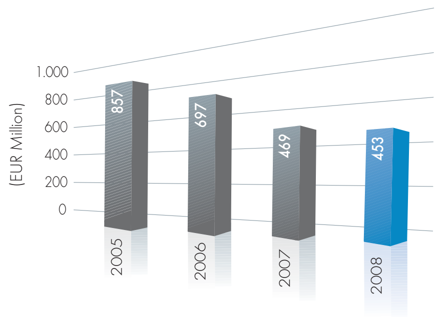

Net Sales



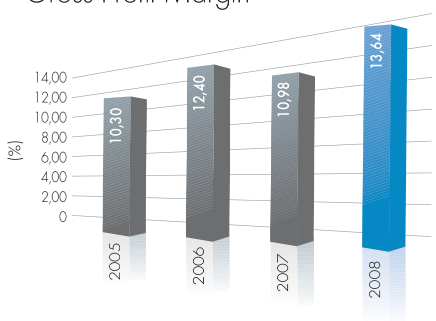

Domestic Net Sales



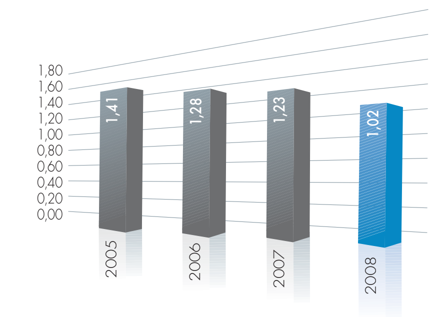

International Net Sales



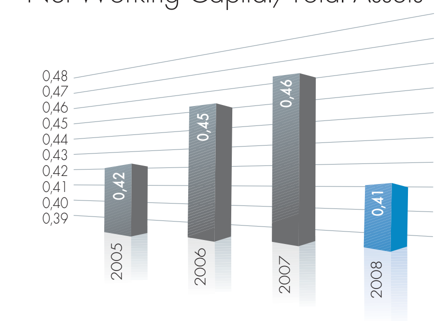

Gross Profit Margin



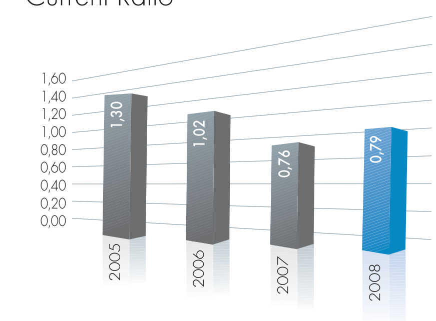

Assets Turnover



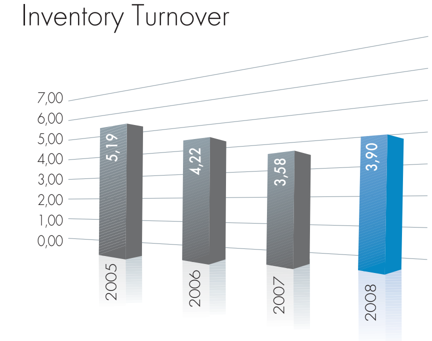

Net Working Capital/Total Assets



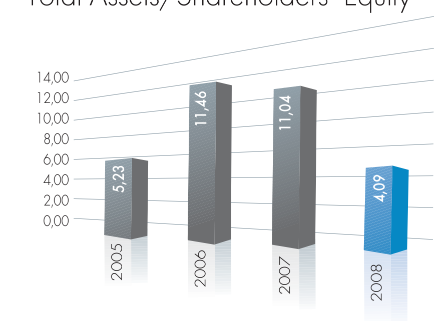

Current Ratio




Inventory Turnover




Total Assets/Shareholders' Equity



# SUBSIDIARIES

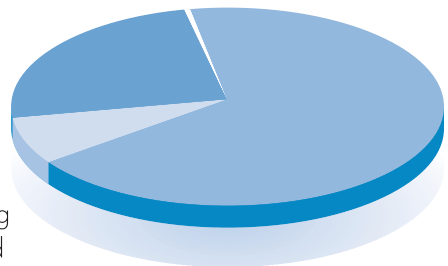
| Subsidiaries | Country of incorparation | Nature of business | Ownership (%) |
|---|---|---|---|
| Bekodutch B.V. | The Netherlands | Consumer Electronics | 100 |
| Grundig Multimedia B.V. | The Netherlands | Display & Audio Product Sales | 100 |

| Companies under Grundig Multimedia B.V. | Country | Cone Business | Nature of Business |
|---|---|---|---|
| Grundig Benelux B.V., Netherlands (Grundig Benelux) | The Netherlands | Sales | Consumer Electronics |
| Grundig Nordic DK A/S, Denmark (Grundig Denmark) | Denmark | Sales | Consumer Electronics |
| Grundig España S.A., Spain (Grundig Espana) | Spain | Sales | Consumer Electronics |
| Grundig Intermedia Ges.m.b.H. (Grundig Austria) | Austria | Sales | Consumer Electronics |
| Grundig Intermedia GmbH, Germany (Grundig GmbH) | Germany | Sales | Consumer Electronics |
| Grundig Italiana S.p.A., Italy (Grundig Italy) | Italy | Sales | Consumer Electronics |
| Grundig Magyarország Kft., Hungary (Grundig Hungary) | Hungary | Sales | Consumer Electronics |
| Grundig Nordic No AS, Norway (Grundig Norway) | Norway | Sales | Consumer Electronics |
| Grundig Nordic Fin Oy, Finland (Grundig Finland) | Finland | Sales | Consumer Electronics |
| Grundig Polska Sp.z o.o., Poland (Grundig Polska) | Poland | Sales | Consumer Electronics |
| Grundig S.A.S. (Grundig France) | France | Sales | Consumer Electronics |
| Grundig (Schweiz) AG, Switzerland (Grundig AG) | Switzerland | Sales | Consumer Electronics |
| Grundig Nordic AB (Grundig Sweden) | Sweden | Sales | Consumer Electronics |
| Grundig Portuguesa Comércio de Artigos | | | |
| Electrónicos Lda., Portugal (Grundig Portugal) | Portugal | Sales | Consumer Electronics |
| Grundig Ceská republika, s.r.o., | | | |
| Czech Republic (Grundig Ceská) | Cezech Rep. | Sales | Consumer Electronics |
| Grundig Slovakia s.r.o., Slovakia (Grundig Slovakia) | Slovakia | Sales | Consumer Electronics |

Grundig Multimedia became subsidiary after the Group's acquisition of 50% shares of Grundig Multimedia in 2008.

# SHAREHOLDING STRUCTURE

## GRUNDİG ELEKTRONİK A.Ş.'s SHAREHOLDING





One of the company under the Koç Group, Grundig Elektronik A.Ş.'s principal shareholder is Arçelik A.Ş., 11.32% of Grundig Elektronik A.Ş.'s shares are publicly traded on the Istanbul Stock Exchange (ISE).

By Grundig Elektronik A.Ş.'s Board resolution number 2007/16 dated December 18, 2007, the Company increased its paid-in capital from TRY174,000,000 to TRY348,000,000 and financed the whole increase in cash. The capital increase process was completed on 12, February 2008.

By Board resolution number 2008/15, dated December 5, 2008, the Company increased its paid-in capital from TRY348,000,000 to TRY478,000,000 through a Private Placement. The increase was paid in cash by Arçelik A.Ş. The capital increase was completed on  December 31, 2008.


GRUNDIG

# BOARD OF DIRECTORS' REPORT and MESSAGE FROM THE CHAIRMAN

Esteemed Shareholders,

Welcome to our Shareholders' Meeting. We will share with you the results of our Company's 2008 operations. Before moving on to a evaluation about Grundig Elektronik's operational results, I would like to express my views about recent world developments.

In my previous year's message, I noted that certain problems in the US real estate market and volatility in developed countries' financial markets were emerging. In 2008, these problems spread through the world and trigger a global liquidity crisis. This situation causing deep cuts in demand and detriment of the real sector. Also, significant oil and other commodity price together with foreign exchange fluctuations worsened the crisis and caused many firms to defer their investments.

A succession of major losses on stocks and derivatives trading and a succession of bankruptcies compelled countries to act. At the time of writing, the value of financial support packages so far announced had reached $9.2 trillion.

Today, many economies are in recession and developed countries' markets and most of our export markets are expected to shrink in 2009. The recession in Europe, our largest export market, affects our exports badly while the domestic recession of the previous year is expected to get worse. It is estimated that the economies of developed countries will shrink at a rate of 0,3%. The rate of shrinkage is estimated as 0,7% for US and 0,5% for Europe. The overall situation could very well worsen. It is clear that such a comprehensive crisis will also impact Turkey's total debt, growth dynamics, capital flows and foreign trade volume. Current indicators show that this has already started. The sharp decrease in industrial production during the period of August 2008-December 2008 is noteworthy.

Turkey is situated between several geographic and cultural 'hot' zones - the Middle East, the Caucasus, Islam, terrorism - and it borders regions with massive energy resources. When the tense and volatile nature of our region is thrown into the balance, the potential for detrimental economic and political developments worsens. When we further add Turkey's unique problems to this equation, we see a very complicated picture of problems that await solutions. However, we remain hopeful despite this outlook. We believe that 2009 will see the emergence of solutions for some of the chronic problems Turkey faces. If Turkey could solve its long-term foreign policy problems, it will stand on more solid ground. The revitalization of Turkey-EU relations would raise Turkey to a higher level and strengthen it against the global crisis.

Industrial production has decreased steeply since August. 14% contraction in industrial production brings the country back to the same situation as in November 2001.There is a general consensus that this shrinkage will continue in the first and second quarter of 2009. Considering summer months, we expect the wheels of economy will not begin to accelerate until the third or fourth quarter.

At the beginning of 2008, realizing that it would be a difficult year, we started taking precautionary measures to increase efficiency, limit expenditures and manage risk. Keeping in mind that the crisis is temporary, we resolved to attain our long-term targets and continue our investments by regarding changes brought about by the crisis as windows of opportunity.

Even though the rapid growth rate in the LCD television market, our core business, slowed in 2008, we have continued to grow in domestic and in international markets. Looking at the West European market, our main market, we see that, compared with the previous year, the 2008 LCD TV market grew 32% in terms of units sold and 15% in terms of revenue. In Western Europe, the LCD television segment was the only one that grew in unit and revenue terms. The transition from CRT to LCD televisions in the domestic market continued as well.

Our Company has increased its LCD television production capacity to 2.5 million units, an increase of 38% over 2007. Our sales of LCD televisions increased by 36% from 1.1 million to 1.5 million units in 2008.

We obtained R&D center certificates from the Ministry of Industry and Commerce on October 15, 2008 for our R&D centers in İstanbul and Izmir.

Grundig Elektronik differentiate its products and improve its global competitive power by its R&D. In 2008, the Company realized two world firsts in the television sector. One of them is the Zero-Standby Power television, which consumes zero energy in stand-by mode, and the other is the television with integrated Sound Projector. These products drew considerable interest at the 2008 IFA Exhibition. Additionally, the Zero-Standby Power television won the Innovative Product Award at the TESID 2008 Innovation and Creativity Awards contest.

With the Grundig Chameleon 2 18.5" LCD television, Grundig won the Chicago Athenaeum (the Museum of Architecture and Design) Good Design award which, since its inception in 1950, has become the world's leading award in this category and a symbol of innovative design.

Our Company and Sony United Kingdom Limited signed a letter of intent for the production of SONY branded LCD televisions and, as part of this agreement, production of two models in the SONY BRAVIA LCD TV range started at Grundig Elektronik Production Plant.

We increased our paid-in capital, which was TRY174,000,000, to TRY348,000,000 on 12, February 2008 and then to TRY478,000,000 on December 31, 2008, with the increases paid in cash. These capital increases have strengthened our Company financially.

As Koç Group, our main theme for 2009 is "the future is now". We aim to shape our future through the things we do today because our role in a future world shaped by others would be limited.

Grundig Elektronik moves forward confidently with the vision of becoming Europe's most rapid and flexible consumer electronics production company. The Company's mission is "to exceed customer expectations by transforming changes in the consumer electronics market into user friendly and safe products and services".

I would like to express my gratitude to all members of our Group, our partners, employees and shareholders for their confidence in our Company.

I wish all of you good health, wellbeing and success.

Sincerely,

**Rahmi M. KOÇ**
Chairman of the Board
Grundig Elektronik A.Ş.

# BOARD OF DIRECTORS AND MANAGEMENT 2008

## Board of Directors 2008

| | | | |
|---|---|---|---|
| **Rahmi M. Koç** | Chairman | **A. Zafer İncecik** | Member |
| **Dr. Bülent Bulgurlu** | Vice Chairman | **A. Gündüz Özdemir** | Member |
| **Temel K. Atay*** | Member | **Fatih K. Ebiçlioğlu** | Member |
| **Aydın İ. Çubukçu*** | Member | **C. Ş. Oğuzhan Öztürk** | Member |

## Board of Auditors

**Ahmet Sönmez**

**Kemal Uzun**

*Temel K. Atay and Aydın İ. Çubukçu are also the members of the Audit Comittee.

The Ordinary Shareholders' April 3, 2008 General Meeting about the election of Board of Director and Board of Auditors members was approved on April 9, 2008 and formally announced in the Commercial Registry Gazette No. 7041 of April 14, 2008. Members of the Board of Directors and Board of Auditors were elected for a period that running to the Shareholders' Meeting that will review the 2008 results.

The Chairman and Board of Directors members were authorized as set forth in the relevant provisions of the Turkish Code of Commerce and articles 13 and 14 of the Company's Articles of Association. Board of Auditors members were authorized according to the provisions of Article 25 of the Capital Market Board's Communiqué Serial X, No. 22.

## Management 2008

**C. Ş. Oğuzhan Öztürk**
General Manager

**A. Ercan Şenolur**
Assistant General Manager, Production

**Erkan Duysal**
Director, R&D

**Polat Şen**
Group Director, Finance and Accounting


GRUNDIG


GRUNDIG

# OPERATIONS IN 2008

"Conscious of operating in a sector characterized by rapid technological change, Grundig Elektronik A.Ş. continues its project of process development and efficiency improvement."

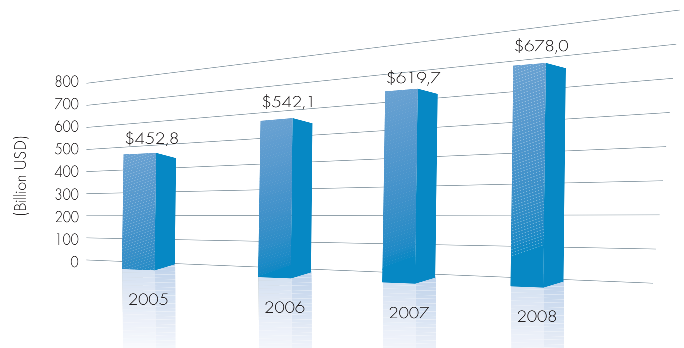
# OPERATIONS IN 2008

Despite the global crisis that emerged in 2008, the consumer electronics market has continued to expand with revenue up 9.4% on 2007 to reach $678 billion.

Though rapid growth in the LCD television market, our core business, slowed in 2008, the market continued to grow.

The CRT television market share shrank to 8% of the total market in units sold.

The decrease in demand experienced in the second half of 2008 caused consumer electronics' prices to decrease sharply, particularly LCD panel prices, which fell by almost 50%.



WORLD CONSUMER ELECTRONICS MARKET

Competition and technological specifications brought LCD prices down by around 30%. This price analysis is based on 32 inch (82 cm) LCD televisions, which is in high demand. No change in sale and credit conditions was experienced.

In 2008, transition from CRT to LCD televisions in the domestic market continued. The overall market contracted by 17% to 1,847,500 units. Sales of CRT televisions slid by 30% (from 1,835,000 to 1,291,000 units) while sales of LCD televisions grew by 47% (from 378,000 to 556,000).

The market share for the televisions we produced was 45% in 2008.

Under an agreement with Sony, Grundig Elektronik has started manufacturing Sony LCD televisions.

Grundig Elektronik A.Ş. follows technological developments and consumer trends closely and reflects any relevant developments in its products and production processes. The process of transition from analog technology (CRT) to digital technology (LCD) continued.

Conscious of operating in a sector characterized by rapid technological change, our Company has continued to initiate projects to develop its processes and improve efficiency. The labor hours required to manufacture an LCD television has decreased by 14% from the previous year. Various sustainable projects for productivity increases and continuous improvement activities are underway.

With new production technologies and modular assembly lines, our efforts to develop cost-efficient products continued in 2008 with significant savings decreased product costs. The various methods of decreasing production costs included determining alternative suppliers and design changes.

In a period when competition has increased and the pace of change has significantly accelerated, our Company is well aware of doing business in such a period. To this end, the Company regards change as an opportunity to improve its position. Thus, the Company expanded its product line with innovative video and audio technologies in 2008.

Grundig Elektronik A.Ş. exports around 99% of its production to Europe and, thanks to the new LCD product line, modern and flexible production technologies, a strong marketing and distribution network, and a well-qualified R&D team experienced in software development and design, the Company is able to meet the demands of consumer groups with various profiles. The Company's corporate culture is based on its well-qualified employees, customer-oriented service concept, and its investments and projects aimed at developing its own technology.

Thanks to the confidence our Company has established with consumers, Grundig Elektronik A.Ş. has secured a solid position in the sector over the years. In 2008, the Company sold 2,688,727 TV in units of which about 70% were consolidated international sales.

## Units Sold

| | 2008 | 2007 | % Change |
|---|---|---|---|
| **TV-Domestic** | 816,280 | 929,351 | -12.2 |
| **TV-International** | 1,872,447 | 2.506.356 | -25.3 |
| **PC/Notebook** | 123,013 | 109,071 | 12.8 |

# INVESTMENTS IN CAPACITY IMPROVEMENT

## We invest in superior technology for superior capacity.

As a result of continuing transition from CRT televisions to LCD televisions, our Company has increased its LCD television production capacity to 2.5 million units, which corresponds to an increase of 38% compared with 2007. This capacity increase was achieved by converting the production capacity of CRT televisions, the sales of which has been declining, into production capacity for LCD televisions.

Additionally, in 2008, the Company increased its LCD television sales from 1.1 million to 1.5 million, which represents a 36% increase on the previous year.

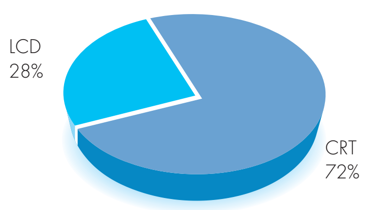
Productions in units and Capacity Utilization Rate (CUR) in 2008 are as follows;

| | Capacity | 2008 - Units Produced | CUR |
|---|---|---|---|
| CRT + LCD | 3,962,000 | 2,545,318 | 64% |
| PC+Notebook | 145,000 | 117,407 | 81% |

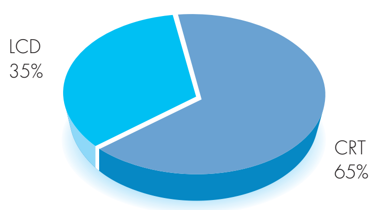
Grundig Elektronik A.Ş. believes in the value of investing in technology and modernization and it is confident that such investments are the only way to achieve sustainable success in the market. Leaping forward, in parallel with to its goals in the shrinking CRT and growing global LCD television market, Grundig Elektronik has spent EUR 14 million on new products, renovation, transformation, and capacity increase projects.

Grundig Elektronik, through rigorous R&D efforts, aims to improve its global competitive power by differentiating its products from those of the competition. The Company has spent TRY29.4 million on R&D projects aimed at capacity improvement.

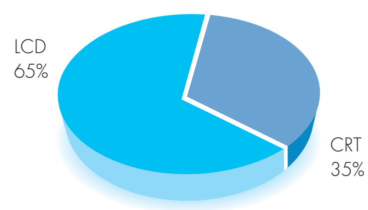
2006 Capacity



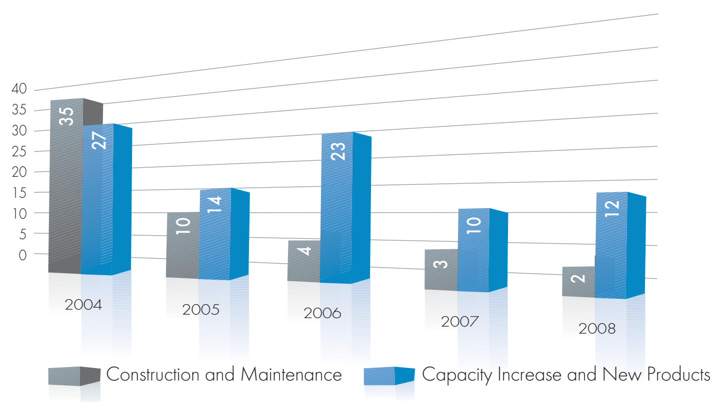

2007 Capacity




2008 Capacity




Distribution of Investments
(Million Euro)




# Trend for Environment Friendly Products

## Recently launched products or services

In the consumer electronics world, energy efficiency is a vital issue. From 2009, the EU will extend the energy label practice that is currently in use with white goods to consumer electronics and work on this project started in 2008. The goal is to classify consumer electronic equipment into energy classes as A or B and producers have already begun adapting their product lines accordingly. In addition to developing A class products, Grundig Elektronik took steps even further forward in 2008 by starting to design the world's most energy-efficient products.

In an effort to meet the requirements of the Energy Efficiency Project (ENVER Project), working power has been decreased by 50% and products that consume zero energy in stand-by mode have been developed. These new products have recently been launched and promoted in Turkey.

While energy is among the top issues on the environment agenda, the Company has also placed emphasis on developing supporting product features. An example of this is the usage of recyclable cardboard boxes and product manuals made of recyclable paper for all products, making them environment friendly in all respects. These products are environmentally friendly and increase the environmental awareness of consumers.



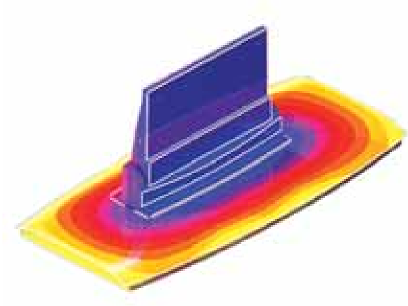
ZERO STANDBY

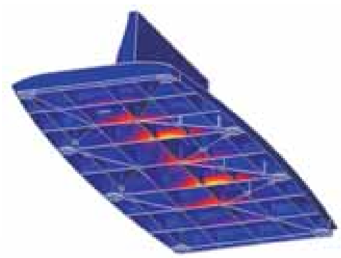
## Keeping Up With Changes in the Design Field

Our venture into new design began in 2007 and netted the company a series of awards. This venture continued in 2008 with full speed.

Last year, we launched our 32-inch, 37-inch, and 42-inch Crew product models, which drew great interest due to their modern lines reflecting the latest design trends and innovative use of bright and transparent materials. The speakers brought our sound quality to the forefront in an excellent combination of technology and design.

We have adopted a production system that allows us to assemble various models on a single assembly line, using different add-on parts for different products. This is an efficient way for the company to serve varying consumer needs.






# NEW PRODUCTS

## The Pleasure of Watching Television is in Listening, Too

Most manufacturers focus solely on the picture performance of their LCD televisions. However, when the issue is overall entertainment quality, the quality of the sound is at least as important as that of the image.

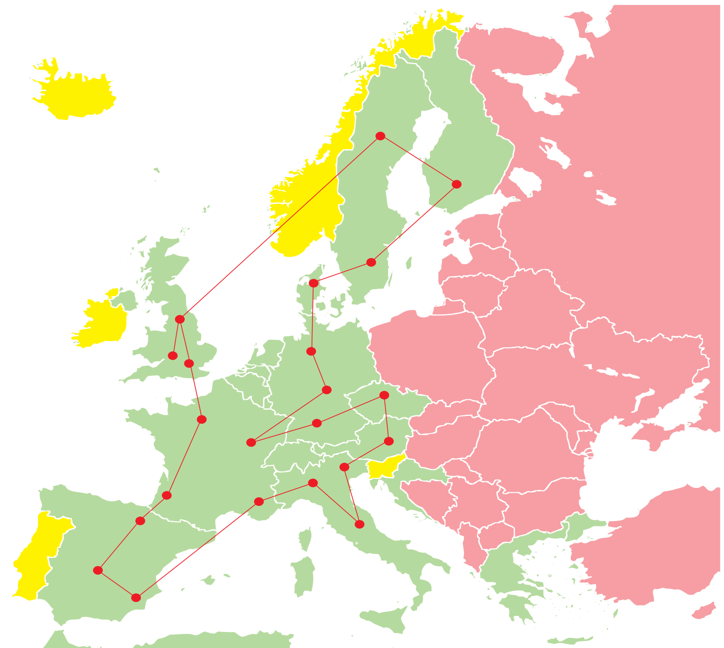
In 2007, we introduced our SoundArt Plus product; its new design with advanced sound features took the entire television concept to the next level. We remain discriminating about our sound quality and continue on our journey toward creating the most enjoyable television entertainment experience possible.

Customers today often feel they must purchase a home theater system to get superior sound performance. But with SoundArt Plus, they can experience top sound quality without making such a large investment. Consumers can access the system's Dolby 5.1 Full Surround Sound Performance with the touch of a single button - no hassling with a roomful of cables or speakers required. The superior sound quality is delivered along with Full HD 100 Hz high-resolution picture quality, without the need for any complex control devices or cabling systems.

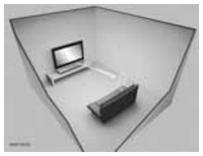
In addition to its full surround-sound system, this product offers special user modes and personalized sound effects. For example, in its 'custom' user mode, the sound level experienced by the main audience can be higher than that heard in other parts of the room.


This revolutionary feature enables users to optimize their surround-sound performance according to the shape of the room and the viewer's location, without using multiple speakers. Other innovative products we developed in 2008 include LCD televisions that consume zero energy in stand-by mode and support single-chip MPEG-2 digital broadcast and MPEG-4 digital broadcast and LCD televisions with 100 Hz-FHD-Full Motion features, improved dynamic contrast, built-in DVD players, MPEG-2 digital broadcast support, and a PVR feature that can record and replay terrestrial digital broadcasts, which were recently launched in Europe.

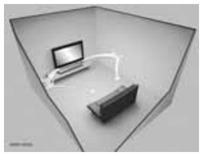
In 2008, field tests were conducted in 28 different regions of 14 European countries to assess product performance.



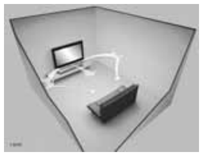
• Full Surround Mode



• Special For Me



• Standard



• Stadium

## The Birthplace of Creative Ideas: R&D

Grundig Elektronik places great emphasis on R&D. Within the framework of Law No. 5746, the Law for Supporting Research and Development Activities, and the Bylaw for Practices and Inspections for Supporting Research and Development Activities, announced in the Official Gazette of July 31, 2008, No. 26953, our company made applications for its Istanbul and Izmir R&D facilities to the General Directorate for Research and Development of the Ministry of Industry and Commerce. On October 15, 2008, we became the first Koç Company to receive our R&D Center documents.

Grundig Elektronik A.Ş. aims to improve its global competitive power by differentiating its products from those of the competition via its R&D activities. To this end, the company achieved two firsts in the TV sector in 2008: a Zero Standby Power television that consumes no energy while in standby mode and a television with a sound projector. These products won the appreciation of customers during the IFA exhibition in 2008. In addition, the Zero Standby Power television won the Innovative Product Award in the Big Company category at the TESİD 2008 Innovation and Creativity Awards.

In 2008, Grundig Elektronik also continued its R&D projects carried out in partnership with universities. The company executed various projects in cooperation with scientists from Turkey's Middle East Technical University (METU) and Boğaziçi University, and from Twente University in the Netherlands, who provided consultancy services.

In addition to local institutions, the company also continued to cooperate with foreign institutions via R&D projects carried out in collaboration with local and international companies in MEDEA+, CELTIC, ITEA2, CATRENE, and other EUREKA clusters. Some of these companies include Philips, NXP, Telefonica, Robotiker, Deimos, Turkcell, Mobilera, TOFAŞ, and STM.

Finally, Grundig Elektronik cooperates in the areas of software, system and product development, product certification, and authorization with various companies from Turkey, Europe, the United States, and Asia. The company works with Korea's Humax, Hyundai, and Homecast, as well as ST (France/Italy) on satellite receivers; with 27M (Sweden) and Suresoft (India) on software; with AUO (Taiwan), Samsung (Korea), Proview (Taiwan), and LG (Korea) on TFT LCD panels; with MStar (Taiwan), Trident (USA), Renesas (Japan), ST-Microsystem (France/Italy), and Micronas (Germany) on TV bodies; with DTG (UK) and Teracom (Switzerland) on cooperation with regard to sectoral areas and product certification; and with service providers Digiturk, D-Smart, Türk Telekom, and Locatel.


# STRONG R&D

## Our Products Capture the Speed of Life

In line with our goal of becoming a global player, Grundig Elektronik joined the Technology Platform established to serve companies in its sector. Our membership allows us to have a say in the European Union's research industry and we are actively involved in projects carried out by this institution. Grundig Elektronik is also a member of NEM (Networked Electronic Media), NESSI (Networked European Software and Services Initiative), and the eMobility technology platform. We carry out R&D projects in EUREKA clusters with other companies that are members of these organizations.

The company is also involved in Electric-Electronic Technology Platform efforts for which an İŞBAP (Program for Supporting the Initiative for Establishing Scientific and Technological Cooperation Networks and Platforms) application has been prepared. We plan to be actively involved in this platform, which will carry out more projects starting in 2009.

Grundig Elektronik has placed great emphasis on protecting the patent rights for its R&D work; as a result of its innovative efforts during the year, a total of 25 patent applications were made in 2008.

As part of its strategy of being involved in global R&D activities, the company takes part in the work of standardization committees and supports local and international conferences related to its field of activity, both as a participant and as an organizer. In 2008, Grundig Elektronik supported the 83rd MPEG meeting, which was held in Antalya from January 12 to 18. The company also sponsored the 3DTV (three-dimensional television) conference held in Istanbul 28-30 May. In addition, we participated in the DVB-World 2008 Conference held in Budapest in March 2008.

reddot

Winners 2007

WPO WORLD PACKAGING ORGANISATION

# AWARDS AND ACHIEVEMENTS

## Good Design 2008 Award: Grundig Chameleon LCD Television

The design of the Grundig Chameleon 2, an 18.5-inch LCD television, which was completed in 2008 and will be launched in 2009, won the Good Design Award from the Chicago Athenaeum: Museum of Architecture and Design. Given out since 1950, the Athenaeum award is world-renowned as a symbol of innovation and design.

The Grundig Chameleon 2 can be used in different settings and comes in various shapes and colors. It attracts attention for its simplicity, its modern lines, and its uniqueness.

GOOD DESIGN

# AWARDS AND ACHIEVEMENTS

## Designpreis 2009 Award nomination: Grundig Piano Series

The German Ministry of Economy and Technology nominated Grundig's Piano series of 42-inch LCD televisions for the Designpreis 2009, Germany's most prestigious design award. The prestige of this award stems from the strictness of the evaluation criteria used, as well as the fact that nominations can only be made by the country's government ministries.

DESIGNPREIS
2009

## iF Design 2008 Award: Grundig Audiorama Speakers

The iF Design 2008 Award, one of the world's most well-known and prestigious design awards, was given to Grundig in the "Sound/Picture" category for its Audiorama speakers.

The Audiorama speakers are a modern update of a classic Grundig design. Their vintage geometrical shape combines with modern materials to create a high-quality appearance.

iF
product
design
award
2008


## TESİD 2008 Innovative Product Award: Arçelik Branded Zero Power LCD Television

The Society of Turkish Electronics Industrialists (TESİD) gave its 2008 Innovative Product Award in the Big Company category to the Arçelik brand's Zero Standby Power LCD television, which was designed by Grundig Elektronik A.Ş. and went into production in 2008.

This LCD television has a first-of-its-kind zero-power standby feature that cuts the energy the television draws from the main network in standby mode, giving consumers a more environmentally friendly purchasing option.

TESİD

## Thanks to its Zero Standby products, Grundig Elektronik has been accepted as a sponsor of the European Union's Sustainable Energy Week (EUSEW).

This annual event only accepts sponsorship from brands with a demonstrated level of sensitivity to environmental and energy-related issues. Our Grundig Brand has been accepted as a sponsor in this respect with Zero Standby products.

SUSTAINABLE ENERGY EUROPE

ZERO STANDBY™

# AWARDS AND ACHIEVEMENTS

## What Differentiates Us from Our Competition

We have combined the IDTV technologies and MPEG-2 and MPEG-4 compression technologies that are crucial in the European market with competitive body designs in all screen sizes. Our MPEG-4 compression television designed on a single-chip body is the first product to receive the Terracom approval required before products can be launched in North European countries.

As a result of our strategy of reflecting our experience and expertise in the areas of industrial design and mechanical technologies in our products, our designs have received the CES 2008 Design and Engineering Innovation Award, the iF Design Award, the Red Dot Award, and other well-known honors.

In 2008, Grundig Elektronik A.Ş. once again proved its technological leadership with groundbreaking designs including a television with 16 speakers and a sound projector, the Zero Power LCD television that consumes no energy in its standby mode, and a multimedia television with a USB interface and 100 Hz Full HD TV.

Our customer- and cost-oriented approach, along with our goal of simple and efficient production, has allowed us to bring down our R&D costs while achieving a significant improvement in production efficiency.

By utilizing advancements in molding technology, the company can manufacture multiple models on a single assembly line, thereby decreasing its investment costs. Measures have been taken to increase production efficiency with critical models by utilizing special molding techniques.

Our expert team and productive cooperations have allowed Grundig Elektronik to increase its technology-utilization level to 80 percent.

## GRUNDIG

Creating widespread use of our products is at the core of Grundig Elektronik A.Ş.'s growth strategy.

Since May 2004, Grundig Multimedia BV and the UK-based company Alba Plc have been 50/50 partners in applying new marketing, brand-positioning, and distribution strategies. As a result of this partnership, the company managed to increase its market share in the LCD market to 4.2 percent in 2008 in its biggest market, Germany.

In 2008, in line with new Grundig strategies, 50 percent of the company shares, corresponding to the portion owned by Alba Europe Limited, were purchased from Alba Plc.

Like many other global companies, Grundig has been affected by the process of transitioning from analog to digital technologies in the consumer electronics sector. In line with these developments, restructuring efforts have gained momentum and projects have been initiated in various areas to improve product performance.

The company has decided to position Grundig as a brand aimed at the middle and upper market segments and has accordingly adopted an appropriate price-to-performance ratio and the slogan 'Made For You'. With the projects that are currently underway, the company aims to continue increasing its market share and make inroads into the upper segment by combining its product range with effective management strategies.

# A JOURNEY OF QUALITY

## The quality, safety, and compatibility with relevant legislation of all products and services-as well as customer satisfaction-are Grundig Elektronik A.Ş.'s top priorities.

Grundig Elektronik A.Ş. has adopted a policy of continuous development and improvement. In 2008, the company took steps to exceed customer expectations and implement changes that would have a positive impact on the environment and on society.

The TPM (Total Productive Management) methodology is used as a tool for reaching company goals. Using this methodology, various projects regarding costs, quality, motivation, and efficiency were initiated in 2008.

Kaizen, or improvements in the categories of efficiency, cost, and quality with the participation of all production personnel made a significant financial contribution to our company and improved our competitive power. As part of the new policy of continuous improvement, kaizen are implemented in the areas of employee morale, environment, and occupational safety and play an important role in increasing motivation and improving our work environment.

In line with our decision to apply for the TPM Continuity Award, the company receives consultancy services from JIPM–S. A consultant visits us once every three months to provide us with insight into ways to improve our TPM.

Our company's main policy is 'Overall Excellence and Continuous Improvement' and our key principles for implementing this are planning, developing, producing, and marketing products and services that will exceed customer expectations. Quality and reliability are the two main prerequisites for a successful long-term partnership with our customers.

All company operations are carried out under the continuous guidance of various compliance systems, including a Quality Management System compliant with the ISO 9001:2000 standard, an Environmental Management System compliant with the ISO 14001:2004 standard, and an Occupational Health and Safety System compliant with the OHSAS 18001:2007 standard. These systems have been certified by local and international independent auditors. Periodic inspections carried out by these organizations ensure the continuity of the system as well as the relevant system documentation.

Alongside cutomer satisfaction, our top priorities are the quality, reliability, and compliance with all relevant regulations and laws of all products and services developed by Grundig Elektronik A.Ş. This is supported by all company employees and by top management.

# QUALITY MILESTONES

**1983** Initiation of Quality Circles training and practices

**1989** Work begins on ISO 9001

**1991** ISO 9001 Quality Management Systems Certificate SGS Yarsley
AQAP-110 Industrial Quality Assurance Certificate - Ministry of Defense

**1992** ISO 9001 Quality Management Systems Certificate - TSE (Turkish Standards Institute)

**1993** Koç Total Quality Processes launched
BS 7750 Environmental Management System

**1994** SGS Yarsley BS 7750 Environmental Management Systems Certificate. First company in Turkey and first worldwide in the industry, to receive this award and Green Dove Award

**1995** TSE - ISO 14001 Environmental Management Systems Certificate. First company in Turkey to receive this certificate
International Quality Assurance Project launched

**1997** SGS Yarsley BS 7750 Certificate converted to an ISO 14001 Certificate
TPM process initiated

**1999** TÜSİAD – KalDer Quality Achievement Award
Istanbul Chamber of Industry Grand Award for Environment
Work begins on Occupational Health and Safety (OHS) Management Systems Standard and formulation of OHS policies (OHSAS 18001)

**2001** ISO 9000:2000 Quality Management Systems Certificate - SGS Yarsley
ISO 9000:2000 Quality Management Systems Certificate - TSE
AQAP-110 Industrial Quality Assurance Certificate - Ministry of Defense
TPM Excellence Award

**2003** OHSAS 18001 Occupational Health and Safety Systems Certificate - SGS Yarsley
OHSAS 18001 Occupational Health and Safety Systems Certificate - TSE

**2004** SA8000 Social Responsibility System and Certificate - SGS Yarsley

**2005** BS7799 Information Security Management System and Certificate - SGS Yarsley
BRC (British Retail Consortium) Standard and Certificate
Red Dot Design Award
What Hi-Fi Sound and Vision Award

**2006** Initiation of ROHS process
Sony Green Partner
Awarded as Turkey's fastest-growing IT company - Interpro
Patent League, fourth place - Turkish Patent Institute
Good Design Award

**2007** ISO 27001 Information Security Management System Certificate
iF Design Award
CES Design and Innovation Award
Red Dot Design Award
Sony Green Partner
20th Golden Packaging Award - TSE
Worldstar Packaging Award - World Packaging Organization
Certification in line with OHSAS 18001:2007 standard

**2008** Sony Green Partner
Good Design 2008
iF Design Award
Nominated for Designpreis 2009 Award
TESİD 2008 Innovative Product Award

# CORPORATE SOCIAL RESPONSIBILITY REPORT

"The more Grundig Elektronik A.Ş. realizes its own value, the more it adds value to its employees and to society."

# EMPLOYEES, SOCIAL AWARENESS, AND ENVIRONMENT

## Grundig Elektronik A.Ş. is a company committed to having high standards of awareness in the areas of environmental responsibility, occupational health, and occupational safety.

### Social Responsibility Policy

To meet its social responsibilities to its employees, its stakeholders, and the general public, Grundig Elektronik A.Ş. commited to:

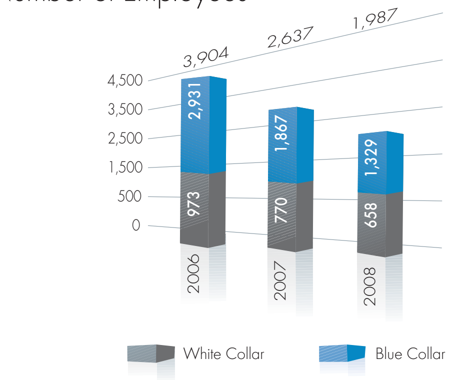
- Maintain the social-responsibility system it has created and work toward its continuous improvement;
- Comply with the requirements of the SA8000 standard and all relevant national and international laws and regulations;
- Refrain from forcing people to work or supporting any form of oppressive policies or disciplinary measures;
- Refuse to employ or support child labor;
- Ensure the health and safety of all employees;
- Support the continuous development of training efforts;
- Carefully retain all relevant records; and
- Disclose and provide access to all documented information concerning the Social-Responsibility System upon request by interested parties, (including the general public.)

The company sees all of its employees, who brought the company to its current position, as members of Grundig Elektronik A.Ş. As at the end of 2008, the consolidated average number of emloyees was 1.987, including those working in Turkey and in international subsidiaries. Of these, 658 were white-collar and 1,329 were blue-collar workers. The company applies the provisions of the Collective Agreement covering the period from September 1, 2008, to August 31, 2010, which was signed on December 5, 2008, between MESS and the Turkish Metal Union.

Several social opportunities are available on the Grundig Elektronik campus in order to better serve to all employees. The following services meet employees' daily needs and serve to boost morale: the Healthcare Services Unit, where tests and laboratory work are undertaken, the Dentistry Unit, where employees can have dental work done during work hours, a nursery school with a capacity to care for 70 children, and a shopping center complete with a cafeteria, restaurant, hairdressers for women and men, a florist, a bijouterie, a tailor, dry-cleaning and shoe-polishing shops.

Fully committed to the health and security of its employees, Grundig Elektronik A.Ş. is the first company in the industry to receive an OHSAS 18001 Occupational Health and Safety Management Systems Certificate from the Turkish Standards Institute and SGS Yarsley. The company has been certified by two organizations for conducting over several years its occupational health and safety operations in accordance with a 'zero accident' target. Grundig Elektronik A.Ş. has also put in place the organizational structure required by the SA8000 Social Responsibility Standard and has obtained an SA8000 Corporate Social Responsibility Certificate from SGS Yarsley.

Average Number of Employees




| | 2006 | 2007 | 2008 |
|---|---|---|---|
| Turnover per employee (Thousand EURO) | 283 | 289 | 342 |

After the OHSAS 18001:2007 Standard was announced in July 2007, Grundig Elektronik A.Ş. was the first company to have its certificate revised in line with the new standard, a change that occurred in August 2007.

It is Grundig Elektronik A.Ş.'s social and national responsibility to make environmental awareness an integral part of its corporate culture. The company prioritizes supporting environmentally friendly production processes and displaying the necessary level of sensitivity with regard to waste management.

### Environmental, Occupational Health and Safety Policy

Grundig Elektronik A.Ş. has always been dedicated to being a company with a high sense of responsibility toward both the environment and occupational health and safety. The company will continue its efforts to achieve the following targets in its investments and in the development and packaging of its products, to:

- Use methods that reduce the consumption of natural resources and increase recycling and recovery rates;
- Achieve the basic goal of 'zero accidents' and minimize waste discharged into the air, earth, and water;
- Choose safe and environmentally friendly operations over processes that damage the environment and human health;
- Closely monitor and adhere to all relevant environmental, health, and labor laws, by-laws, and regulations;
- Encourage suppliers to act responsibly in matters related to the environment and to occupational health and safety;

- Raise employee awareness concerning the environment and occupational health and safety;
- Protect the health and safety of all employees and contractors, as well as visitors to the factory;
- Minimize risks presented by machinery, tools, instruments, workbenches, transport activities, and auxiliary production tools;
- Minimize potential risks arising from working conditions, to plan health-care activities, and to create healthy working conditions; and
- Continually review practices and activities concerning the environment and occupational health and safety, and to plan improvements and launch new activities accordingly.

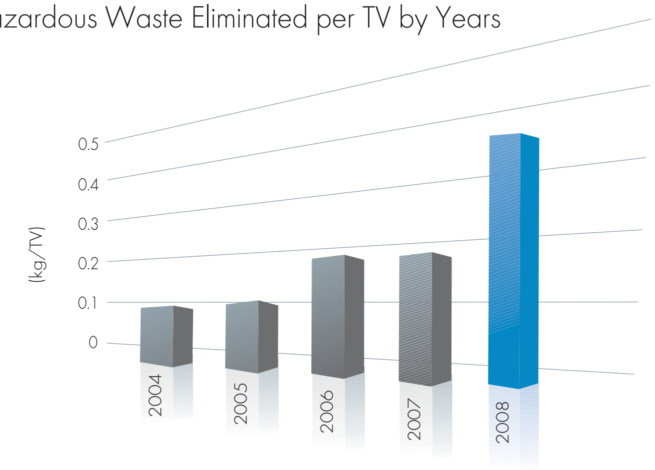
## Waste Management

Environmental awareness has been a part of Grundig Elektronik A.Ş.'s corporate culture from the very beginning. Company employees have been trained to use technologies that raise living standards and to refrain from using careless and destructive methods that damage the environment. Grundig Elektronik A.Ş. considers the protection of the environment and natural resources as an integral part of its overall quality philosophy and acts accordingly. To this end, the waste created during production is recycled, and any non-recyclable waste is destroyed in accordance with all applicable regulations.

## Reducing Solid Waste and Raw Material Consumption

In accordance with its environmental policy, the company recycles its Styrofoam and plastic waste at its recycling plant and uses a portion of this recycled waste as raw material. During PCB production, acid and copper recycling units provide acid to be used in production again and copper is decomposed.

Hazardous Waste Eliminated per TV by Years




## Occupational Health and Safety Practices

The company carries out projects aimed at minimizing occupational health and safety risks with the aim of providing its employees with optimal work conditions. In the relevant units, employees are provided with protective equipment, and all work processes are selected by taking into account occupational health and safety risks.

## Environmentally Friendly Design

Companies involved in large-scale manufacturing play a major role in the rapid consumption of natural resources and the disruption of nature's equilibrium. Grundig Elektronik A.Ş. believes in the value of environmentally friendly production and fosters the same awareness in its employees. The company has committed itself to environmental awareness with regard to its production practices and continuously strives to meet environmental criteria with regard to its designs.

To this end, the company implements the following initiatives:

- Recyclable materials are given preference in the design of mechanical systems, resulting in lower raw-material usage during plastic production and design modifications help reduce material weight.
- In the design of electronic systems, various criteria, such as electromagnetic pollution control and lower power consumption during both standby and 'on' modes, are taken into account, reducing energy consumption and creating energy savings during the manufacturing process. The company has managed to decrease energy consumption in standby mode to below 0.1 W for its new products.

## Energy Savings and Relevant Practices

The company has continued its commitment to environmental sensitivity by making energy-saving improvements to its products and production processes in 2008, including:

- Improvements made to the boilers used in Styrofoam production and to the cooling towers that achieved energy savings of 54 percent and 55 percent, respectively;
- Improvements made to the boilers at the plastics-production plant that resulted in energy savings of 10 percent; and
- The introduction of a new range of products in which the rate of use of recyclable materials exceeded 75 percent and energy savings of 50 percent were achieved while decreasing product weights by 45 percent and packaging-material weights by 25 percent.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

## 1. Corporate Governance Principles Compliance Statement

The implementation of the corporate governance principles that were announced in July of 2003 following adoption by the Capital Markets Board (CMB) in its decision of July 4, 2003 (No. 35/835) is of great importance in terms of credibility and financing opportunities, particularly for companies whose shares are publicly traded. These principles, which pertain to the quality of corporate governance, have been adopted by our Company and are strictly implemented.

According to decision No. 48/1588 of the CMB, adopted on December 10, 2004, companies whose shares are traded on the Istanbul Stock Exchange (ISE) are required to issue a statement regarding their compliance with corporate governance principles in their annual reports and on their websites beginning with their 2004 annual reports. Consequently, since 2004, Beko Elektronik has added the following information to its Annual Reports and website concerning its compliance with the following principles. The CMB updated its "Capital Markets Board Corporate Governance Principles" in accordance with the "OECD Corporate Governance Principles" which were published in 1999 and revised in 2004. Beko Elektronik A.Ş.'s 2008 Corporate Governance Report was prepared according to the new principles.

## SECTION I - SHAREHOLDERS

## 2. Shareholder Relations Unit

Shareholder Relations Unit is a part of the company's Finance Department manages relations with shareholders and potential investors. The main goal of the company is to ensure that shareholders exercise their right to access information in a fair and reliable manner. The main responsibilities of this department are as follows:

- Responding to shareholders' written or verbal requests for information concerning the company either written or verbal with the expressed exception of confidential information, and trade secrets that are not disclosed to the public
- Ensuring shareholder data is kept and updated in a safe and reliable manner
- Ensuring that the General Meeting of Shareholders is conducted in accordance with all applicable legislation, the company's Articles of Association, and other internal regulations
- Preparing General Meeting documents that would be useful to shareholders, to record voting results and to ensure that a report of the proceedings is duly sent to shareholders upon request
- Attending meetings held at the company headquarters, as well as other national and international meetings with individual and corporate investors
- Informing the analysts assessing the company
- Responding to informational inquiries from academics studying the company and the industry
- Filing material disclosures with the ISE and the CMB pursuant to the CMB's Communiqué Serial VIII, No. 39
- Participating in international conferences arranged by various organizations to inform investors
- Following up on amendments to the Capital Markets Law and other applicable legislation and reporting these to the relevant departments within the company
- Providing both Turkish and English content for the Investor Relations link in the corporate website (www.grundigelektronik.com.tr), update said content and provide support for stockholders desiring to access the website for Company information
- Representing the company at the CMB, the ISE, and the Central Registry Agency

### Employees in Charge of Investor Relations:

**C. Ş. Oğuzhan Öztürk**
General Manager

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oguzhan.ozturk@beko.com.tr

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Group Director – Finance and Accounting

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## 3. The Use of Shareholders' Rights to Obtain Information

The company treats its shareholders equally regarding their rights to access and review information. To ensure that shareholders are informed in a reliable manner, financial statements and up-to-date information on the company are offered on its official web site, in Turkish and English.

During this accounting period, shareholders' information requests were met verbally or in writing, in compliance with the capital-markets legislation and without discrimination against any shareholder or shareholder group. During 2008, the number of brokerage houses, funds, and individual investors who made inquiries into our company was approximately 50. The relevant work has been completed as part of the Public Announcement Project (PAP). In addition to explanations concerning important circumstances, financial reports and other essential information about the company are sent out via electronic media with an electronic signature within the framework of the PAP.

Since the company has become a member of the Central Registry Agency established for the dematerialization of securities, company shares traded on the ISE have been dematerialized, eliminating the need to print share certificates. The company entered into an agreement with Yapı Kredi Menkul Değerler A.Ş. for completion of shareholder formalities with the Central Registry Agency. This agreement enabled shareholders to collect their dividends, participate in capital increases, and open accounts at any Yapı ve Kredi Bank branchs.

Company operations are regularly audited by an independent auditor (Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of PricewaterhouseCoopers), as well as by internal auditors elected at the General Meeting of Shareholders. The company's Articles of Association do not contain any provisions concerning the appointment of a special auditor and during the reporting period, no request was made to the company for such an appointment.

## 4. Information on Shareholders Meeting

Our Ordinary General Meeting of Shareholders at which the company's 2007 operations were evaluated, was held on April 3, 2008, at Divan City, Büyükdere Cad. No. 84, Gayrettepe, Istanbul. Of the 34.8 billion outstanding shares, 29,966,174,739, or 86.1 percent, were represented at the Ordinary Shareholders Meeting. The meeting was attended by shareholders (in person or by proxy), stakeholders, and media members, as well as representatives of various brokerage houses and banks. Shareholders' questions were answered at the meeting.

- The Ordinary General Meeting of Shareholders is announced at least three weeks in advance, in accordance with applicable legislation. The announcement includes the date, location, and meeting agenda and is made via two national newspapers with high circulation and via disclosure of material events.

- All announcements comply with the Corporate Governance Principles.

- After the invitation to the General Meeting of Shareholders is announced, financial statements and reports, including the Annual Report for 2008, the proposal for dividend distribution, an informative document on the agenda of the General Meeting of Shareholders, supplementary documents, the latest version of the Articles of Association, and the text and justification of amendments to the Articles of Association, if any, are made available to shareholders at the company's headquarters and branches as well as on the company website.

- The announcement of the General Meeting of Shareholders includes proxy statements forms to be used by shareholders who want to be represented by proxy at the General Meeting of Shareholders. These forms are also posted on the company web site.

- In 2008, the Company received no requests from shareholders pertaining to the addition of an item to the agenda.

CMB regulations require disclosure of financial statements within 14 weeks after the end of the financial period. Our company discloses its financial statements well before this deadline, releasing the 2008 year-end financial statements within the ninth week. Following the disclosure of operational results, the company starts its preparations for the General Meeting of Shareholders and, upon completion of the necessary legal procedure, the meeting is convened.

The annual report for the year 2008 was made available to shareholders 15 days before the shareholders' meeting. Our company shareholders' meeting was held on April 3, 2008 for the evaluation of operations in 2007 and the meeting date for evaluation of the 2008 operations has been set as March 25, 2009. The invitation to the General Meeting of Shareholders is announced by the Board of Directors in accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law, and the company's Articles of Association. The decision by the Board of Directors to convene the General Meeting of Shareholders is announced to the public via disclosures filed with the ISE and CMB.

The General Meeting of Shareholders has authorizes the Board of Directors to purchase, sell, and lease material assets, and to make donations and grants.

The minutes of the General Meeting of Shareholders are posted on the company's Web site, www.grundigelektronik.com.tr, and are also made available to shareholders at company headquarters. Shareholders are provided with a copy of the minutes upon request.

The company holds its General Meeting of Shareholders at a minimum cost to its shareholders and in the least complex manner without causing injustice to shareholders. All documents required for foreign shareholders to get information about the meetings and their agendas are translated into English and sent to these shareholders through the banks that hold their shares.

Any shareholder who holds an access card to the General Meeting of Shareholders is entitled to make comments on the company's operations, request information from company management, and receive answers to his or her questions. Shareholders' votes on agenda items are entered into the minutes of the meeting. Each agenda item is voted on individually. The General Meeting of Shareholders is held under the supervision of a representative of the Ministry of Industry and Trade.

## 5. Voting Rights and Minority Rights

The company announces voting procedures to shareholders at the beginning of all General Meeting of Shareholders and shareholders are given the opportunity to cast their votes in the most comfortable way. The company's Articles of Association do not provide for any voting privileges. Shareholders do not include any legal entity that is a subsidiary of our company. Minority shares can be represented at the shareholders' meeting directly or via proxy. The Articles of Association do not contain any provisions preventing a non-shareholder from voting as a proxy.

## 6. Dividend Policy and Deadline for Dividend Distribution

Pursuant to the Corporate Governance Principles, the company adopts a dividend policy that seeks a balance between the interests of the shareholders and the interests of the company. The company has determined its dividend policy as follows: "To the extent permitted by applicable legislation and our investment requirements, long-term average dividends proposed at the General Meeting of Shareholders by the Board of Directors should not be less than 50 percent of the annual distributable profit of the company."

Dividend distribution can be made in the form of cash or bonus shares in line with relevant CBM legislation.The Articles of Association do not grant any privileges in relation to the distribution of dividends.

The Articles of Association cantain provisions for the distribution of a cash advance for dividend.

In 2008, our company made a total of YTL56,668 worth of grants to various state institutions, universities, schools, and foundations.

## 7. Transfer of Shares

The company's Articles of Association do not include any provisions whereby the transfer of shares by shareholders is complicated or restricted.

# SECTION II: PUBLIC DISCLOSURE AND TRANSPARENCY

## 8. Company Information Disclosure Policy

In line with the CMB's Communiqué Serial VIII, No. 39, special circumstances are disclosed to the public. Any development that might have an impact on the company's capital-market tools is disclosed to the public within the time limits set by the relevant legislation. Any changes and developments that emerge later in regard to disclosures already made are also disclosed to the public.

The members of our company's Board of Directors, as well as information on any appointments and resignations, are as follows:

## Board of Directors 2008

**Rahmi M. Koç**
Chairman

**Dr. Bülent Bulgurlu**
Vice Chairman

**Temel K. Atay***
Member

**Aydın İ. Çubukçu***
Member

**A. Zafer İncecik**
Member

**A. Gündüz Özdemir**
Member

**Fatih K. Ebiçlioğlu**
Member

**C. Ş. Oğuzhan Öztürk**
Member

**Members of the audit board**

**Ahmet Sönmez**
**Kemal Uzun**

* Temel K. Atay and Aydın İ. Çubukçu are also members of the audit committee

In line with our Articles of Association, board members are re-selected every year during the General Meeting of Shareholders. All of our current board members took office effective April 3, 2008.

## Management 2008 (31.12.2008)

**C. Ş. Oğuzhan Öztürk**
**General Manager**

Mr. Öztürk started his career as a research associate at the Material Sciences Institute of Istanbul Technical University in 1982. He has served as the general manager of Grundig Elektronik A.Ş. since October 20, 2006.

**A. Ercan Şenolur**
Assistant General Manager, Production

Mr. Şenolur started his career in 1975 as a project engineer at the PTT's Istanbul head office; he has worked at Grundig Elektronik A.Ş. since 1979 and held the position of assistant general manager in charge of production since 2005.

**Erkan Duysal**
Director, R&D

Mr. Duysal started his professional career as a research associate at Miami University in 1988 and has been working at Grundig since 2006. He has been R&D Director since August 1, 2007.

**Polat Şen**
Group Director, Finance and Accounting

Mr. Şen started his career as an audit assistant in the audit group of Koç Holding A.Ş. in 2000. Since November 10, 2008, he has been working as the group director of the finance and accounting at Grundig Elektronik A.Ş.

**Şemsettin Eksert**
General Manager, Grundig Intermedia GmbH

### *Appointments in 2008

Finance and Accounting Group Director - Polat Şen
(Appointed to this position with effect from November 10, 2008.)

The original Turkish versions of all material-event disclosures are published simultaneously on the company's web site and via Public Announcement Project (PAP).

External inquiries are handled according to the content of inquiry by the company's senior management or by relevant personnel in the finance department as authorized by senior management.

In line with the CMB's Communiqué Serial XI, No. 29, our financial and related notes are prepared in a consolidated manner and subjected to an independent audit before being disclosed to the public.

Our annual reports are prepared in line with capital markets legislation, CMB regulations, and the principles set forth in Part II, Section 3.2.2 of the CMB's Corporate Governance Principles.

## GRUNDIG ELEKTRONİK A.Ş. INFORMATION DISCLOSURE POLICY

### Purpose:

As a leading player in the consumer electronics sector in Turkey and Europe, Grundig Elektronik has adopted a policy of informing all shareholders and stakeholders about all company activities in a fair, transparent, complete, and comprehensible manner. The purpose of this information policy is to share past performances, expectations, strategies, and non-confidential company goals and the company vision equally with all current and potential investors and shareholders, and to announce in a timely and detailed manner all financial information related to Grundig Elektronik A.Ş., in line with generally accepted accounting principles and the provisions of the Capital Markets Law.

While following an active and transparent information policy, Grundig Elektronik A.Ş. fully complies with the capital markets legislation and the relevant regulations of the Istanbul Stock Exchange and aims to apply the most effective communications policy in accordance with the CMB's Corporate Governance Principles.

### Authorization and responsibility:

The company's disclosure policy is based on the recommendations of its Board of Directors, which bears responsibility for the monitoring and development of public disclosure activities and the company's public disclosure policy. The Finance Department has been commissioned with coordinating the disclosure function. This directorate is led by the Finance and Accounting Directorate. Relevant officials in these units fulfill their responsibilities in close partnership with the Board of Directors and the audit committee.

### Methods and tools:

Within the framework of the capital markets legislation, the regulations of the Istanbul Stock Exchange (ISE), and the provisions of the Turkish Code of Commerce, Grundig Elektronik has determined that the following tools and methods will be used to implement its public-disclosure policy:

1. Disclosure of material events made to the ISE. (The English translations of these disclosures are simultaneously shared electronically with foreign investors and are published on the company web site in English and Turkish.)
2. Financial tables and their footnotes, an independent auditor's report, and declarations sent periodically to the ISE. (These reports are also simultaneously released on the company web site, along with annual reports and financial presentations that are available in hard-copy format as well.)

3. Annual reports. (These reports are available on the company web site and in hard-copy format.)
4. Company web site (www.grundigelektronik.com.tr).
5. Announcements made via the Commercial Registry newspaper and the daily newspapers
6. Ad-hoc and periodic press releases announced via print and broadcast media channels
7. Face-to-face or teleconferenced meetings with investors and analysts
8. Other communication methods and tools, including telephone, e-mail, and telefax.

### Material event disclosures:

Material event disclosures are prepared by the Finance Department and are signed by the General Manager or the Finance and Accounting Group Director and the Finance Manager before being sent to the ISE. When one of these parties is absent, assistant General Manager or General Accounting Manager is authorized to sign. Material event disclosures are submitted to the ISE via fax and sent electronically in PAP format and are announced on the company website.

### Public disclosure of financial tables:

Grundig's financial tables are prepared in line with the provisions set out by the CMB and are subject to independent audit in line with international audit standards before being disclosed to the public. The financial tables and associated notes are first presented to the Board of Directors for approval, after obtaining the approval of the Audit Committee in line with the capital markets legislation. After the financial tables, their notes, and the independent auditor's report are approved by the Board of Directors Member and General Accounting Manager, they are sent to the ISE in accordance with Capital Markets Law and ISE regulations. The Turkish and English versions of the current and previous financial tables and their notes can be accessed via the Grundig investor relations web pages. The Shareholder Relations Unit also prepares periodic presentations on the information notes and the financial data and ratios to provide more detailed information to investors and releases them on the web site.

### Annual report:

The content of the annual report is prepared in line with capital markets legislation and the CMB's Corporate Governance Principles. After the annual report is prepared, it is approved by the Board of Directors and then disclosed to the public in Turkish and English on the company web site. Hard copies and CD versions of the reports are also made available to Grundig shareholders via the Shareholder Relations Unit.

### Company web site:

The Grundig web site serves as a platform where all stakeholders can monitor detailed and up-to-date information, utilizing charts that make it easier for shareholders to track share performance.

A large portion of the information on the web site is provided in both Turkish and English; in addition to the daily updates, analyses and reviews; retrospective information, and background data are also available. The main types of information that can be viewed on the company web site are:

- Detailed information about corporate identity
- The company's vision and mission
- Information about the Board of Directors and the company's senior management
- The company's organizational and partnership structure
- The company's Articles of Association
- Commercial registry information
- Financial information, indicators, and analysis reports
- CMB material event disclosures
- Information and charts about share performance
- Presentations made to investors
- Information related to the analysts reviewing the company and their reports
- Disclosures about the date, agenda, and agenda items of the general shareholders meeting
- Minutes of the general shareholders meeting and a list of the participants
- A sample proxy
- Corporate governance practices and compliance report
- The dividend distribution policy, its background, and capital increases
- The disclosure policy
- Frequently asked questions
- Detailed information about corporate social responsibility

### Announcements made via the Commercial Registry newspaper and the daily newspapers:

As a requirement of the Capital Markets Law, the Turkish Code of Commerce, and our Articles of Association, announcements related to capital increases and dividend payments must be made via the Commercial Registry newspaper and the daily newspapers.

Ad-hoc and periodic press releases announced via print and broadcast media channels:

Grundig Elektronik provides detailed information to the public about the year's important developments by issuing press releases to print and broadcast media channels. Depending on the nature of these developments, Grundig Elektronik also organizes informational sessions throughout the year. During these meetings, Grundig Elektronik's general manager or other senior managers make a detailed presentation to invited print and broadcast journalists about the company's performance and general developments related to Grundig Elektronik, and answer press questions.

Depending on the nature of these developments, this disclosure can be made via the press as well. Questions or information requests sent by the press about new developments and general business issues are reviewed and receive a reply.

### Meetings with investors and analysts:

Shareholders Relations Unit, headed by the Finance and Accounting Group Directorate with the goal of managing relations with existing and potential shareholders, answering investor inquiries, and increasing company value has been established at Grundig Elektronik. Relations with shareholders are handled with this unit.

To share information about the company's operational and financial performance and its vision, strategies, and goals with its shareholders, senior managers and members of the Shareholder Relations Unit frequently work with brokerage houses, analysts, and investors to prepare question-and-answer charts and summary information that will best promote the company. All meeting requests made by the shareholders are replied to positively and shareholders are given the opportunity to meet in person with high-level company managers, depending on availability. Informative notes released to shareholders via the regularly updated company web site also allow shareholders and analysts to closely follow developments about the company.

### Prospective disclosures:

From time to time, Grundig Elektronik makes prospective announcements related to anticipated events. These prospective disclosures are made in writing and based on certain assumptions; due to risks, uncertainties, and other factors, the actual results can be quite different from what is foreseen by these prospective announcements. If this is the case, investors are warned about the issue.

### Follow-up on news and rumors about the partnership:

The company tracks print and broadcast media on a daily basis through its contracted media follow-up agency. Relevant news items are reported to the senior management every morning and the content of these news items are reviewed. Senior management also tracks local and international news about the company via information agencies such as Reuters.

If the company wishes to make a disclosure about news items or rumors that have emerged in the media but that do not oblige the company to make a material disclosure, the issue is brought to the agenda by the Finance and Accounting Group Director and a disclosure can subsequently be made.

### Criteria used for determining employees with administrative responsibilities:

Company employees with administrative responsibilities that allow access to inside information are determined according to the information they are able to access.

Accordingly, those managers and other employees with access to detailed information about only a portion of company business, or with detailed information only about company business in general, would not be categorized as employees with access to inside information.

However, board members, the general manager and assistant general managers, and Directors who have detailed information about the company's current and future plans can be included in the category of personnel with access to inside information.

The list prepared in line with these criteria is shared with the public in accordance with the provisions of the related CMB notification.

### Maintaining the confidentiality of information that must be disclosed to the public:

As part of its effort to maintain a balance between transparency and protecting company interests, the company places great emphasis on ensuring that all employees observe the rules about information obtained internally. All necessary precautions are taken to prevent usage of such information. The business-ethics principles that are documented and delivered to all employees clearly set out the appropriate modes of business conduct for all Grundig Elektronik A.Ş. employees.

Any information that can be considered a commercial secret that needs to be protected from access by third parties and is obtained through working at the company is considered 'company information'. All employees protect company information, both during and after their employment at Grundig Elektronik A.Ş., and do not use such information, either directly or indirectly. No Grundig Elektronik A.Ş. employee can engage in any business activity that would enable him or her to make gains via the trading of shares in Grundig or any other Koç Group company based on information he or she obtained from inside the company during the course of his or her employment.

Grundig Elektronik A.Ş. implements a "silent period" in which company employees refrain from sharing with the public any information about periodic results before the disclosure related to these results is made. The silent period starts three weeks before the date that year-end results are announced and two weeks before the announcement of quarterly results.

## 9. Disclosure of Material Events

During 2008, the company made 30 material disclosures. Neither the ISE nor the CMB requested any additional explanations. As the company made all of its material disclosures within the designated time, CMB did not impose any sanctions.

## 10. Company Web Site and Its Contents

With the goal of improving investor relations and making information available in a fast and effective manner, our web site, www.grundigelektronik.com.tr, contains the information required by Section II, Article 1.11.5 of the CMB's Corporate Governance Principles. This information is available in English and Turkish.

The company's web site contains information on the following topics:

- Commercial registry information
- Partnership structure
- Board members
- Articles of association
- Annual reports for the past four years
- Disclosures of material events
- Corporate Governance Compliance Report
- Meeting minutes of the General Meeting of Shareholders and the list of participants
- Agenda of the General Meeting of Shareholders

The Shareholder Relations Unit is responsible for developing the content of the Investor Relations pages of the web site, and for updating information and making other additions. We continuously work to make our web site more effective and useful.

## 11. Disclosure of the Company's Ultimate Controlling Individual Shareholder/Shareholders. (Beneficial Ownership)

There are no special circumstances that might influence investors in the event that the names of the individuals who are the ultimate controlling shareholders of the company are disclosed. Since the public already knows that members of the Koç family are the ultimate controlling shareholders, no separate calculation or disclosure has been made.

## 12. Disclosure on Insiders

To maintain a balance between transparency and company interests, the company ensures that all employees observe the rules regarding the use of insider information. No employee of Grundig Elektronik A.Ş., or any other member of the Koç Group, may profit from buying or selling shares of Grundig Elektronik A.Ş. or any other member of the Koç Group using insider information.

Public announcements are made if any company administrator holding knowledge that can affect the value of capital market instruments trades company shares.

The list of top management personnel who have access to any knowledge affecting the value of the capital means of the markets is published in the annual report and the names on this list are registered at the Commercial Registry and related board decisions are disclosed to the public through material-event disclosures via the ISE and CMB.

# SECTION III: STAKEHOLDERS

## 13. Informing Stakeholders

The stakeholders of Grundig Elektronik A.Ş. include third parties who have a direct relationship with the company. Stakeholders are invited to meetings whenever necessary or are informed using telecommunication channels. The company believes that cooperation with stakeholders is beneficial in the long run and respects and protects the rights of stakeholders as specified in the applicable legislation and agreements, and by mutual understanding. Our Shareholder Relations Unit answers investor inquiries and generates solutions to their concerns in the shortest time possible. In line with the company's philosophy of transparency, and the rules set out by the Capital Markets Board, public disclosures are made in a fast and detailed manner.

Relationships with employees working under collective-bargaining agreements are conducted through union representatives. As an employer, Grundig Elektronik A.Ş. is a member of MESS (the Turkish Metal Industrialists' Union), while its blue-collar workers are registered with the Turkish Metal Union. On December 5, 2008, MESS and the Turkish Metal Union signed a collective agreement for the period covering September 1, 2008, to August 31, 2010.

## 14. Participation of the Stakeholders in Management

Mechanisms and models supporting participation of stakeholders, and especially that of employees, in company management have been developed and arrangements have been made to transmit the problems, recommendations, and feedback communicated by stakeholders to decision-makers without impeding company operations.

If changes are to be made to existing working conditions, the work environment and rights provided to employees, the union's view and approval is obtained and relevant decisions are made in collaboratively.

## 15. Human Resources Policy

As it moves to implement its vision, the company holds to the principle that is expressed as "our most important asset is our people". The mission of the company with regard to its human resources is to find effective ways of motivating employees and guiding them in our shared values and work ethics. In this regard, our common values and principles of business ethics act as a guide and our human resources (HR) policy, which is in line with our business strategies, will carry our company forward. The basic principles that guide our HR policy are as follows:

- The company's HR systems and practices balance global and local elements. As an international company, we respect local laws, practices, and needs. Whenever HR policies or practices conflict with local laws, it is always the laws of the country in question that are given primary consideration
- All elements of the company's HR policy conform to the business strategies of Grundig Elektronik A.Ş.
- All HR processes and practices should comply with and support human rights, which require a policy of non-discrimination and the promotion of equal opportunities for all. Grundig Elektronik does not discriminate in any way, in terms of ethnic background, race, nationality, disability, political orientation, religious belief, age, gender, or sexual preference
- The basic tenets of the company's HR practices are fairness, consistency, and reliability
- In order to continuously improve HR standards, our HR processes are regularly and systematically reviewed and reformulated according to the latest developments and feedback
- The company protects the confidentiality of personal information.

In light of these principles, the company's human resources practices are based on the following goals:

All our relations with our employees covered by the Collective Agreement are managed through contacts with union representatives who are authorized to represent workers according to the Trade Union Law. In this regard, the company's goal is to ensure sustained cooperation and unity between the worker and the employer, and to find solutions to any problems that may arise within the context of the law and the collective agreement.

The company provides the best possible conditions for its employees, including a working environment that ensures security and productivity. The company is committed to complying with all legal standards and regulations.

Grundig Elektronik A.Ş.'s goal in the hiring and placement processes is to meet the current and future business needs of the company. With this in mind, it tries to create job opportunities that will provide mutual benefit to employees and the company. It provides equal opportunities in the hiring and placement processes to all candidates who possess the necessary qualifications in terms of education, knowledge, skills, competence, and experience.

The company's training and personal development efforts aim at promoting continuous development and supporting individual performance. The company formulates training policies and organizes development programs for employees that are geared at increasing their knowledge, skills, and experience.

Grundig Elektronik A.Ş. believes that individual achievement is at the core of organizational success. To this end, the company makes use of various development management systems to improve employee performance in line with company goals.

Grundig Elektronik A.Ş.'s salary management philosophy is to determine a fair and competitive employment policy that complies with the law.

To encourage critical behavior that will ensure the best practices and inspire motivation, loyalty, and productivity, the company acknowledges every achievement, innovation, or recommendation that benefits the company, and it gives recognition to employees for their achievements.

## 16. Information on Relations with Clients and Suppliers

Marketing activities, sales, and after-sales services related to all products are managed within the context of total quality and aim to meet a 'zero defects' standard. Excellent customer satisfaction is also a primary goal. Project teams created in various departments are trained to resolve customer problems during the production process, saving time in resolving issues and preventing possible mistakes. The company takes the utmost care to protect the confidentiality of all information related to its customers and suppliers that has the characteristics of a trade secret.

Our call center, which has grown in size and technologically sophistication over the years, directly handles all kinds of inquiries, problems, and suggestions from customers, seven days a week, 24 hours a day, and, when necessary, informs the relevant departments to reach a solution for the customer. Capitalizing on the advantages of the latest technology, the call center differentiates itself from the competition by the variety of available communication channels. In addition to modern communication tools such as telephone and e-mail, the call center also handles customer inquiries via traditional channels such as fax and regular mail and responds to the majority of requests immediately. In addition to handling customer requests, our call center also conducts customer satisfaction surveys to collect feedback from the field and it views the results of this feedback as opportunities for developmental.

## 17. Social Responsibility

The company is sensitive to social responsibility issues and has adopted policies that make production processes and technologies possible with absolutely no damage to the environment. The company complies with all relevant legislation about the environment, consumer, public health and publicly discloses its policies about these issues. Relevant information about this issue also takes place on our web site. Engaging in environmental improvement efforts in and around the region where it operates, forming close ties within the region, and organizing social events are all examples of the company's efforts to meet its social responsibilities.

# SECTION IV: BOARD OF DIRECTORS

## 18. The Structure and Composition of the Board of Directors and Independent Members

Our Board of Directors is composed of a Chairman, a Vise Chairman and six members. Following the election of the Board of Directors at the general shareholders meeting, the chairman and vice chairman of the board are elected. In the event of any vacancy on the board, Article 315 of the Turkish Commercial Code applies.

Our chairman, Rahmi M. Koç, is a major shareholder of the company and the Koç Group. Koç Holding CEO Dr. Bülent Bulgurlu serves as vice chairman of the board. All board members have served in various sectors for many years and have significant experience in the sector where our company operates. Our company utilizes the knowledge and experience of our board members to the utmost and allows them to express their views independently, free from any external influence.

Approval of the general shareholders meeting is obtained in accordance with Articles 334 and 335 of the Turkish Commercial Code whenever the chairman or board members engage, personally or on behalf of others, in businesses related to the company's area of activity and whenever they wish to be shareholders in other companies that engage in similar businesses.

## 19. Qualifications of Board Members

Board members possess the qualifications specified in Section 4, Articles 3.1.1, 3.1.2, 3.1.3, and 3.1.5 of the CMB's Corporate Governance Principles. Board members are all university graduates and have had many years of management experience in the public or private sector, though the company's Articles of Association contains no stipulations about this issue.

## 20. Mission, Vision, and Strategic Goals of the Company

The company shares its vision, mission, values, and strategies with the public through its annual reports, on its web site, www.grundigelektronik.com.tr, and through meetings, announcements, and other communication tools.

The vision and mission of the company are formulated by senior management as an outcome of a process that consists of strategy meetings and other internal communication means, in which company employees participate. The strategies and goals determined in this way are ultimately evaluated by the Board of Directors. The goals are periodically compared against predetermined performance criteria.

During the periodic Board meetings held in line with the company's Articles of Association, the company's goals and operations, including performance in the previous period, are reviewed and, when necessary, new goals and strategies are formulated in line with existing conditions.

## 21. Internal Control and Risk Management Mechanism

The company has set up a Risk Management Department and an Internal Audit Department. Risk and internal audit reports are submitted to senior management. In addition, regular assessments are made to measure the effectiveness of the Internal Audit Department in terms of risk control.

## 22. Authority and Responsibilities of the Members of the Board of Directors and Executives

The powers and responsibilities of the company's board members and executive managers are clearly set out in the Articles of Association and in the list of authorized signatures. As required by law, these documents have been submitted to the relevant authorities and also appear on the company web site.

## 23. Principles of Activity of the Board of Directors

The Board of Directors sets its agenda for board meetings in accordance with the proposals presented to the board and the company's executive management by various departments on matters that require a board decision according to the Articles of Association. Other than on such matters, any board member may inform the executive management of the need for a decision on a specific subject and in this case, the matter may be added to the agenda.

The Board of Directors makes decisions as the company's business requires, observing the quorums specified in the Articles of Association.

All views can be voiced at board meetings and all contributions are officially recorded. Because no opposing view was voiced during the board meetings held in 2008, no public disclosure of such was required.

## 24. Prohibition on Carrying out Transactions with the Company and Prohibition of Competing with the Company

Although there is no rule restricting any director from dealing or competing with the company, no director is doing so at the present time.

## 25. Ethical Rules

Grundig Elektronik A.Ş. seeks to be a symbol of reliability and trust and acts in accordance with this goal in its relations with business partners, dealers, industrial associates, and customers. Within the structure it has created with its employees, partners, dealers, and subsidiaries, Grundig Elektronik A.Ş. acts in accordance with its social responsibilities to the community, the environment, its customers, and its business associates. These responsibilities form the backbone of the company's basic rules of ethical conduct.

The "Grundig Elektronik A.Ş. Code of Business Conduct" is an integral part of daily business life at the company.

"Grundig Elektronik A.Ş. Code of Business Conduct" addresses the following issues:

- Aiming to prevent general conflicts of interest, Grundig Elektronik A.Ş. has defined the behavior expected of its employees in matters such as business conducted outside the company, gifts and invitations, business activities of relatives, and employment at suppliers
- In their efforts to achieve the company's targets and carry out its strategies, employees act in full awareness of Grundig Elektronik A.Ş.'s corporate values and principles of business conduct in collecting information about competitors as part of their work duties
- Grundig Elektronik A.Ş. considers the protection of trade secrets an integral part of its future success and its efforts to provide job security for its employees
- Grundig Elektronik A.Ş. respects intellectual property rights and Grundig employees meet all legal obligations when using any written work or invention that belongs to someone else. No book or other work of intellectual property may be used at Grundig Elektronik without payment of copyright fees
- Grundig Elektronik A.Ş. is committed to compliance with all laws and regulations concerning security, health, and the environment
- Internal audits are performed to compare the company's actual status against its policies and procedures, and to ensure that all operations are being conducted as required
- Grundig Elektronik A.Ş. codes of conduct requires consideration of the rights of others, abstinence from alcohol or narcotics at the workplace and during working hours, ensuring the security of the workplace, creating a peaceful working environment, promoting equality, and ensuring the absence of discrimination.

Guidelines defining business conduct have been prepared to serve as a source of information whenever an employee considers how he or she should behave in any particular situation.

An employee who does not comply with the Grundig Elektronik A.Ş. Code of Business Conduct is accountable for any misconduct and may face disciplinary action.

## 26. Number, Structure, and Independence of Committees Established by the Board of Directors

An audit committee has been set up to ensure that the board's duties and responsibilities are duly fulfilled. In 2008, Temel K. Atay and Aydın İ. Çubukçu were elected to the audit committee by the Board of Directors. The committee's duties include evaluating the company's financial statements and performance. It meets every three months and presents a report of its findings to the Board. There are no other committees within the Board of Directors. The members of these committees are not independent members.

## 27. Remuneration of the Board of Directors

The financial benefits to be offered to board members are decided at the general shareholders meeting. At the meeting held on April 3, 2008, it was determined that board members would receive compensation for their services. Accordingly, the chairman and members will each be given a monthly salary of TRY1,235. Other than advance payments made in accordance with the company's business procedures, no loans are made to board members and executives. Guarantees such as sureties in favor of these persons are also prohibited.

## Grundig Elektronik A.Ş.
## Ordinary General Meeting of Shareholders
## 25 March 2009

# AGENDA

1. Opening remarks and election of the meeting board.

2. Reading and discussion of the reports of the Board of Directors, the board of auditors, and the independent auditing firm Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of PricewaterhouseCoopers) on the activities and accounts for the year 2008; acceptance or rejection of the proposal of the Board of Directors with respect to the balance sheet and income statement for 2008.

3. Release from liability of the members of the Board of Directors and the board of auditors with regard to the company's accounts and operations in 2008.

4. Provision to our shareholders of necessary information regarding our dividend policy in line with corporate governance policies.

5. Due approval, approval after amendment, or disapproval of the suggestion of the Board of Directors regarding the distribution of profits.

6. Determination of the number of members of the Board of Directors who shall function until the ordinary general assembly in order to analyze the activities and accounts for the year 2009, and election of new members.

7. Reappointment or replacement of the auditors to act until the ordinary general assembly meets in order to analyze the activities and accounts for the year 2009, and election of the new members.

8. Determination of the gross remuneration for the chairman and the members of the Board of Directors and the Board of Auditors.

9. Informing the general assembly about the donations and aid provided to associations and foundations in 2008 for social relief purposes.

10. Deciding on the following proposed amendments to the Articles of Association, which received the relevant permissions from the Capital Market Board and the Ministry of Industry and Commerce prior to the general shareholders meeting: Article 7, about 'Registered Capital'; Article 10, about 'Foundation'; Article 13, about 'Administration and Representation'; Article 15, about 'Remuneration', in the section titled 'Board of Directors'; Article 20, about 'Foundation'; Article 23, about 'Announcements and Notifications'; Article 27, about 'Entry Documents'; Article 29, about 'Meeting Board'; and the Temporary Article in section titled 'General Shareholders Meeting.'

11. Authorizing members of the Board of Directors, as per the Articles No. 334 and 335 under the Turkish Commercial Code, to engage in work within the scope of the company's business, acting alone or for third parties, to become shareholders in such companies, and to carry out other work and formalities.

12. Authorization by the presidential board concerning the general assembly minutes. These must be signed by the presidential board and such signature is considered sufficient.

13. Wishes

# DIVIDEND DISTRIBUTION PROPOSAL

Our company's Board of Directors made the following decision on March 4, 2009:

**DECISION:**

According to the financial tables prepared by our company, in line with international financial reporting standards as required by the provisions of the CMB's Communiqué Serial XI, No. 29, titled 'Notification Related to Principles Regarding Financial Reporting in the Capital Markets', our company had a consolidated total net loss of TRY151,191,772.88 and a total loss of TRY47,230,056.14, according to official records.

It has been decided to present to the general assembly a proposal not to distribute dividends due to the loss demonstrated on the income statement and due to the company decision to add TRY151,191,772.88, which is the net loss for 2008 into prior years' losses.

# DRAFT AMENDMENTS TO THE ARTICLES OF ASSOCIATION

## (PREVIOUS TEXT)

## ARTICLE 7 – REGISTERED CAPITAL

In line with Law No. 2499, our company accepted the system of registered capital and has adopted this system with the CMB's permission, dated March 4, 1993, and numbered 146.

The registered capital of the company is TRY800,000,000 (eight hundred million), which is divided into 80 billion shares, each having a nominal value of YKr1 (one).

The registered capital ceiling set forth by the CMB is relevant for the five-year period from 2008 to 2012. In order for the board to make a capital increase decision after 2012, even if the company has not reached the permitted registered capital ceiling by the end of 2012, it has to receive permission for an additional period from the general assembly after receiving permission for the capital ceiling previously permitted by the CMB, or for a new ceiling. Unless this permission is received, the company would be deemed to have abandoned the registered capital system.

The issued capital of the company is TRY348,000,000 (three hundred forty eight million), which is divided into 34.8 billion registered share certificates, each having a nominal value of YKr1 (one).

When it deems necessary, between the years of 2008 and 2012, the Board of Directors is allowed to increase capital by issuing registered share certificates, each having a nominal value of YKr1 (one), up to the above mentioned registered capital ceiling in line with the provisions of the Capital Markets Law. The price of the shares sold will be collected in advanced and cash. Unless the issued shares are completely sold and all amounts are collected, no new shares can be issued.

The shares that represent the capital have been dematerialized in line with dematerialization principles.

When deciding to issue new shares, the Board of Directors may decide to issue shares above their face value, and may limit existing shareholders' rights to obtain new shares.

## (PREVIOUS TEXT)

## ARTICLE 10 – FOUNDATION

The business of the company will be run by a Board of Directors that will consist of at least three members to be elected as the result of a decision by the general assembly from among the shareholders and in accordance with the provisions of the Turkish Code of Commerce.

## (PREVIOUS TEXT)

## ARTICLE 13 – ADMINISTRATION AND REPRESENTATION

The Board of Directors is responsible for the administration and representation of the company toward third parties. In order for all documents given by the company and all agreements entered into by the company to be effective, these must carry the company seal and the signature of two individuals authorized by the Board of Directors.

## (PREVIOUS TEXT)

## ARTICLE 15 – REMUNERATION

The chairman and the board members are paid a salary to be determined by the general assembly.

## (PREVIOUS TEXT)

## ARTICLE 20 – FOUNDATION

Shareholders are to gather at least once a year at a general assembly (or General Meeting of Shareholders) that will be held in line with the relevant laws and the provisions of the Articles of Association and represent all shareholders. All decisions made during the general assembly will be binding on both those who opposed the decisions and those who were absent during the meeting.

## (PREVIOUS TEXT)

## ARTICLE 23 – ANNOUNCEMENT AND DECLARATION

Ordinary and extraordinary general assemblies are to be announced in line with the provisions of the Turkish Code of Commerce and the Capital Markets Law.

Notifications of the general assemblies, along with the meeting agenda, are to be made to the Ministry of Industry and Commerce, or its authorized unit, and to the Capital Markets Board at least 20 days before the actual meeting date. A commissioner of the Ministry of Industry and Commerce should be present at the meetings; any decisions made in the absence of a commissioner will not take effect.

## (PREVIOUS TEXT)

## ARTICLE 27 – ENTRY DOCUMENTS

To participate in the general assembly, shareholders or their proxies are required to present, at least one week before the meeting date, the shares they own or represent, or any other document that proves their shareholder status, to the company's head office or an alternative location specified by the Board of Directors, and are required in return to obtain an entry document showing the amount and registration numbers of the shares they own or represent.

Unless the meeting quorum is reached during the first meeting, these documents will be relevant for the second meeting as well. However, the proxies and authorizations granted to those who will act with a proxy should be valid.

## (PREVIOUS TEXT)
## ARTICLE 29 – PRESIDENTIAL BOARD

The meeting board of the general assembly consists of a chairman, two vote collectors, and a clerk.

The chairman of the board leads the general assembly. In cases when the chairman is absent, the chairman for the assembly, as well as the vote collectors and the clerk, are to be selected by the general assembly from among the participants in the meeting.

The chairman's duty is to ensure that the meeting is held in line with the relevant procedures and that the meeting minutes are prepared according to the relevant provisions of the law and the Articles of Association.

## (PREVIOUS TEXT)
## Provisional Article

The nominal value of a single share, which was previously TL5,000, was changed to YKr1 (one) in line with Article 399 of the Turkish Code of Commerce, as amended by Law No. 5274. Due to this amendment, the total number of shares have decreased; in return for two shares, each having a value of TL5,000, one share, having a value of YKr1 (one), will be granted. The shareholders' rights arising from the shares in relation to this amendment are reserved.

Share change procedures are realized in line with the legislation related to dematerialization of capital market tools.

## (NEW TEXT)
## ARTICLE 7 – REGISTERED CAPITAL

In line with Law No. 2499, our company accepted the system of registered capital and has adopted this system with the CMB's permission, dated March 4, 1993, and numbered 146.

The registered capital of the company is TRY800,000,000 (eight hundred million), which is divided into 80 billion shares, each having a nominal value of YKr1 (one).
The registered capital ceiling set forth by the CMB is relevant for the five-year period from 2008 to 2012. In order for the board to make a capital increase decision after 2012, even if the company has not reached the permitted registered capital ceiling by the end of 2012, it has to receive permission for an additional period from the general assembly after receiving permission for the capital ceiling previously permitted by the CMB, or for a new ceiling. Unless this permission is received, the company would be deemed to have abandoned the registered capital system.

The issued capital of the company is TRY478,000,000 (four hundred seventy-eight million), which is divided into 47.8 billion registered share certificates, each having a nominal value of YKr1 (one).

When it deems necessary, between the years of 2008 and 2012, the Board of Directors is allowed to increase capital by issuing registered-share certificates, each having a nominal value of 1 (one) YKr, up to the above-mentioned registered-capital ceiling in line with the provisions of the Capital Markets Law. The price of the shares sold will be collected in cash. Unless the issued shares are completely sold and all amounts are collected, no new shares can be issued.

The shares that represent the capital have been dematerialized in line with dematerialization principles.

When deciding to issue new shares, the Board of Directors may decide to issue shares above their face value, and may limit existing shareholders' rights to obtain new shares.

## (NEW TEXT)
## ARTICLE 10 – FOUNDATION

The business of the company will be run by a Board of Directors that will consist of at least three members to be selected, as the result of a decision by the general assembly, from among the shareholders, in line with the provisions of the Turkish Code of Commerce. The company's general manager can be elected as a board member.

## (NEW TEXT)
## ARTICLE 13 – ADMINISTRATION AND REPRESENTATION

The Board of Directors is responsible for the administration and representation of the company toward third parties. In order for all documents given by the company and all agreements entered into by the company to be effective, these must carry the company seal and the signature of two individuals authorized by the board.

The Board of Directors may allocate administration and representation authority among its members, or may transfer such authority to executive directors or managers, who are not required to be shareholders, either totally or partially. Article 319/1 of the Turkish Code of Commerce is reserved.

The Board of Directors holds the authority to allocate the administration and representation authority mentioned above.
The Board of Directors establishes the authorization and responsibilities of the executive directors or managers and can transfer all kinds of authorization and responsibilities belonging to the Board of Directors to relevant individuals in line with the conditions, provisions, and limitations to be set again by the Board of Directors and can amend or withdraw these entire authorizations, or a portion thereof, when it deems necessary.

When it deems necessary, the Board of Directors can also establish advisory or coordination committees and sub-committees, or committees and sub-committees of a similar nature, from among its members and/or non-members.

Principles related to meeting organization and working and reporting carried out by such committees are set, arranged, and amended by the Board of Directors.

## (NEW TEXT)

## ARTICLE 15 – REMUNERATION

The chairman and the board members are paid a salary to be determined by the general assembly.

In addition to the participation fees, board of directors and committee members may be paid salaries, bonuses, and premiums in return for their services. The payment method and amount will be determined in line with the relevant legislation.

## (NEW TEXT)

## ARTICLE 20 – FOUNDATION

Shareholders are to gather at least once a year at a general assembly (or general shareholders meeting) that will be held in line with the relevant laws and the provisions of the Articles of Association and represent all shareholders. All decisions made during the general assembly will be binding on those who opposed the decisions and those who were absent during the meeting.

The general assembly can be open to the public in a manner that would include members of the media and stakeholders, on the condition that they would have no right to make any comments.

## (NEW TEXT)

## ARTICLE 23 – ANNOUNCEMENT AND DECLARATION

Ordinary and extraordinary general assemblies are to be announced in line with the provisions of the Turkish Code of Commerce and the Capital Markets Law.

The announcement of the general assembly is to be made three weeks before the actual meeting date.

In addition, notifications of the general assemblies, along with the meeting agenda, are to be made to the Ministry of Industry and Commerce, or its authorized unit, and to the Capital Markets Board at least 3 weeks before the actual meeting date. A commissioner of the Ministry of Industry and Commerce should be present at the meetings; any decisions made in the absence of a commissioner will not take effect.

## (NEW TEXT)

## ARTICLE 27-PARTICIPATION IN THE GENERAL ASSEMBLY

Shareholders whose shares are dematerialized and monitored at the Central Registry Foundation [Merkezi Kayıt Kuruluşu A.Ş.] are required to have their names registered in the General Assembly Blockage List in line with the requirements of Central Registry Foundation [Merkezi Kayıt Kuruluşu A.Ş.] in order to be able to participate in the general shareholders meeting. Those shareholders who fail to do so will not be able to participate in the meeting. In line with Temporary Article 6 of the Capital Markets Law, investors who holds shareholders will not be able to participate in the general shareholders meeting and pursue their partnership rights unless they have their shares materialized.

The issue of voting via a proxy is subject to the provisions set forth by the CMB.

## (NEW TEXT)

## ARTICLE 29 – PRESIDENTIAL BOARD

The meeting board of the general assembly consists of a chairman, two vote collectors, and a clerk.

The chairman of the board leads the general assembly. In cases when the chairman is absent, the chairman for the assembly, as well as the vote collectors and the clerk, are to be selected by the general assembly from among the participants in the meeting.

The chairman’s duty is to ensure that the meeting is held in line with the relevant procedures and that the meeting minutes are prepared according to the relevant provisions of the law and the Articles of Association.

At least one board member, one auditor, and at least one of the company officials involved in the preparation of financial tables, or auditors and company officials related to specific issues that are important agenda items, must be present at the meeting. If individuals who fall into these categories cannot be present, the chairman of the meeting will inform the general assembly of the reasons for their absence.

## (NEW TEXT)

## Temporary Article

The nominal value of a single share, which was previously TL5,000, was changed to Yeni Kuruş (YKr) 1 (one) in line with Law No. 5274 amending the Turkish Code of Commerce. Later on, in line with the Council of Ministers’ decision dated April 4, 2007, and numbered 2007/11963, to remove the word ‘Yeni’ from ‘Yeni Kuruş, effective January 1, 2009, this was changed to 1 Kuruş. Due to this amendment, the total number of shares have decreased; in return for two shares, each having a value of TL5,000, one share, having a value of 1 (one) Kuruş was given. The shareholders’ rights arising from the shares in relation to this amendment are reserved.

‘Turkish Lira’ phrases stated in this Articles of Association are phrases amended in line with above -mentioned decision by the Council of Ministers.

# GRUNDİG ELEKTRONİK A.Ş.

## CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT (ORIGINALLY ISSUED TURKISH)

# AUDITOR'S REPORT

Grundig Elektronik A.Ş.
To General Meeting of Shareholders:

Please find below the results of our audit on the 2008 accounting period of the company.

1. We have observed that in compliance with the Turkish Commercial Code and other applicable legislation:
    a. The statutory books and records have been duly kept,
    b. Documents underlying these accounting records have been properly maintained,
    c. Decisions concerning the management of the company have been duly entered into a book of resolutions, which was properly kept.

2. We have concluded that the attached consolidated financial statements, as of December 31, 2008, have been kept in accordance with the provisions of the CMB's Communiqué Serial XI, No. 29, titled 'Notification Related to Principles Regarding Financial Reporting in the Capital Markets', and that these statements accurately reflect the true financial condition and business results of the company as of the above-mentioned date.

To conclude, we kindly ask the general shareholders meeting to approve the company activities summarized in the report of the Board of Directors, the consolidated financial statements prepared in accordance with the capital-markets legislation, and the Board of Directors' proposal for the distribution of dividends, and to release the Board of Directors from liability.

Yours truly,

Istanbul, March 3, 2009

Ahmet SÖNMEZ

Kemal UZUN

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali
Müşavirlik A.Ş.
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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Grundig Elektronik A.Ş.

1. We have audited the accompanying consolidated financial statements of Grundig Elektronik A.Ş. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated statement of loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. The Group management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting standards issued by the Capital Markets Board ("CMB"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the auditing standards issued by the CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the consolidated financial statements are free from material misstatement.An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group management, as well as evaluating the overall presentation of the consolidated financial statements.

   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grundig Elektronik A.Ş. as of 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting standards accepted by the CMB (Note 2).

Emphasis of matter

5. As discussed in detail in Note 34, Board of Directors of Grundig Elektronik A.Ş. has decided for the merger of Grundig Elektronik with Arçelik A.Ş. in accordance with the relevant clauses of Turkish Commercial Code and the Corporate Tax Law, and Turkish Capital Markets Board ("CMB") legal framework over the balance sheets which have been prepared in accordance with the CMB regulations by the whole transfer of all assets and liabilities of Grundig Elektronik A.Ş. as of 31 December 2008 to Arçelik A.Ş., and authorised management to execute the merger in the meeting held on 27 February 2009.

*Additional paragraph for convenience translation into English*

6. The financial reporting standards described in Note 2 (defined as "CMB Financial Reporting Standards") to the consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting for the period between 1 January - 31 December 2005. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with IFRS.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of PricewaterhouseCoopers

Haluk Yalçın, SMMM
Partner
İstanbul, 2 March 2009

# CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| ASSETS | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 28,112 | 18,099 |
| Trade receivables | 10 | 326,895 | 330,350 |
| Other receivables | | 803 | 275 |
| Inventories | 11 | 285,542 | 337,514 |
| Other current assets | 20 | 12,210 | 7,947 |
| | | **653,562** | **694,185** |
| **Non-current assets** | | | |
| Other receivables | | 404 | 364 |
| Financial investments | 7 | 15,118 | 17,320 |
| Investment property | 12 | 8,788 | 3,463 |
| Property, plant and equipment | 13 | 320,460 | 320,139 |
| Intangible assets | 14 | 225,749 | 41,261 |
| Goodwill | 15 | 6,876 | - |
| Deferred tax assets | 28 | 31,227 | 27,789 |
| | | **608,622** | **410,336** |
| **Total assets** | | **1,262,184** | **1,104,521** |

The consolidated financial statements prepared as at and for the year ended 31 December 2008 have been approved for issue by the Board of Directors on 2 March 2009 and signed on its behalf by, Cemal Şeref Oğuzhan Öztürk, General Manager, and Ercan Bayrak, Accounting Manager. These consolidated financial statements are subject to the approval of General Assembly.

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

# CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 8 | 581,587 | 660,735 |
| Other financial liabilities | 9 | 5,453 | 1,483 |
| Trade payables | 10 | 99,289 | 161,516 |
| Current income tax liabilities | 28 | 45 | 3 |
| Provisions | 18 | 42,424 | 34,420 |
| Other current liabilities | 20 | 94,140 | 59,949 |
| | | **822,938** | **918,106** |
| **Non-current liabilities** | | | |
| Financial liabilities | 8 | 74,161 | 75,805 |
| Other payables | | 432 | - |
| Provisions | 18 | 5,837 | 6,773 |
| Provision for employment termination benefits | 19 | 1,279 | 1,821 |
| Deferred tax liabilities | 28 | 40,787 | 1,949 |
| Other non-current liabilities | 20 | 8,121 | - |
| | | **130,617** | **86,348** |
| **EQUITY** | | | |
| Paid-in capital | 21 | 478,000 | 174,000 |
| Adjustment to paid-in capital | 21 | 152,182 | 152,182 |
| Share premium | | 344 | 344 |
| Revaluation fund | 21 | 125,442 | 72,894 |
| Translation reserve | | 3,892 | 2,472 |
| Restricted reserves | 21 | 8,693 | 8,693 |
| Prior years' losses | 21 | (308,732) | (212,856) |
| Current year loss | | (151,192) | (97,662) |
| **Total equity** | | **308,629** | **100,067** |
| **Total liabilities and equity** | | **1,262,184** | **1,104,521** |
| Commitments, contingent assets and liabilities | 17 | | |

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

# CONSOLIDATED STATEMENTS OF LOSS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| Net sales | 22 | 1,288,414 | 1,356,603 |
| Cost of sales | 22 | (1,112,630) | (1,207,710) |
| **Gross profit** | | **175,784** | **148,893** |
| Selling, marketing and distribution expenses | 23 | (151,174) | (117,609) |
| General administrative expenses | 23 | (41,283) | (37,474) |
| Research and development expenses | 23 | (26,244) | (6,641) |
| Other income | 25 | 21,404 | 56,956 |
| Other expenses | 25 | (23,906) | (29,393) |
| **Operating (loss)/profit** | | **(45,419)** | **14,732** |
| Financial income | 26 | 136,459 | 70,580 |
| Financial expenses | 27 | (248,492) | (178,871) |
| **Loss before tax** | | **(157,452)** | **(93,559)** |
| **Taxation income/ (expenses)** | | **6,260** | **(4,103)** |
| - Taxes on income | 28 | (110) | (113) |
| - Deferred tax income/ (expenses) | 28 | 6,370 | (3,990) |
| **Loss for the year** | | **(151,192)** | **(97,662)** |
| **Loss per share (YKr)** | **29** | **(0.4793)** | **(0. 5613)** |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

| | Paid-in capital | Adjustment to paid-in capital | Share premium | Revaluation funds | Translation reserves | Restricted reserves | Prior years' losses | Current year loss | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007 (*)** | **174,000** | **152,182** | **344** | **-** | **1,023** | **8,693** | **(85,092)** | **(127,870)** | **123,280** |
| Transfers | - | - | - | - | - | - | (127,870) | 127,870 | - |
| Financial assets fair value gain (net) (Note 7 and 28) | - | - | - | 8,156 | - | - | - | - | 8,156 |
| Property, plant and equipment revaluation gains (net) (Note 13) | - | - | - | 64,823 | - | - | - | - | 64,823 |
| Depreciation difference calculated over property, plant and equipment revaluation gains | - | - | - | (106) | - | - | 106 | - | - |
| Deferred tax effect of depreciation difference (Note 28) | - | - | - | 21 | - | - | - | - | 21 |
| Translation differences | - | - | - | - | 1,449 | - | - | - | 1,449 |
| Current year loss | - | - | - | - | - | - | - | (97,662) | (97,662) |
| **Balance at 31 December 2007** | **174,000** | **152,182** | **344** | **72,894** | **2,472** | **8,693** | **(212,856)** | **(97,662)** | **100,067** |
| Transfers | - | - | - | - | - | - | (97,662) | 97,662 | - |
| Capital increase in cash | 304,000 | - | - | - | - | - | - | - | 304,000 |
| Intangible assets fair value gain (net) (Note 21) | - | - | - | 53,417 | - | - | - | - | 53,417 |
| Financial assets fair value loss (net) (Note 21) | - | - | - | (2,821) | - | - | - | - | (2,821) |
| Depreciation difference calculated over property, plant and equipment and intangible assets revaluation gains (Note 21) | - | - | - | (1,786) | - | - | 1,786 | - | - |
| Deferred tax effect of depreciation difference (Note 21) | - | - | - | 420 | - | | - | - | 420 |
| Translation differences | - | - | - | 3,318 | 1,420 | - | - | - | 4,738 |
| Current year loss | - | - | - | - | - | - | - | (151,192) | (151,192) |
| **Balance at 31 December 2008** | **478,000** | **152,182** | **344** | **125,442** | **3,892** | **8,693** | **(308,732)** | **(151,192)** | **308,629** |

(*) Restated.

# CONSOLIDATED OF CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Operating activities:** | | | |
| Loss before tax | | (157,452) | (93,559) |
| Adjustments to reconcile net cash generated from operating activities to loss before tax: | | | |
| Changes in accruals and provisions | 33 | 62,389 | (21,086) |
| Depreciation and amortisation | 12, 13, 14 | 38,643 | 31,540 |
| Interest and credit finance income | 26 | (10,575) | (20,493) |
| Interest and credit finance expense | 27 | 118,989 | 112,855 |
| Income from bonus shares issued by available-for-sale financial assets | 25 | (750) | (750) |
| Loss/ (gains) from sale of property, plant and equipment and intangible assets, net | 25 | 734 | (246) |
| **Net cash generated from operating activities before changes in operating assets and liabilities** | | **51,978** | **8,261** |
| Changes in operating assets and liabilities (net) | 33 | (38,611) | 146,890 |
| Current income taxes paid | | (68) | (575) |
| **Net cash (used in) /generated from operating activities** | | **(38,679)** | **146,315** |
| **Investing activities:** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 586 | 1,315 |
| Purchases of property, plant and equipment and intangible assets | 12, 13, 14 | (41,386) | (40,343) |
| Purchases of financial assets | 7 | - | (3) |
| Acquisition of subsidiary | 3 | (55,246) | - |
| Translation differences | | (10,158) | 4,719 |
| **Net cash used in investing activities** | | **(106,204)** | **(34,312)** |
| **Financing activities:** | | | |
| Capital increase in cash | 21 | 304,000 | - |
| Interest and credit finance income received | | 10,442 | 28,009 |
| Interest and credit finance expenses paid | | (112,481) | (117,507) |
| Increase/ (decrease) in financial liabilities (net) | | (99,043) | (34,271) |
| **Net cash generated from/ (used in) financing activities** | | **102,918** | **(123,769)** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **10,013** | **(3,505)** |
| **Cash and cash equivalents as of 1 January** | | **18,099** | **21,604** |
| **Cash and cash equivalents as of 31 December** | | **28,112** | **18,099** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Grundig Elektronik Anonim Şirketi (the "Company" or "Grundig Elektronik") and its subsidiaries (collectively referred as the "Group") undertake all commercial and industrial activities in respect of the production, sales, exportation and importation of TV sets, PCs, electronic cash registers and other various electronic appliances. Arçelik A.Ş., the parent company of Grundig Elektronik, is a member of the Koç Group of companies.

The Company's head office is located at:
Beylikdüzü Mevkii
34520 Büyükçekmece
Istanbul/Turkey

The Company is registered with the Capital Markets Board of Turkey ("CMB") and its shares have been quoted on the Istanbul Stock Exchange ("ISE") since 1992. At 31 December 2008, 11.32% of the total shares are quoted on the ISE. At 31 December 2008, the principal shareholders and their respective shareholdings in the Company are as follows (Note 21):

| | % |
|---|---|
| Arçelik A.Ş. | 83.03 |
| Other | 16.97 |
| | **100.00** |

Following the acquisition of the total shares of Grundig Multimedia B.V. (Note 3) on 31 March 2008, the registered trade name of the Company was changed as "Grundig Elektronik Anonim Şirketi" with the decision taken in General Assembly meeting held on 3 April 2008.

The average number of employees of the Group is 1,987 (2007: 2,637).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS (Continued)

Grundig Elektronik's subsidiaries (the "Subsidiaries") are as follows:

| Subsidiaries | Country of incorporation | Core business | Nature of business |
|---|---|---|---|
| Bekodutch B.V. ("Bekodutch") | The Netherlands | Investment | Holding |
| Beko Elektronik Llc ("Beko Elektronik Llc") (1) | Russia | Production/sales | Consumer electronics |
| Fusion Digital Technology Ltd. ("Fusion Digital") (2) | U.K. | Technology | Non-operating |
| Grundig Multimedia B.V. ("Grundig Multimedia") (3) | The Netherlands | Investment | Holding |
| Grundig Benelux B.V., Netherlands ("Grundig Benelux") (3) | The Netherlands | Sales | Consumer electronics |
| Grundig Nordic DK A/S, Denmark ("Grundig Denmark") (3) | Denmark | Sales | Consumer electronics |
| Grundig España S.A., Spain ("Grundig Espana") (3) | Spain | Sales | Consumer electronics |
| Grundig Intermedia Ges.m.b.H., ("Grundig Austria") (3) | Austria | Sales | Consumer electronics |
| Grundig Intermedia GmbH, Germany ("Grundig GmbH") (3) | Germany | Sales | Consumer electronics |
| Grundig Italiana S.p.A., Italy ("Grundig Italy") (3) | Italy | Sales | Consumer electronics |
| Grundig Magyarország Kft., Hungary ("Grundig Hungary") (3) | Hungary | Sales | Consumer electronics |
| Grundig Nordic No AS, Norway ("Grundig Norway") (3) | Norway | Sales | Consumer electronics |
| Grundig Nordic Fin Oy, Finland ("Grundig Finland ") (3) | Finland | Sales | Consumer electronics |
| Grundig Polska Sp.z o.o., Poland ("Grundig Polska") (3) | Poland | Sales | Consumer electronics |
| Grundig S.A.S., ("Grundig France") (3) | France | Sales | Consumer electronics |
| Grundig (Schweiz) AG, Switzerland ("Grundig AG") (3) | Switzerland | Sales | Consumer electronics |
| Grundig Nordic AB, ("Grundig Sweden") (3) | Sweden | Sales | Consumer electronics |
| Grundig Portuguesa Comércio de Artigos Electrónicos Lda., Portugal ("Grundig Portugal") (3) | Portugal | Sales | Consumer electronics |
| Grundig Ceská republika, s.r.o., Czech Republic ("Grundig Ceská") (3) | Czech Republic | Sales | Consumer electronics |
| Grundig Slovakia s.r.o., Slovakia ("Grundig Slovakia") (3) | Slovakia | Sales | Consumer electronics |

(1) It was decided at the Board of Directors meeting held on 12 May 2008 to discontinue Beko Elektronik Llc's CRT television production.

(2) In liquidation process.

(3) These became subsidiary after the Group's acquisition of 50% shares of Grundig Multimedia in 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 Basis of presentation

**Financial reporting standards**

The consolidated financial statements of the Group have been prepared in accordance with the accounting and reporting principles published by the CMB, namely "CMB Financial Reporting Standards". CMB regulated the principles and procedures of preparation, presentation and announcement of financial statements prepared by the entities with the Communiqué No: XI-29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). The Communiqué is effective for the annual periods starting from 1 January 2008 and supersedes the Communiqué No: XI-25, "The Accounting Standards in the Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union. Until the differences of the IAS/IFRS as endorsed by the European Union from the ones issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"), IAS/IFRS issued by the IASB shall be applied. Accordingly, Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards shall be considered.

With the decision taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, IAS 29, "Financial Reporting in Hyperinflationary Economies", issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

As the differences of the IAS/IFRS endorsed by the European Union from the ones issued by the IASB have not been announced by TASB as of the date of preparation of these consolidated financial statements, the consolidated financial statements have been prepared within the framework of Communiqué XI, No: 29 and related promulgations to this Communiqué as issued by the CMB, in accordance with the CMB Financial Reporting Standards which are based on IAS/IFRS. The consolidated financial statements and the related notes to them are presented in accordance with the formats recommended by the CMB, with the announcement dated 14 April 2008, including the compulsory disclosures. Accordingly, necessary reclassifications have been made in the comparative financial statements.

Grundig Elektronik maintains its books of account and prepares its financial statements in accordance with principles and obligations issued by CMB, the Turkish Commercial Code ("TCC"), 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 in which they are registered. These consolidated financial statements have been prepared based on the statutory books of account with adjustments and reclassifications for the purpose of fair presentation in accordance with CMB Financial Reporting Standards. These consolidated financial statements have been prepared under the historical cost convention as modified by the financial assets and liabilities which are presented at their fair values and revaluation of land, buildings and land improvements.

The preparation of financial statements in accordance with IFRS requires critical decisions taken by management when determining Group accounting policies. The significant assumptions and estimates applied in the preparation of these consolidated financial statements are disclosed in Note 2.4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

**Amendments in International Financial Reporting Standards (IFRS)**

a) Standards, amendments and interpretations, effective in 2008 but not relevant to the Group's operations

- IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions"
- IFRIC 12, "Service Concession Arrangements"
- IFRIC 13, "Customer Loyalty Programmes"
- IFRIC 14, "IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

These changes are mandatory in 2008 but have not been applied in the consolidated financial statements at 31 December 2008 since they are not relevant to the Group's operations.

b) Standards, amendments and interpretations to existing standards that are not yet effective in 2008 and have not been early adopted by the Group

Effective from 1 January 2009:

- IAS 1, "Presentation of Financial Statements" Comprehensive Amendments Regarding Necessity of Net Income Statement Accounted for Directly in Equity
- IAS 23 "(Revised) Borrowing Costs" Comprehensive Amendments Prohibiting Immediately Expensing Borrowing Costs
- IAS 32 "Financial instruments: Presentation" Amendment for Disclosure of Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 39, "Financial Instruments: Recognition and Measurement" Eligible Hedge Items
- IFRS 2 "Share-based Payment"
- IFRS 8 "Operating Segments"
- IFRIC 15 "Agreements for Construction of Real Estates"
- IFRIC 16 ''Hedges of a Net Investment in a Foreign Operation"

Effective for accounting periods beginning on or after 1 July 2009:

- IAS 27, "Consolidated and Separate Financial Statements"
- IAS 28, "Investments in Associates"
- IAS 31, "Interests in Joint Ventures" Changes in the Application of Purchase Method
- IFRS 3, "Business Combinations"

The Group will evaluate the impact of these amendments to its operations and apply them starting from 1 January 2009. It is expected that the application of these amendments and interpretations will not have significant impact on the Group's financial statements in future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

**Foreign currency translation**

**Functional and presentation currency**

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TRY which is the Grundig Elektronik's functional and the Group's presentation currency.

**Group companies**

If the group companies have functional currency different from presentation currency; all assets and liabilities are translated into the presentation currency at the closing rate at the date of the balance sheet; income and expenses are translated into the presentation currency at average exchange rates. All resulting exchange differences are accounted for as translation differences classified in equity.

**Group accounting**

**a) Subsidiaries**

Subsidiaries are companies over which Grundig Elektronik has power to control the financial and operating policies for the benefit of Grundig Elektronik, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the voting rights, otherwise by having the power to exercise control over the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases.

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 Grundig Elektronik and its Subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Company and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Grundig Elektronik in its Subsidiaries are eliminated from equity and income for the year, respectively. Where deemed necessary, accounting policies of the Subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Subsidiaries of Grundig Elektronik, in which the Group has ownership interests over 50% and which are immaterial, are carried at cost, less any provision for impairment in consolidated financial statements. The Subsidiaries excluded from the scope of consolidation are disclosed in Note 7.

The minority shareholders' share in the net assets and results of Subsidiaries for the period are separately classified as minority interest in the consolidated balance sheets and statements of income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

At 31 December, the direct and indirect control (%) by Grundig Elektronik over Subsidiaries included in the scope of consolidation is as follows:

| | 2008 | 2007 |
|---|---|---|
| Bekodutch | 100.00 | 100.00 |
| Fusion Digital (1) | 100.00 | 100.00 |
| Beko Elektronik Llc | 100.00 | 100.00 |
| Grundig Multimedia (2) | 100.00 | 50.00 |
| Grundig Benelux (2), (3) | 100.00 | 50.00 |
| Grundig Denmark (2), (3) | 100.00 | 50.00 |
| Grundig Espana (2), (3) | 100.00 | 50.00 |
| Grundig Intermedia (2), (3) | 100.00 | 50.00 |
| Grundig Austria (2), (3) | 100.00 | 50.00 |
| Grundig Italy (2), (3) | 100.00 | 50.00 |
| Grundig Hungary (2), (3) | 100.00 | 50.00 |
| Grundig Norway (2), (3) | 100.00 | 50.00 |
| Grundig Finland (2), (3) | 100.00 | 50.00 |
| Grundig Polska (2), (3) | 100.00 | 50.00 |
| Grundig France (2), (3) | 100.00 | 50.00 |
| Grundig Switzerland (2), (3) | 100.00 | 50.00 |
| Grundig Sweden (2), (3) | 100.00 | 50.00 |
| Grundig Czech Republic (2), (3) | 100.00 | 50.00 |
| Grundig Slovakia (2), (3) | 100.00 | 50.00 |
| Grundig Slovenia (4) | - | 50.00 |
| Grundig Portugal (2), (3) | 100.00 | 50.00 |

(1) The Company decided to liquidate Fusion Digital at the Board of Directors meeting on 29 December 2005. Since the liquidation of Fusion Digital was in process as of 31 December 2008, Fusion Digital's financial statements which are prepared on a liquidation basis were consolidated.

(2) These became subsidiaries after the Company's acquisition of 50% shares of Grundig Multimedia in 2008 (Note 3). They have been consolidated as joint ventures as of 31 December 2007.

(3) Grundig Multimedia is the parent company of these companies with 100% ownership. Therefore, its direct and indirect control rates are equal to its effective control rate.

(4) Liquidated in 2008.

### b) Joint ventures

Joint ventures are entities to undertake economic activities which are subject to joint control under a contractual arrangement between Grundig Elektronik and one or more other ventures.

Joint ventures are consolidated by way of proportionate consolidation from the date on which joint control is established and no longer consolidated from the date joint control ceases. Proportionate consolidation is the method whereby, the Group's share of the assets, liabilities, income and expenses of the joint venture is combined line by line with similar items in the Group's financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

**Offsetting**

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realise the assets and settle the liabilities simultaneously.

**Comparatives and adjustment of prior period financial statements**

The consolidated financial statements of the Group include comparative financial information to enable the determination of the trends in financial position and performance. Comparative financial information is reclassified to enable conformity with the presentation of the current period financial statements where necessary.

The prior period's financial statements have been restated in order to conform to the presentation of the current period consolidated financial statements prepared within the framework of Communiqué No: XI-29 and related promulgations to it as issued by CMB.

### 2.2 Restatement and errors in the accounting policies and estimates

Material changes in accounting policies or material errors are corrected, retrospectively; by restating the prior period consolidated financial statements. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

### 2.3 Summary of significant accounting policies

Significant accounting policies applied in the preparation of consolidated financial statements are summarised 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 (Note 30).

Since the Group accounts for sales to its Subsidiaries through Arçelik A.Ş and purchases of the Subsidiaries corresponding to these sales are considered as related party transactions; these transactions are eliminated in the consolidated financial statements.

**Trade receivables**

Trade receivables that are created by the Group 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 the original invoice amount unless the effect of imputing interest is significant (Note 10).

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of 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 25).

**Credit finance income/expenses**

Credit finance income/expenses represent imputed finance income/expenses on credit sales and purchases. Such income/expenses calculated by using the effective interest method are recognised as financial income or expenses over the period of credit sale and purchases, and included under financial income and expenses (Notes 26 and 27).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

**Inventories**

Inventories are valued at the lower of cost or net realisable value. The cost of inventories is determined on a moving average basis. Cost elements included in inventories are materials, labour and an appropriate amount for factory overheads. Borrowing costs are not included in cost of inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 11).

**Financial investments**

**Classification**

The Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" in the balance sheet (Note 10).

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date (Note 7).

c) Derivative financial instruments

The Group's derivative financial instruments include forward foreign exchange contracts and foreign currency and interest rate swap transactions. These derivative financial instruments, while providing effective economic hedges under the Group's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 "Financial instruments: Recognition and Measurement" and therefore are accounted for as derivatives held-for-trading in the consolidated financial statements.

**Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Held for trading derivative financial instruments are initially recognised in the consolidated financial statements at cost and are subsequently remeasured at their fair value. Changes in the fair values of held for trading derivative financial instruments are included in the consolidated statements of income.

Forward foreign exchange contracts are valued at quoted market prices or discounted cash flow models as appropriate. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative (Note 9).

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in related note.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less (Note 6).

### Investment property

Building held for rental yields or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as "investment property". Investment properties are carried at cost less accumulated depreciation. Investment properties are depreciated with the straight-line depreciation method over their useful lives (Note 12).

Investment properties are reviewed for impairment losses. Where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of the asset's net selling price or value in use.

### Property, plant, equipment

Land, buildings and land improvements are stated at their fair values, determined based on the valuation performed by Çelen Kurumsal Değerleme ve Danışmanlık A.Ş. on 19 October 2007 less accumulated depreciation calculated until the balance sheet date based on the assumption that their carrying amounts approximate their fair values as of 31 December 2008. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation (Note 13).

Increases in the carrying amount arising on the revaluation of land, buildings and land improvements are credited to revaluation fund in equity.

The difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of loss) and depreciation based on the asset's original cost is transferred from the revaluation fund to prior years' losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Depreciation is provided on restated or revalued amounts of property, plant and equipment on a straight-line basis. Land is not depreciated as it is deemed to have an indefinite life. The expected economic useful lives of such assets, are as follows:

| | |
|---|---|
| Land improvements | 30 - 50 years |
| Buildings | 30 - 50 years |
| Machinery and equipment | 11 - 25 years |
| Furniture and fixtures | 4 - 10 years |
| Vehicles | 4 - 7 years |
| Leasehold improvements | 5 years |
| Moulds | 4 - 7 years |

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount when the carrying amount of the asset exceeds its recoverable amount. Recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilisation of this property, plant and equipment or fair value less cost to sell.

Gain or losses on disposals of property, plant and equipment are accounted for in other income and expense accounts.

Repair expenses and maintenance costs of property, plant and equipment are eligible for capitalisation only when it is probable that future economic benefits with the item will flow to the Group and the cost of the item can measured reliably. All other repair and maintenance are charged to the income statement during the financial period in which they are incurred.

### Intangible assets

Intangible assets comprise acquired brand, trademark licenses, patents, development costs and computer software (Note 14).

a) Brand

Internally generated brand are not recognised as intangible assets as their costs cannot be distinguished from the cost of improvement of operations as a whole. Brands that are acquired separately are accounted for at their acquisition cost, and brands that are acquired as a part of business combination are accounted for at their fair value in the financial statements.

The Group assessed the useful life of brand as indefinite since there is no foreseeable limit to the period over which a brand is expected to generate net cash inflows for the Group.

A brand is not subject to amortisation as it is considered to have an indefinite useful life. A brand is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount when the carrying amount of the brand exceeds its recoverable amount.

b) Trademark licenses and patents

Separately acquired trademark licenses and patents are carried at their acquisition costs. Trademark licenses and patents acquired in a business combination are accounted for at their fair values at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (five years).

c) Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development expenditures previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis from two to three years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

d) Computer software

Computer software is recognised at its acquisition cost. Computer software is amortised on a straight-line basis over their estimated useful lives of five to 15 years and carried at cost less accumulated amortisation.

**Business combinations and goodwill**

A business combination is the bringing together of separate entities or businesses into one reporting entity. The purchase method of accounting under IFRS 3 is used to account for business combinations.

The cost of a business combination is the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree and in addition, any costs directly attributable to the business combination. If a business combination contract includes clauses that enable adjustments in the cost of business combination depending on events after acquisition date; in case the adjustment is measurable and more probable than not, than cost of business combination at acquisition date is adjusted.

Any excess of the cost of acquisition over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill in consolidated financial statements.

Goodwill acquired during the business combination is not subject to amortisation, instead, goodwill is tested for impairment annually (at 31 December) or whenever events or changes in circumstances indicate impairment (Note 15). Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, is accounted for as income in the related period.

**Leases**

(1) The Group as the lessee

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 of 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.

Operational leases

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operational leases. Payments made under operational leases are charged to the income statement on a straight-line basis over the period of the lease.

(2) The Group as the lessor

Operational leases

Assets leased out under operational leases are classified under property, plant and equipment in the consolidated balance sheet and rental income is recognised on a straight-line basis over the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

### Financial liabilities and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method and recognised in the statement of loss over the period of borrowings (Note 8). Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In such case, the tax is also recognised in shareholders' equity.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Subsidiaries operate.

Deferred 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 tax at the balance sheet date (Note 28).

The principal temporary differences arise from the difference between the tax base and the carrying amounts of property, plant and equipment, the revaluation difference on land, buildings and land improvements, provision for export sales expenses, warranty provision, provision for impairment on stocks, provision for doubtful receivables and unused tax credits.

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

Provided that deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and it is legally eligible, they may be offset against one another.

### Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### Employment termination benefits

Employment termination benefits, as required by the Turkish Labour Law, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees. The Company is obliged to pay termination benefits to its employees whose employment terminated without due cause, call for military service or death or retired upon the completion of a minimum one year service in accordance with the laws regulating the work life and Turkish Labour Law. Provision which is allocated by using defined benefit pension's current value is calculated by using estimated liability method. All actuarial profits and losses are recognised in consolidated statements of loss (Note 19).

### Foreign currency transactions and translation

Transactions in foreign currencies during the period 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 New 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 loss.

### Revenue recognition

Revenues are recognised on an accrual basis at the fair values incurred or to be incurred when the goods are delivered and services are given, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less sales discounts and commissions 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 recognised in the period on an accrual basis as financial income (Notes 26 and 27).

Interest income is recognised on a time-proportion basis using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

### Investment, research and development incentives

Gains arising from investment and, research and development incentives are recognised when the Company's incentive claims are approved by the related authorities.

### Dividends

Dividends receivable are recognised as income in the period when they are declared. Dividends payable are recognised as an appropriation of profit in the period in which they are declared.

### Warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorised services' labour and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period (Note 18).

### Paid in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Share premium

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

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. No provision is recognised for operating losses expected in later periods.

### Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial statements and are treated as contingent assets or liabilities (Note 17).

### Earnings per share

Loss per share for each class of shares disclosed in the consolidated statements of loss is determined by dividing the net loss attributable to that class of shares by the weighted average number of such shares outstanding during the period concerned (Note 29).

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. 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 for each earlier year.

### Segment reporting

It is required that the financial information is reported as business segment or geographical segment. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS(Continued)

A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group has chosen geographical segments as the Group's primary segment reporting format based on the risks and returns on products produced reflecting the primary source of the enterprise's risks and returns and has not disclosed business segments as products produced does not have different risks and returns (Note 5).

### Reporting of cash flows

For the purposes of the consolidated cash flow statements, cash and cash equivalents include cash equivalents with maturity periods of less than three months. Cash and cash equivalents in consolidated cash flow statements as of 31 December are as follows:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | | |
| - maturities of less than 3 months (Note 6) | 28,112 | 18,099 |
| | **28,112** | **18,099** |

### 2.4 Critical accounting estimates and judgements

The preparation of consolidated financial statements requires estimates and assumptions to be made regarding the amounts for the assets and liabilities at the balance sheet date, and explanations for the contingent assets and liabilities as well as the amounts of income and expenses realised in the reporting period. The Group makes estimates and assumptions concerning the future. The accounting estimates and assumptions, by definition, may not be equal to the related actual results. The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

*Impairment test for intangible assets which have indefinite useful lives and goodwill:*

In accordance with the accounting policy for the intangible assets which have indefinite useful lives and goodwill stated in Note 2.3, these assets are reviewed for impairment annually or whenever events or changes in circumstances indicate impairment by the Group. The recoverable amounts of the cash-generating units are determined using the methods of value in use and royalty relief. Certain estimates were used in these calculations (Notes 14 and 15). Impairment was not identified as a result of these tests.

*Deferred tax assets calculated over the unused tax credits:*

As the result of the assessment made by the Group management, deferred tax assets in the amount of TRY42,219 (2007: 35,952) related to the unused tax credits amounting to TRY208,802 (2007: 179,122) were estimated to be recoverable within the term which is foreseeable and in which the tax benefit continues as per the tax legislations and recognised (Note 28).

*Revaluation of land, buildings and land improvements:*

In accordance with the accounting policy for property, plant and equipment stated in Note 2.3, land, buildings and land improvements are stated at their fair values, determined based on the valuation performed by Çelen Kurumsal Değerleme ve Danışmanlık A.Ş. on 19 October 2007 less accumulated depreciation calculated until the balance sheet date. The Group assumed that carrying amounts of land, buildings and land improvements approximate to their fair values as at 31 December 2008 based on the studies carried out by the Group and the independent valuation expert's opinion received (Note 13).

### 2.5 Convenience translation into English of consolidated financial statements originally issued in Turkish

The financial reporting standards described in Note 2.1 (defined as CMB Financial Reporting Standards) to the consolidated financial statements differ from IFRS issued by the IASB with respect to the application of inflation accounting for the period between 1 January-31 December 2005. Accordingly, the consolidated financial statements are not intended to present the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with IFRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 3 - BUSINESS COMBINATIONS

Grundig Elektronik acquired 50% shares of Grundig Multimedia B.V., a Joint Venture of Grundig Elektronik, from Alba Europe Ltd, its Joint Venture partner, on 31 March 2008. Thus, the shares of Grundig Elektronik in Grundig Multimedia B.V. increased to 100%.

The details of the net assets acquired and the goodwill are as follows:

| | |
|---|---|
| Cash paid (1) | 70,547 |
| Costs directly attributable to the acquisition | 302 |
| Liabilities attributable to the acquisition (2) | 13,595 |
| Total purchase consideration | 84,444 |
| Fair value of net assets acquired | (73,891) |
| Goodwill at acquisition date (Note 15) | 10,553 |
| Impact of the change in contingent liability attributable to the acquisition (Note 15) (3) | (4,332) |
| Translation differences (Note 15) | 655 |
| **Goodwill as of the balance sheet date** | **6,876** |

(1) The portion of the purchase consideration amounting to EUR35,000,000 paid in cash during the share transfer.

(2) The portion of the purchase consideration which was determined as certain percentages of revenues earned under Grundig brand in United Kingdom and Ireland between the years 2008-2012 and will be paid in five years instalments. The percentages are 4% for the years 2008-2010 (the consideration will not exceed EUR2,000,000 for the year 2008 and EUR3,000,000 for the years 2009 and 2010, per annum) and 2% for the years 2011 and 2012.

(3) The royalty income forecasts from the sales in United Kingdom and Ireland under Grundig brand, which are used for determination of the contingent liability at the acquisition date were revised in accordance with the actual sales realised in 2008. Decrease in the contingent liability resulted from the change in royalty income forecasts are adjusted reciprocally with goodwill in compliance with IFRS 3.

The details of identifiable assets and liabilities (50%) arising from the acquisition are as follows:

| | Carrying value | Fair value |
|---|---|---|
| Cash and cash equivalents | 15,603 | 15,603 |
| Trade receivables | 91,869 | 91,869 |
| Due from related parties | 223 | 223 |
| Inventories | 60,509 | 60,509 |
| Other current assets | 4,208 | 4,208 |
| Financial assets (Note 7) | 36 | 36 |
| Investment property (Note 12) | 4,170 | 4,170 |
| Property, plant and equipment (Note 13) | 1,047 | 1,047 |
| Intangible assets (Note 14) | 22,600 | 94,301 |
| Other non-current assets | 432 | 432 |
| Financial liabilities | (11,304) | (11,304) |
| Trade payables | (9,952) | (9,952) |
| Due to related parties | (103,794) | (103,794) |
| Deferred tax liabilities (Note 28) | (3,328) | (21,612) |
| Other liabilities | (51,845) | (51,845) |
| **Net assets acquired** | **20,474** | **73,891** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 3 - BUSINESS COMBINATIONS (Continued)

The details of cash outflow on acquisition are as follows:

| | |
|---|---|
| Cash paid | 70,547 |
| Costs directly attributable to the acquisition | 302 |
| Cash and cash equivalents acquired (-) | (15,603) |
| **Net cash outflow on acquisition** | **55,246** |

## NOTE 4 - INTERESTS IN JOINT VENTURES

Grundig Multimedia became a subsidiary as a result of the Company's acquisition of 50% shares of Grundig Multimedia on 31 March 2008.

The summary of financial information before consolidation adjustments, relating to the assets, liabilities and net loss of the joint venture accounted for by way of proportionate consolidation is as follows:

| | 31 December 2007 |
|---|---|
| Current assets | 172,969 |
| Non-current assets | 23,968 |
| **Total assets** | **196,937** |
| Current liabilities | 171,347 |
| Non-current liabilities | 71,096 |
| Equity | (45,506) |
| **Total liabilities and equity** | **196,937** |

| | 1 January - 31 March 2008 | 1 January - 31 December 2007 |
|---|---|---|
| Net sales | 73,515 | 282,559 |
| Cost of sales (-) | (57,476) | (230,121) |
| Operating expenses (-) | (18,097) | (74,832) |
| **Operating loss** | **(2,058)** | **(22,394)** |
| Other (expenses)/income (net) | (2,156) | 2,072 |
| Financial income/(expenses) (net) | 1,351 | (4,588) |
| **Loss before tax** | **(2,863)** | **(24,910)** |
| Taxes on income | (1,314) | (461) |
| **Loss for the period** | **(4,177)** | **(25,371)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 5 - SEGMENT REPORTING

Primary reporting format - Geographical segment

The Group's geographical segments are Turkey, Europe and Other. Turkey, where the domestic activities are performed, is the home country of the parent company, Grundig Elektronik, which is also the main operating company.

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

| | 2008 | 2007 |
|---|---|---|
| **Segment revenues (net)** | | |
| Turkey | 429,334 | 523,474 |
| Europe | 838,034 | 810,805 |
| Other | 21,046 | 22,324 |
| | **1,288,414** | **1,356,603** |

| | 2008 | 2007 |
|---|---|---|
| **Segment assets** | | |
| Turkey | 774,095 | 856,840 |
| Europe | 418,288 | 179,725 |
| Other | 10,462 | 22,068 |
| | **1,202,845** | **1,058,633** |
| **Unallocated** | | |
| Cash and cash equivalents | 28,112 | 18,099 |
| Deferred tax assets | 31,227 | 27,789 |
| **Total assets** | **1,262,184** | **1,104,521** |
| **Segment liabilities** | | |
| Turkey | 21,506 | 149,329 |
| Europe | 212,083 | 95,423 |
| Other | 129 | 1,729 |
| | **233,718** | **246,481** |
| **Unallocated** | | |
| Financial liabilities | 655,748 | 736,540 |
| Deferred tax liabilities | 40,787 | 1,949 |
| Other | 23,302 | 19,484 |
| **Total liabilities** | **953,555** | **1,004,454** |

| | 2008 | 2007 |
|---|---|---|
| **Capital expenditures** | | |
| Turkey | 39,645 | 40,876 |
| Europe | 101,993 | 541 |
| Other | - | 121 |
| | **141,638** | **41,538** |
| **Depreciation and amortisation** | | |
| Turkey | 34,303 | 30,362 |
| Europe | 3,432 | 441 |
| Other | 908 | 737 |
| | **38,643** | **31,540** |

**Secondary reporting format - industrial segment**

The Group operates in production and selling activities of TV sets, PCs, electronic cash registers and other various electronic appliances. Since the products that the Group produces are not subject to different risks and returns, no distinguishable industrial segments have been identified.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 6 - CASH AND CASH EQUIVALENTS

| | 2008 | 2007 |
|---|---|---|
| Cash in hand | 36 | 32 |
| Cash at banks | | |
| - demand deposits | 26,179 | 15,819 |
| - time deposits | 1,897 | 2,237 |
| Other | - | 11 |
| | **28,112** | **18,099** |

As of 31 December 2008, the Group's time deposits are denominated in EUR and their average effective annual interest rate is 2.0% (2007: EUR: 3.3%).

Maturities of time deposits are as follows:

| | 2008 | 2007 |
|---|---|---|
| Up to 30 days | 180 | 1,531 |
| 30-90 days | 1,717 | 706 |
| | **1,897** | **2,237** |

## NOTE 7 - FINANCIAL INVESTMENTS

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | % | TRY | % | TRY |
| **Available-for-sale assets** | | | | |
| Koç Tüketici Finansmanı ve Kart Hizmetleri A.Ş. ("Koç Finans") (1) | 7.50 | 13,172 | 7.50 | 15,391 |
| Ultra Kablolu TV ve Telekomünikasyon San. Tic. A.Ş. | 7.50 | 1,901 | 7.50 | 1,901 |
| Grundig Slovenia (2) | - | - | 50.00 | 6 |
| Other | - | 45 | - | 22 |
| | | **15,118** | | **17,320** |

(1) Shown at the fair value determined by undisputed similar transactions method in accordance with the market data as of 31 December.

(2) Liquidated in 2008. As of 31 December 2007, although the Group had direct or indirect controlling interest of 100% in this subsidiary, was carried at cost less any provision for impairment based on the materiality considerations.

The movement of available-for-sale-assets as of 31 December is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | **17,320** | **7,982** |
| Issuance of bonus shares | 750 | 750 |
| Acquisitions (Note 3) | 36 | - |
| Decrease in financial asset revaluation fund | (750) | - |
| Financial assets fair value (decrease)/increase (Note 21) | (2,219) | 8,585 |
| Acquisition of financial assets | - | 3 |
| Liquidated financial assets | (12) | - |
| Translation differences | (7) | - |
| **Balance at 31 December** | **15,118** | **17,320** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 8 - FINANCIAL LIABILITIES

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Average annual effective interest rate (%) | Original Amount | TRY | Average annual effective interest rate (%) | Original Amount | TRY |
| **a) Short-term financial liabilities** | | | | | | |
| **Bank borrowings:** | | | | | | |
| TRY | 22.7 | - | 347,360 | 16.1 | - | 406,820 |
| EUR | 5.8 | 93,687,575 | 200,566 | 6.0 | 6,823,500 | 11,669 |
| USD | - | - | - | 5.6 | 86,238,602 | 100,442 |
| Short-term lease obligations | | | 22 | | | 18 |
| | | | **547,948** | | | **518,949** |
| **b) Short-term portion of long-term financial liabilities** | | | | | | |
| **Bank borrowings:** | | | | | | |
| USD | 3.4 | 20,054,506 | 30,329 | 6.0 | 42,201,130 | 49,152 |
| EUR | 4.6 | 774,700 | 1,658 | 6.6 | 13,280,551 | 22,712 |
| TRY | 21.8 | - | 1,652 | 17.8 | - | 69,922 |
| | | | **33,639** | | | **141,786** |
| **Total short-term financial liabilities** | | | **581,587** | | | **660,735** |
| **c) Long-term financial liabilities:** | | | | | | |
| **Bank borrowings:** | | | | | | |
| TRY | 21.8 | - | 50,000 | 16.9 | - | 50,000 |
| USD | 6.0 | 15,004,821 | 22,692 | 5.8 | 20,000,000 | 23,294 |
| EUR | 4.4 | 681,246 | 1,459 | 5.7 | 1,449,821 | 2,479 |
| Long-term lease obligations | | | 10 | | | 32 |
| **Total long-term financial liabilities** | | | **74,161** | | | **75,805** |

The carrying amounts of short-term financial liabilities are assumed to approximate their fair values due to their short-term nature. As of 31 December 2008, the fair value of long-term financial liabilities is calculated as TRY76,724 (2007: TRY76,445).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 8 - FINANCIAL LIABILITIES (Continued)

The repayment schedule of the long-term financial liabilities is as follows:

| | 2008 | 2007 |
|---|---|---|
| 2009 | - | 24,608 |
| 2010 | 74,161 | 51,197 |
| | **74,161** | **75,805** |

Exposure of the Group's interest bearing loans to interest rate changes and contractual repricing dates at the balance sheet dates are as follows:

| | 2008 | 2007 |
|---|---|---|
| Up to 6 months | 543,188 | 668,508 |
| 6 - 12 months | 88,494 | - |
| 1 - 2 year | 22,702 | 68,032 |
| | **654,384** | **736,540** |

## NOTE 9 - OTHER FINANCIAL LIABILITIES

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Contract amount | Fair value asset/(liability) | | Contract amount | Fair value asset/(liability) | |
| Forward foreign currency transactions | 139,350 | - | (5,453) | 72,401 | - | (1,483) |
| | | **-** | **(5,453)** | | **-** | **(1,483)** |

As of 31 December 2008, the Group has forward foreign currency purchase commitment in the amount of USD85,000,000 in exchange for sale commitment of EUR62,995,000 and forward foreign currency sale commitment in the amount of USD3,026,000 in exchange for EUR2,500,000 (2007: Purchase commitment of USD60,890,000 in exchange for to EUR42,334,000).

## NOTE 10 - TRADE RECEIVABLES AND PAYABLES

**Short-term trade receivables**

| | 2008 | 2007 |
|---|---|---|
| Trade receivables | 279,828 | 189,579 |
| Cheques and notes receivables | 9,263 | 4,686 |
| | **289,091** | **194,265** |
| Provision for doubtful receivables | (75,488) | (54,425) |
| | **213,603** | **139,840** |
| Due from related parties (Note 30) | 113,292 | 190,510 |
| **Trade receivables (net)** | **326,895** | **330,350** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 10 - TRADE RECEIVABLES AND PAYABLES (Continued)

Movement of provision for doubtful receivables as of 31 December are as follows:

| | 2008 | 2007 |
|---|---|---|
| **1 January** | **54,425** | **57,904** |
| Current period additions (Note 25) | 2,443 | 7,339 |
| Collections (Note 25) | (2,055) | (3,825) |
| Acquisitions | 8,025 | - |
| Foreign exchange losses/(gains) | 10,729 | (6,760) |
| Translation differences | 1,921 | (233) |
| **31 December** | **75,488** | **54,425** |

The ageing analysis of provision for doubtful receivables as of 31 December is as follows:

| | 2008 | 2007 |
|---|---|---|
| Over 6 months | 75,488 | 54,425 |
| | **75,488** | **54,425** |

**Short-term trade payables**

| | 2008 | 2007 |
|---|---|---|
| Trade payables | 95,347 | 154,826 |
| Due to related parties (Note 30) | 4,069 | 7,260 |
| Deferred credit finance expenses | (127) | (570) |
| | **99,289** | **161,516** |

## NOTE 11 - INVENTORIES

| | 2008 | 2007 |
|---|---|---|
| Raw materials and supplies | 132,346 | 235,575 |
| Work in process | 8,755 | 8,782 |
| Finished goods | 49,073 | 57,588 |
| Trade goods | 136,498 | 72,745 |
| | 326,672 | 374,690 |
| Provision for impairment on inventories | (41,130) | (37,176) |
| | **285,542** | **337,514** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 11 - INVENTORIES (Continued)

Allocation of the provision for impairment on inventories in terms of inventory type is as follows:

| | 2008 | 2007 |
|---|---|---|
| Raw materials and supplies | 16,121 | 13,874 |
| Finished goods | 8,516 | 16,032 |
| Trade goods | 16,493 | 7,270 |
| | **41,130** | **37,176** |

Movement of provision for impairment on inventories as of 31 December is as follows:

| | 2008 | 2007 |
|---|---|---|
| **1 January** | **37,176** | **34,196** |
| Current period additions (Note 25) | 9,267 | 18,193 |
| Realised due to sale of inventory | (11,948) | (14,650) |
| Reversal of provisions (Note 25) | (3,161) | - |
| Acquisitions | 6,336 | - |
| Translation differences | 3,460 | (563) |
| **31 December** | **41,130** | **37,176** |

## NOTE 12 - INVESTMENT PROPERTY

| | 1 January 2008 | Acquisitions | Additions | Translation differences | 31 December 2008 |
|---|---|---|---|---|---|
| Cost | 4,808 | 5,707 | - | 1,608 | 12,123 |
| Accumulated depreciation | (1,345) | (1,537) | (68) | (385) | (3,335) |
| | **3,463** | **4,170** | **(68)** | **1,223** | **8,788** |

| | 1 January 2007 | Transfers from property, plant and equipment | Translation differences | 31 December 2007 |
|---|---|---|---|---|
| Cost | 4,052 | 1,249 | (493) | 4,808 |
| Accumulated depreciation | (1,266) | (176) | 97 | (1,345) |
| | **2,786** | **1,073** | **(396)** | **3,463** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

| | 1 January 2008 | Additions | Acquisitions | Disposals | Transfers | Translation differences | 31 December 2008 |
|---|---|---|---|---|---|---|---|
| **Cost/revaluated cost** | | | | | | | |
| Land improvements | 8,571 | - | - | - | - | 43 | 8,614 |
| Land and buildings | 192,387 | 7 | 31 | (291) | 597 | 356 | 193,087 |
| Machinery and equipment | 475,454 | 7,342 | 1,115 | (6,637) | 17,414 | 916 | 495,604 |
| Motor vehicles | 725 | 21 | 230 | (204) | - | 40 | 812 |
| Furniture and fixtures | 44,515 | 1,226 | 975 | (1,031) | 481 | 371 | 46,537 |
| Leasehold improvements | 1,180 | 159 | - | - | - | - | 1,339 |
| Construction in progress | 571 | 18,262 | 96 | - | (18,492) | (90) | 347 |
| | **723,403** | **27,017** | **2,447** | **(8,163)** | **-** | **1,636** | **746,340** |
| **Accumulated depreciation** | | | | | | | |
| Land improvements | 4,281 | 290 | - | - | - | - | 4,571 |
| Buildings | 32,794 | 2,636 | 96 | (276) | - | 34 | 35,284 |
| Machinery and equipment | 330,141 | 22,264 | 466 | (5,577) | - | 227 | 347,521 |
| Motor vehicles | 384 | 193 | 68 | (138) | - | 9 | 516 |
| Furniture and fixtures | 34,484 | 2,131 | 770 | (852) | - | 272 | 36,805 |
| Leasehold improvements | 1,180 | 3 | - | - | - | - | 1,183 |
| | **403,264** | **27,517** | **1,400** | **(6,843)** | **-** | **542** | **425,880** |
| **Net book value** | **320,139** | | | | | | **320,460** |

There is no mortgage on property, plant and equipment as of 31 December 2008.

In accordance with the accounting policy for property, plant and equipment stated in Note 2.3, land, buildings and land improvements are stated at their fair values, determined based on the valuation performed by Çelen Kurumsal Değerleme ve Danışmanlık A.Ş. on 19 October 2007 less accumulated depreciation calculated until the balance sheet date. The Group assumed that the carrying amounts of land, buildings and land improvements approximate to their fair values as at 31 December 2008 based on the studies carried out by the Group and the independent valuation expert's opinion received.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Continued)

| | 1 January 2007 | Additions | Revaluation increase | Disposals | Transfers to investment properties | Transfers | Translation differences | 31 December 2007 |
|---|---|---|---|---|---|---|---|---|
| **Cost/revaluated cost** | | | | | | | | |
| Land improvements | 7,913 | 52 | 938 | - | (330) | 28 | (30) | 8,571 |
| Land and buildings | 121,535 | 409 | 70,715 | - | (919) | 743 | (96) | 192,387 |
| Machinery and equipment | 465,409 | 8,027 | - | (7,429) | - | 10,776 | (1,329) | 475,454 |
| Motor vehicles | 1,004 | 55 | - | (318) | - | - | (16) | 725 |
| Furniture and fixtures | 43,313 | 1,631 | - | (1,244) | - | 903 | (88) | 44,515 |
| Leasehold improvements | 1,180 | - | - | - | - | - | - | 1,180 |
| Construction in progress | 535 | 13,251 | - | (5) | - | (13,210) | - | 571 |
| | **640,889** | **23,425** | **71,653** | **(8,996)** | **(1,249)** | **(760)** | **(1,559)** | **723,403** |
| **Accumulated depreciation** | | | | | | | | |
| Land improvements | 4,018 | 263 | - | - | - | - | - | 4,281 |
| Buildings | 29,945 | 3,041 | - | - | (176) | - | (16) | 32,794 |
| Machinery and equipment | 312,964 | 23,874 | - | (6,632) | - | - | (65) | 330,141 |
| Motor vehicles | 496 | 175 | - | (282) | - | - | (5) | 384 |
| Furniture and fixtures | 33,400 | 2,157 | - | (1,015) | - | - | (58) | 34,484 |
| Leasehold improvements | 745 | 435 | - | - | - | - | - | 1,180 |
| | **381,568** | **29,945** | **-** | **(7,929)** | **(176)** | **-** | **(144)** | **403,264** |
| **Net book value** | **259,321** | | | | | | | **320,139** |

There is no mortgage on property, plant and equipment as of 31 December 2007.

The Group changed its accounting policy on the measurement of land, buildings and land improvements in 2007. Accordingly, the Group's land, buildings and land improvements were revalued by an independent expert in accordance with the alternative treatment included in IAS 16 "Property, Plant and Equipment" and accounted for at their revalued amounts in the consolidated financial statements. The effects of this change in accounting policy were reflected in the current year results in the Group's consolidated financial statements. Such a change in accounting policy was made to more appropriately present events or transactions in the consolidated financial statements. As a result of this change in accounting policy, which was applied prospectively in accordance with IAS 16, the Group increased its shareholders' equity and property, plant and equipment in the amount of TRY64,738 and TRY71,653, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amounts of revalued property, plant and equipment that would have been recognised if these assets had been carried under the cost model are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Land improvements | Land and buildings | Land improvements | Land and buildings |
| Cost | 7,676 | 122,372 | 7,775 | 121,233 |
| Accumulated depreciation | (4,538) | (34,573) | (4,421) | (32,439) |
| **Net book value** | **3,138** | **87,799** | **3,354** | **88,794** |

## NOTE 14 - INTANGIBLE ASSETS

| | 1 January 2008 | Additions | Acquisitions (*) | Increase in fair value (*) | Disposals (-) | Translation differences | 31 December 2008 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Brand | 18,861 | - | 86,723 | 64,495 | - | 14,141 | 184,220 |
| Development costs | 17,613 | 11,917 | - | - | - | - | 29,530 |
| Rights | 21,176 | 1,276 | - | - | - | - | 22,452 |
| Trademark licenses | - | - | 6,531 | 6,531 | - | 811 | 13,873 |
| Patents | - | - | 675 | 675 | - | 84 | 1,434 |
| Other | 470 | 1,910 | 372 | - | (75) | 315 | 2,992 |
| | **58,120** | **15,103** | **94,301** | **71,701** | **(75)** | **15,351** | **254,501** |
| **Accumulated amortisation** | | | | | | | |
| Rights | 16,243 | 1,858 | - | - | - | - | 18,101 |
| Development costs | 488 | 7,299 | - | - | - | - | 7,787 |
| Trademark licenses | - | 2,081 | - | - | - | - | 2,081 |
| Patents | - | 215 | - | - | - | - | 215 |
| Other | 128 | 339 | - | - | (75) | 176 | 568 |
| | **16,859** | **11,792** | **-** | **-** | **(75)** | **176** | **28,752** |
| **Net book value** | **41,261** | | | | | | **225,749** |

(*) As a result of the Grundig acquisition (the 50%) realised in 2004, the corresponding 50% of intangible assets had been accounted for. According to the Grundig acquisition realised in 2008 (the other 50%), all the intangible assets with the net book value amounting to TRY45,200 have been accounted for with their total fair value determined as TRY188,602 (Grundig brand: TRY173,446, trademark licences: TRY13,061 and other: TRY2,095) in accordance with IFRS 3. Consequently, the portion related to the acquisition in 2008 (50%: TRY94,301) has been accounted for as the acquisition, and the difference between the portion related to the acquisition realised in 2004 (50%: TRY94,301) and the net book value (50%: TRY22,600) has been accounted for as fair value gain (TRY71,701).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 14 - INTANGIBLE ASSETS (Continued)

Brand impairment test

The brand was tested for impairment using the royalty relief method as of 31 December 2008. Sales forecasts which are based on financial budgets approved by the board of directors covering a three-year period were considered in the determination of the brand value. Sales forecasts beyond the three-year period are extrapolated with expected growth rates. The estimated royalty income is calculated by applying the expected royalty rate and discount rates. No impairment was identified as a result of the impairment test.

| | 1 January 2007 | Additions | Disposals | Transfers | Translation differences | 31 December 2007 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Rights | 20,217 | 199 | - | 760 | - | 21,176 |
| Brand | 20,418 | - | - | - | (1,557) | 18,861 |
| Development costs | - | 17,613 | - | - | - | 17,613 |
| Other | 232 | 301 | (46) | - | (17) | 470 |
| | **40,867** | **18,113** | **(46)** | **760** | **(1,574)** | **58,120** |
| **Accumulated amortisation** | | | | | | |
| Rights | 14,004 | 2,239 | - | - | - | 16,243 |
| Development costs | - | 488 | - | - | - | 488 |
| Other | 117 | 63 | (44) | - | (8) | 128 |
| | **14,121** | **2,790** | **(44)** | **-** | **(8)** | **16,859** |
| **Net book value** | **26,746** | | | | | **41,261** |

## NOTE 15 - GOODWILL

| | 2008 | 2007 |
|---|---|---|
| **At 1 January** | **-** | **-** |
| Additions (Note 3) | 10,553 | - |
| Impact of the change in the contingent liability attributable to the acquisition (Note 3) | (4,332) | - |
| Translation differences | 655 | - |
| **31 December** | **6,876** | **-** |

*Goodwill impairment test*

As of 31 December 2008, the carrying value of goodwill was tested for impairment by comparison with its recoverable amount. The recoverable amount was determined on the basis of value in use calculations. Pre-tax cash flow projections based on financial budgets approved by the board of directors covering a three-year period were used in. Pre-tax cash flow projections beyond three-year period are extrapolated by expected growth rates. The estimated cash flows are discounted to their present values. No impairment was identified as a result of the impairment best.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 16 - GOVERNMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The rights of the Company due to these incentives are as follows:

a) 100% exemption from customs duty on machinery and equipment to be imported,
b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
c) Incentives within the context of research and development legislation (%100 Corporate Income Tax exemption, Social Security Institution incentives etc.),
d) Inward processing permission certificates,
e) Cash refund from Tübitak - Teydeb for research and development expenses,
f) Exemption of taxes, dues and fees.

## NOTE 17 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

**Commitments and contingent liabilities**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Currency | Original Amount | TRY | Currency | Original Amount | TRY |
| Guarantee letters given to Eximbank for imports loan | TRY | - | 22,170 | TRY | - | 32,430 |
| Guarantee letters given | TRY | - | 8,397 | TRY | - | 8,391 |
| | EUR | 1,000,000 | 2,141 | EUR | - | - |
| | NOK | 175,000 | 38 | NOK | - | - |
| | USD | 189,361 | 286 | USD | 189,361 | 221 |
| | SEK | 270,000 | 53 | SEK | - | - |
| Guarantee letters given to customs for imports | EUR | 2,000,000 | 4,282 | EUR | 2,000,000 | 3,420 |
| | TRY | - | 507 | TRY | - | 11,244 |
| Operational lease commitments | TRY | - | 37 | TRY | - | 63 |
| | EUR | 6,911,000 | 14,795 | EUR | 1,710,675 | 2,925 |
| Other guarantees given | EUR | 200,000 | 428 | EUR | 272,000 | 465 |
| Standby letters of credit | USD | 17,340,000 | 26,223 | USD | 27,450,000 | 31,971 |
| | EUR | - | - | EUR | 2,900,000 | 4,960 |
| | | | **79,357** | | | **96,090** |

**Lawsuits**

Two shareholders of the Company have filed a lawsuit for the cancellation of the decision taken at the Ordinary General Assembly meeting held on 3 April 2008 relating to the change of the trade name to Grundig Elektronik Anonim Şirketi.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 18 - PROVISIONS

| | 2008 | 2007 |
|---|---|---|
| **Short-term provisions** | | |
| Warranty provision | 17,182 | 18,886 |
| Provision for cost and expenses | 11,773 | 9,125 |
| Other | 13,469 | 6,409 |
| | **42,424** | **34,420** |
| **Long-term provisions** | | |
| Warranty provision | 3,794 | 5,627 |
| Other | 2,043 | 1,146 |
| | **5,837** | **6,773** |

## NOTE 19 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

| | 2008 | 2007 |
|---|---|---|
| Provision for employment termination benefits | 1,279 | 1,821 |

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TRY 2,173.19 (2007: TRY2,030.19) for each period of service at 31 December 2008.

The liability is not funded, as there is no funding requirement.

In accordance with the Turkish Labour Code, employment termination benefit is the present value of the total estimated provision for the liabilities of the personnel who may retire in the future. The group is obligated to pay employment termination benefit for the personnel who are called up to military service, pass away or retire. The provision made for the present value of determined social relief is calculated by the prescribed liability method. All actuarial profits and losses are accounted in the consolidated income statement.

IFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The group makes a calculation for the employment termination benefit by applying the prescribed liability method, on the basis of experience and by considering the personnel who become eligible for company pension. This provision is calculated by assessing the present value of the future liability which will be paid for the retired personnel.

Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

| | 2008 | 2007 |
|---|---|---|
| Discount rate (%) | 6.26 | 5.71 |
| Rate used to estimate the probability of retirement (%) | 83 | 80 |

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 TRY2,260.05 (1 January 2008: TRY2,087.92) which is effective from 1 January 2009 has been taken into consideration in calculating the reserve for employment termination benefits of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 19 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

Movements in the provisions for employment termination benefits for the years ended 31 December are as follows:

| | 2008 | 2007 |
|---|---|---|
| **1 January** | **1,821** | **2,131** |
| Interest cost | 114 | 121 |
| Actuarial losses | 462 | 410 |
| Charge for the year | 10,853 | 5,226 |
| Payments during the year | (11,971) | (6,067) |
| **31 December** | **1,279** | **1,821** |

## NOTE 20 - OTHER ASSETS AND LIABILITIES

| | 2008 | 2007 |
|---|---|---|
| **Other current assets** | | |
| Receivables from value added tax ("VAT") and private consumption tax ("PCT") | 7,067 | 5,341 |
| Prepaid expense | 3,791 | 1,884 |
| Income accruals | 489 | - |
| Advances given for inventories | 99 | 184 |
| Other | 764 | 538 |
| | **12,210** | **7,947** |
| **Other current liabilities** | | |
| Accruals for sales expense | 49,906 | 28,782 |
| Accruals for license expense | 18,599 | 8,376 |
| Taxes and funds payable | 15,682 | 15,179 |
| Due to personnel | 6,192 | 7,612 |
| Liabilities attributable to the acquisition (Note 3) | 2,002 | - |
| Other | 1,759 | - |
| | **94,140** | **59,949** |

| | 2008 | 2007 |
|---|---|---|
| **Other non-current liabilities** | | |
| Liabilities attributable to the acquisition (Note 3) | 8,106 | - |
| Other | 15 | - |
| | **8,121** | **-** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 21 - EQUITY

**Paid-in capital**

The Company adopted the registered share capital system available to companies registered with the CMB, The Company's registered and issued share capital is as follows:

| | 2008 | 2007 |
|---|---|---|
| Limit on registered share capital (historical) | 800,000 | 400,000 |
| Issued share capital in nominal value | 478,000 | 174,000 |

Companies in Turkey may exceed the limit on registered share capital in the event of the issuance of free capital shares to existing shareholders.

Grundig Elektronik's shareholding structure for the years ended 31 December is as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **Shareholders** | **Share%** | **Amount** | **Share%** | **Amount** |
| Arçelik A.Ş. | 83.03 | 396,896 | 72.46 | 126,080 |
| Koç Holding Emekli ve Yardım Sandığı Vakfı | 5.43 | 25,936 | 7.45 | 12,968 |
| Vehbi Koç Vakfı | 0.22 | 1,044 | 0.30 | 522 |
| Traded on ISE | 11.32 | 54,124 | 19.79 | 34,430 |
| **Total paid-in capital** | **100.00** | **478,000** | **100.00** | **174,000** |
| Adjustment to paid-in capital (*) | | 152,182 | | 152,182 |
| **Total paid-in capital** | | **630,182** | | **326,182** |

(*) "Adjustment to paid-in capital" represents the restatement effect of cash and cash equivalent contributions to paid-in capital measured in accordance with the CMB Financial Reporting Standards.

There are 47,800,000,000 shares the nominal value of which is YKr 1 (2007: 17,400,000,000 shares). There are no privileges granted to different share groups or shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 21 - EQUITY (Continued)

### Revaluation funds

Increases in carrying amounts as a result of revaluations recognised directly in the equity are followed in the headings below:

| | Tangible assets revaluation fund | Intangible assets revaluation fund | Financial assets revaluation fund | Total |
|---|---|---|---|---|
| **Balance at 1 January 2008** | **64,738** | **-** | **8,156** | **72,894** |
| Intangible assets | | | | |
| - fair value difference (Note 14) | - | 71,701 | - | 71,701 |
| - deferred tax effect of fair value difference (Note 28) | - | (18,284) | - | (18,284) |
| - amortisation difference calculated over fair value difference | - | (1,148) | - | (1,148) |
| - deferred tax effect of amortisation difference | - | 292 | - | 292 |
| - translation differences | - | 3,318 | - | 3,318 |
| Property, plant and equipment | | | | |
| - depreciation difference calculated over revaluation increase | (638) | - | - | (638) |
| - deferred tax effect of depreciation difference (Note 28) | 128 | | - | 128 |
| Financial assets | | | | |
| - issuance of bonus shares (Note 7) | - | - | (750) | (750) |
| - decrease in fair value (Note 7) | - | - | (2,219) | (2,219) |
| - deferred tax effect of decrease in fair value (net) (Note 28) | - | - | 148 | 148 |
| **Balance at 31 December 2008** | **64,228** | **55,879** | **5,335** | **125,442** |

### Restricted reserves

The Turkish Commercial code ("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 Group's paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. In addition, according to Exemption for sale of Participation shares and property, a 75% portion of corporations' profits arising from such sales are not withdrawn within 5 years and are followed in special reserves.

At 31 December, restricted reserves in the amount of TRY8,693 comprises of legal reserves.

### Prior years' profits

In accordance with the CMB regulations effective until 1 January 2008, "Capital, Share Premiums, Legal Reserves, Special Reserves and Extraordinary Reserves" were recorded at their statutory carrying amounts and the inflation adjustment differences related to such accounts were recorded under "inflation adjustment differences" at the initial application of inflation accounting. "Equity inflation adjustment differences" could have been utilised in issuing bonus shares and offsetting accumulated losses, carrying amount of extraordinary reserves could have been utilised in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008
(Amounts expressed in thousands of New Turkish lira (“TRY”) unless otherwise indicated.)

## NOTE 21 - EQUITY (Continued)

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from 1 January 2008, “Share capital”, “Restricted Reserves” and “Share Premiums” shall be carried at their statutory amounts. The valuation differences shall be classified as follows:

- the difference arising from the “Paid-in Capital” and not been transferred to capital yet, shall be classified under the “Inflation Adjustment To Share Capital”;

- the difference due to the inflation adjustment of “Restricted Reserves” and “Share Premium” and the amount has not been utilised in dividend distribution or capital increase yet, shall be classified under “Prior years' income”.

Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

As of 31 December 2007, “inflation adjustment to equity” under equity consisted of the differences arising from the adjustment of paid-in capital for inflation as a result of the accumulated deficit net-off in 2004 and 2005. As of 31 December 2008, inflation adjustment amounting to TRY152,182 was classified under “adjustment to paid-in capital”.

### Dividend distribution

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

In accordance with the Capital Markets Board Decision dated 9 January 2009, concerning allocation basis of profit from operations of 2008, minimum profit distribution shall be applied as 20% (31 December 2007: 20%). According to the Board's decision and Communiqué No: IV-27 issued by CMB regarding allocation basis of profit of publicly owned companies, the distribution of the relevant amount may be realised as cash or as bonus shares or partly as cash and bonus shares; and in the event that the first dividend amount to be specified is less than 5% of the paid-up capital, the relevant amount can be retained within the Company. However, companies that made capital increases before distributing dividends related to the prior period and whose shares are therefore classified as "old" and "new" and that will distribute dividends from the profit made from 2008 operations are required to distribute the first dividend in cash.

In addition, according to the aforementioned Board decision, the restrictions on the distributions of the profit derived from the subsidiaries, joint ventures and associates of entities who are required to prepare consolidated financial statements where no profit distribution decision is taken in the general assemblies of such subsidiaries, joint ventures and associates and disclosure of these amounts in notes to the financial statements and emphasising in a separate explanatory paragraph in independent auditors' report is abolished. It is decided that as long as the entities can provide the necessary amount from their statutory reserves, the distributable profit can be calculated based on the net income declared at the publicly announced consolidated financial statements in the accordance with Communiqué XI No:29.

Accordingly, if the amount of dividend distributions calculated in accordance with the net distributable profit requirements of the CMB does not exceed the statutory net distributable profit, the total amount of distributable profit shall be distributed. If it exceeds the statutory net distributable profit, the total amount of the statutory net distributable profit shall be distributed. It is stated that dividend distributions should not be made if there is a loss in either the consolidated financial statements prepared in accordance with CMB regulations or in the statutory financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 22 - SALES AND COST OF SALES

| | 2008 | 2007 |
|---|---|---|
| Domestic sales | 462,602 | 557,783 |
| Foreign sales | 908,681 | 872,118 |
| **Gross sales** | **1,371,283** | **1,429,901** |
| Discounts | (82,869) | (73,298) |
| **Net sales** | **1,288,414** | **1,356,603** |
| Cost of sales | (1,112,630) | (1,207,710) |
| **Gross profit** | **175,784** | **148,893** |

## NOTE 23 - RESEARCH AND DEVELOPMENT EXPENSES, SELLING, MARKETING AND DISTRIBUTION EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

| | 2008 | 2007 |
|---|---|---|
| **Selling, marketing and distribution expenses** | | |
| Warranty and assembly expenses | 32,539 | 24,919 |
| Personnel expenses | 22,981 | 16,681 |
| Transportation, distribution and storage expenses | 16,303 | 12,114 |
| Advertisement expenses | 16,079 | 9,861 |
| License expenses | 14,149 | 4,766 |
| Depreciation and amortisation expenses | 1,361 | 2,065 |
| Other | 47,762 | 47,203 |
| | **151.174** | **117.609** |
| **General administrative expenses** | | |
| Personnel expenses | 14,294 | 13,624 |
| Depreciation and amortisation expenses | 5,410 | 3,619 |
| Insurance expenses | 4,095 | 4,887 |
| Duties, taxes and levies | 2,196 | 662 |
| Consultancy expenses | 1,813 | 2,701 |
| Repair and maintenance expenses | 1,152 | 1,915 |
| Other | 12,323 | 10,066 |
| | **41,283** | **37,474** |
| **Research and development expenses** | | |
| Personnel expenses | 14,590 | 4,230 |
| Depreciation and amortisation expenses | 8,124 | 640 |
| Other | 3,530 | 1,771 |
| | **26,244** | **6,641** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 24 - EXPENSES BY NATURE

| | 2008 | 2007 |
|---|---|---|
| Raw material, supplies and trade goods | 1,047,456 | 1,176,763 |
| Change in finished goods, work in process and trade goods | (6,695) | (38,556) |
| Personnel expenses | 93,692 | 74,787 |
| Depreciation and amortisation expenses | 38,643 | 31,540 |
| Warranty and assembly expenses | 32,539 | 24,919 |
| Transportation, distribution and storage expenses | 16,303 | 12,114 |
| Advertising expenses | 16,162 | 9,896 |
License expenses | 16,492 | 6,229 |
| Other | 76,739 | 71,742 |
| | **1,331,331** | **1,369,434** |

## NOTE 25 - OTHER INCOME AND EXPENSES

| | 2008 | 2007 |
|---|---|---|
| **Other income** | | |
| Income from licenses | 5,029 | 1,955 |
| Released provision for impairment on inventories (Note 11) | 3,161 | - |
| Collections from doubtful receivables (Note 10) | 2,055 | 3,825 |
| Income from research and development incentives | 2,839 | 1,161 |
| Bonus shares issued by financial assets | 750 | 750 |
| Compensation regarding "Beko Elektronik" trade name change (1) | - | 24,000 |
| Income from sale of Keysmart Brand, Keysmart distribution organisation and ICT business unit(2) | - | 20,000 |
| Gains from sale of property, plant and equipment | 96 | 246 |
| Other | 7,474 | 5,019 |
| | **21,404** | **56,956** |
| **Other expenses** | | |
| Provision for impairment on inventories (Note 11) | (9,267) | (18,193) |
| Restructuring costs | (5,589) | (2,806) |
| Provision for doubtful receivables (Note 10) | (2,443) | (7,339) |
| Indemnity expense | (1,068) | - |
| Loss from sale of property, plant and equipment | (830) | - |
| Other | (4,709) | (1,055) |
| | **(23,906)** | **(29,393)** |

(1) In accordance with the agreement made with Arçelik A.Ş., it was decided that Arçelik A.Ş. would pay compensation to Grundig Elektronik Anonim Şirketi for changing its trade name. The compensation in the amount of TRY24,000, which was determined based on the valuation report dated 30 June 2007 prepared by an independent valuer accredited by the CMB, was invoiced to Arçelik A.Ş..

(2) The Company sold its Keysmart brand, the Keysmart distribution organisation and the information and communication technologies business except, for the production of computers to Arçelik A.Ş. on 29 January 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 26 - FINANCIAL INCOME

| | 2008 | 2007 |
|---|---|---|
| Foreign exchange gains | 115,898 | 45,963 |
| Foreign currency forward income | 9,940 | 3,932 |
| Credit finance income | 9,012 | 14,904 |
| Interest income | 1,563 | 5,589 |
| Other | 46 | 192 |
| | **136,459** | **70,580** |

## NOTE 27 - FINANCIAL EXPENSES

| | 2008 | 2007 |
|---|---|---|
| Foreign exchange losses | (115,136) | (52,419) |
| Interest expense | (105,639) | (97,512) |
| Credit finance expenses | (13,350) | (15,343) |
| Foreign currency forward expense | (10,504) | (12,358) |
| Other | (3,863) | (1,239) |
| | **(248,492)** | **(178,871)** |

## NOTE 28 - TAX ASSETS AND LIABILITIES

**Current income taxes**

| | 2008 | 2007 |
|---|---|---|
| Corporate and income taxes | 110 | 109 |
| Prepaid taxes | (65) | (106) |
| **Current income tax liabilities (net)** | **45** | **3** |

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, the corporation tax rate is 20% (2007: 20%). Corporation tax rate is applied on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances in accordance with tax legislations.

In accordance with tax laws and regulations of each country as of 31 December 2008, tax rates used for the calculation of taxes on income are as follows:

| | | | |
|---|---|---|---|
| Germany | 31.5% | United Kingdom | 28.0% |
| The Netherlands | 25.5% | Russia | 20.0% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 28 - TAX ASSETS AND LIABILITIES (Continued)

The taxes on income for the years ended 31 December are summarised as follows:

| | 2008 | 2007 |
|---|---|---|
| Taxation income/(expense) | | |
| - Taxes on income | (110) | (109) |
| - Deferred income/(expense) taxes | 6,370 | (3,990) |
| - Translation differences | - | (4) |
| **Total taxation income/(expense) (net)** | **6,260** | **(4,103)** |

### Deferred tax

| | 2008 | 2007 |
|---|---|---|
| Deferred tax assets | 31,227 | 27,789 |
| Deferred tax liabilities | (40,787) | (1,949) |
| **Deferred tax (liabilities)/assets (net)** | **(9,560)** | **25,840** |

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Financial Reporting Standards and their statutory tax financial statements. These temporary differences result in the recognition of revenue and expenses in different reporting periods for CMB Financial Reporting Standards and tax purposes.

The breakdowns of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided as of 31 December using the enacted tax rates are as follows:

| | Cumulative temporary difference | | Deferred tax assets/ (liabilities) | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Unused tax credits | (208,802) | (179,122) | 42,129 | 35,952 |
| Provision for doubtful receivables | (50,433) | (39,704) | 10,087 | 7,941 |
| Provision for impairment on inventories | (23,928) | (29,906) | 4,786 | 5,981 |
| Accrual for license expenses | (18,599) | (8,313) | 3,720 | 1,663 |
| Provision for warranty | (9,176) | (14,882) | 1,835 | 2,976 |
| Accrual for export sales expenses | (3,925) | (8,485) | 785 | 1,697 |
| Provision for employment termination benefit | (1,279) | (1,821) | 256 | 364 |
| Fair value differences on brand, trademark licenses and patents | 150,013 | - | (38,253) | - |
| Net difference between the tax base and carrying amount of property, plant and equipment and intangible assets | 119,446 | 117,580 | (22,779) | (21,060) |
| Revaluation of land, buildings and land improvements | 70,908 | 71,547 | (6,681) | (6,809) |
| Net difference between the tax base and net book value of inventories | 26,788 | 15,036 | (5,355) | (3,118) |
| Other | (4,817) | (4,315) | (90) | 253 |
| **Deferred tax (liabilities)/assets (net)** | | **(9,560)** | | **25,840** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 28 -TAX ASSETS AND LIABILITIES (Continued)

The movement of deferred taxes (liabilities)/assets is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | **25,840** | **36,965** |
| Current period deferred tax income/(expense) (net) | 6,370 | (3,990) |
| Fair value differences on intangible assets (Note 3) | (18,284) | - |
| Acquisitions (Note 3) | (21,612) | - |
| Revaluation of land, buildings and land improvements | - | (6,830) |
| Charge to revaluation fund | 128 | 21 |
| Charge to the financial assets fair value reserve | 148 | (429) |
| Charged to intangible assets revaluation fund | 292 | - |
| Translation differences | (2,442) | 103 |
| **Balance at 31 December** | **(9,560)** | **25,840** |

As the result of the assessment made by the Group management, deferred tax assets in the amount of TRY42,219 (2007: TRY35,952) over the unused tax credits amounting to TRY208,802 (2007: TRY179,122) were estimated to be recoverable within the term which is foreseeable and in which the tax benefit continues as per the tax legislations and recognised.

| | 2008 | 2007 |
|---|---|---|
| Period loss before tax | (157,452) | (93,559) |
| Local tax rate | 20% | 20% |
| Tax calculated at the local tax rate | 31,490 | 18,712 |
| Current year tax losses over which deferred tax asset was not recognised | (28,664) | (22,849) |
| Adjustments made on statutory financial statements in accordance with CMB Accounting Standards over which deferred tax was not recognised | (1,253) | (1,530) |
| Disallowable expenses | (1,136) | (659) |
| Impact of different tax rates in other countries | 5,615 | 2,816 |
| Other | 208 | (593) |
| **Taxation income/ (expense)** | **6,260** | **(4,103)** |

## NOTE 29 - EARNINGS PER SHARE

The loss attributable to each class of share for the years ended 31 December are as follows:

| | 2008 | 2007 |
|---|---|---|
| Net loss attributable to ordinary shares | (151,192) | (97,662) |
| Weighted average number of shares | 31,546,301,370 | 17,400,000,000 |
| **Net loss per share (Ykr)** | **(0.4793)** | **(0.5613)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 30 - RELATED PARTY TRANSACTIONS

### a)Balances with related parties

| | 2008 | 2007 |
|---|---|---|
| Due from related parties | | |
| Shareholders | 52,984 | 117,009 |
| Koç Group companies | 61,331 | 74,391 |
| | **114,315** | **191,400** |
| Unearned credit finance expense | (1,023) | (890) |
| | **113,292** | **190,510** |
| **Due to related parties** | | |
| Koç Group companies | 4,069 | 7,260 |
| | **4,069** | **7,260** |
| **Deposits** | | |
| Koç Group companies | | |
| - demand deposits | 202 | 5,811 |
| | **202** | **5,811** |
| **Loans** | | |
| Koç Group companies | 303,890 | 213,520 |
| Shareholders | 22,692 | - |
| | **326,582** | **213,520** |

### b)Transactions with related parties

| | 2008 | 2007 |
|---|---|---|
| **Sales of goods and services** | | |
| Shareholders | 494,126 | 673,429 |
| Koç Group companies | 145,218 | 210,483 |
| | **639,344** | **883,912** |
| **Purchases of goods and services** | | |
| Shareholders | 91,288 | 91,057 |
| Koç Group companies | 28,759 | 71,402 |
| | **120,047** | **162,459** |
| **Financial (expenses)/income** | | |
| Shareholders - unearned credit finance income | 8,930 | 14,904 |
| Koç Group companies - borrowing interest expense | (36,444) | (20,761 |
| Koç Group companies - other | (2,783) | (1,733) |
| | **(30,297)** | **(7,590)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 30 - RELATED PARTY TRANSACTIONS (Continued)

| | 2008 | 2007 |
|---|---|---|
| **Other transactions** | | |
| Shareholders - sales and distribution income | 4,003 | 3,986 |
| Koç Group companies- bonus shares issued | 750 | 750 |
| Shareholders - income regarding "Grundig Elektronik" trade name change (Note 25) | - | 24,000 |
| Shareholders - income from sale of ICT business unit and Keysmart brand (Note 25) | - | 20,000 |
| Koç Group companies - other | 1,533 | - |
| | **6,286** | **48,736** |

**Key management compensation**

For the year ended at 31 December 2008, total benefits provided to key management personnel by the Group amount to TRY1,563 (2007: TRY1,643).

**Derivative financial instruments**

**31 December 2008**

| | Contract amount | Fair value assets/(liabilities) |
|---|---|---|
| Koç Group companies | 77,840 | (1,651) |

As of 31 December 2007, there is no derivative transaction with related parties.

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

*Liquidity risk*

The Group eliminates the risk of failure to settle its financial and commercial liabilities by managing the balance sheet according to expected cash flows.

In this context, the maturities of the financial liabilities are arranged according to the maturities of assets, and a mismatch between the maturities is eliminated. There is a level of "acid-test" ratio to manage the consolidated and stand alone balance sheets followed by the Group Companies' managements.

Additionally, the Group aims to maintain flexibility in funding by maintaining the availability of committed credit lines.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The analysis of the Group's financial liabilities with respect to their maturities as of 31 December 2008 is as follows:

| | Carrying value | Contractual cash flow | Less than 3 months | 3-12 months | 1-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities (1) (2)** | | | | | |
| Financial liabilities | 655,748 | 680,429 | 374,621 | 224,683 | 81,125 |
| Trade payables | 99,289 | 99,416 | 98,712 | 704 | - |
| Provisions and other liabilities | 150,522 | 136,583 | 60,860 | 60,021 | 15,702 |
| | **905,559** | **916,428** | **534,193** | **285,408** | **96,827** |
| **Derivative financial liabilities (2)** | | | | | |
| Derivative cash inflows | 133,897 | 133,897 | 133,897 | - | - |
| Derivative cash outflows | (139,350) | (139,350) | (139,350) | - | - |
| **Foreign currency forward transactions, net cash outflow** | **(5,453)** | **(5,453)** | **(5,453)** | **-** | **-** |

The analysis of the Group's financial liabilities with respect to their maturities as of 31 December 2007 is as follows:

| | Carrying value | Contractual cash flow | Less than 3 months | 3-12 months | 1-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities (1), (2)** | | | | | |
| Financial liabilities | 736,540 | 776,199 | 501,284 | 185,402 | 89,513 |
| Trade payables | 161,516 | 162,082 | 148,695 | 13,387 | - |
| Provisions and other liabilities | 101,142 | 85,963 | 53,608 | 25,582 | 6,773 |
| | **999,198** | **1,024,244** | **703,587** | **224,371** | **96,286** |
| **Derivative financial liabilities (2)** | | | | | |
| Derivative cash inflows | 70,918 | 70,918 | 70,918 | - | - |
| Derivative cash outflows | (72,401) | (72,401) | (72,401) | - | - |
| **Foreign currency forward transactions, net cash outflow** | **(1,483)** | **(1,483)** | **(1,483)** | **-** | **-** |

(1) Maturity analysis has been prepared only for financial instruments and legal liabilities have not been included.

(2) Amounts are undiscounted cash flows of contract values. Balances with maturities of less than three months are equal to their book value as their discount amounts are immaterial.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

*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 offsetting interest rate sensitive assets and liabilities and using derivative instruments when considered necessary.

In this context, matching of not only maturities of receivables and payables but also contractual repricing dates are crucial. In order to keep the exposure of financial liabilities to interest rate changes at a minimum, "fixed interest/floating interest", "short-term/long-term", "TRY/foreign currency" balance should be structured consistent within and with assets in the balance sheet.

Average effective annual interest rates (%) of balance sheet items as of 31 December are as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | USD | EUR | TRY | USD | EUR | TRY |
| **Current assets** | | | | | | |
| Cash and cash equivalents | - | 2.0 | - | - | 3.3 | - |
| Trade payables | - | 9.5 | - | - | 9.5 | - |
| **Current liabilities** | | | | | | |
| Financial liabilities | - | 5.8 | 22.7 | 5.6 | 6.0 | 16.1 |
| Short-term portion of long-term liabilities | 3.4 | 4.6 | 21.8 | 6.0 | 6.6 | 17.8 |
| **Non current liabilities** | | | | | | |
| Financial liabilities | 6.0 | 4.4 | 21.8 | 5.8 | 5.7 | 16.9 |

Analysis of financial instruments of the Company which are sensitive to interest rate changes is as follows:

| | 2008 | 2007 |
|---|---|---|
| **Financial instruments with fixed interest rates** | | |
| Financial liabilities | 546,594 | 572,256 |
| **Financial instruments with variable interest rates** | | |
| Cash and cash equivalents | 1,897 | 984 |
| Financial liabilities | 107,790 | 164,284 |

At 31 December 2008, if interest rates at contractual repricing dates of TRY, EUR and USD-denominated financial assets and liabilities with variable interest rates, has strengthened/weakened by 100 base points against TRY with all other variables held constant, income before taxes and minority interest would have been TRY1,059 (2007: TRY1,633) lower/higher as a result of interest expenses.

*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.

*Credit Risk*

The group is exposed to credit risk arising from receivables from credit sales and deposits with banks.

A significant amount of trade receivables is from related parties. The credit risk of receivables from third parties is managed by securing receivables with collaterals covering receivables at the highest possible proportion. The methods used are as follows:

- Bank guarantees (guarantee letters, letters of credit, etc.),
- Credit insurance (Global insurance policies, Eximbank and factoring insurance, etc.),
- Mortgages,
- Cheques-notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

In credit risk control, the credit quality of each customer is assessed, taking into account its financial position, past experience and other factors, individual risk limits are set in accordance and the utilisation of credit limits is regularly monitored.

For banks, the ratings of the independent rating institutions are taken into consideration.

The same credit risk management principles are used for the management of financial assets. Investments are made to the instruments with highest liquidity and the credit note of the company of transaction is taken into consideration.

Details of credit and receivable risk as of 31 December are as follows:

| | Trade Receivables | | Deposits with banks |
|---|---|---|---|
| | Related party | Third party | |
| **31 December 2008** | | | |
| **Maximum exposed credit risk as of reporting date (A+B+C) (1)** | 113,292 | 213,603 | 28,076 |
| Secured portion of the maximum credit risk by guarantees, etc. | - | (143,095) | - |
| A. Net book value of financial assets either are not due or not impaired | 103,384 | 141,753 | 28,076 |
| - Secured portion by guarantees, etc. | - | (93,435) | - |
| B. Net book value of financial assets which are overdue but not impaired | 9,908 | 42,305 | - |
| - Secured portion by guarantees, etc. | - | (29,036) | - |
| C. Net book value of impaired assets | - | 29,545 | - |
| - Overdue (Gross book value) | - | 105,033 | - |
| - Impairment (Note 10) | - | (75,488) | - |
| - Secured portion of the net book value by guarantees, etc. | - | (20,624) | - |
| **31 December 2007** | | | |
| **Maximum exposed credit risk as of reporting date (A+B+C)** | **190,510** | **139,840** | **18,056** |
| Secured portion of the maximum credit risk by guarantees, etc. | - | (103,304) | - |
| A. Net book value of financial assets either are not due or not impaired | 182,584 | 111,952 | 18,056 |
| - Secured portion by guarantees, etc. | - | (82,947) | - |
| B. Net book value of financial assets which are overdue but not impaired | 7,926 | 21,156 | - |
| - Secured portion by guarantees, etc. | - | (16,685) | - |
| C. Net book value of impaired assets | - | 6,732 | - |
| - Overdue (Gross book value) | - | 61,157 | - |
| - Impairment (Note 10) | - | (54,425) | - |
| - Secured portion of the net book value by guarantees, etc. | | (3,672) | - |

(1) Amounts showing the maximum credit risk exposed as of balance sheet date excludes guarantees in hand and other factors that increase the credit quality.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### a) Credit quality of financial assets

| | 2008 | 2007 |
|---|---|---|
| Group 1 | 113,292 | 190,510 |
| Group 2 | 184,058 | 133,108 |
| Group 3 | 29,545 | 6,732 |
| | **326,895** | **330,350** |

Group 1 - Related parties

Group 2 - Existing customers with no defaults in the past (excluding related parties)

Group 3 - Existing customers with some defaults in the past of which were fully recovered (excluding related parties)

The Group assesses that due from related parties including overdue balances do not constitute a collection risk since these receivables are from group companies and all balances have been collected in previous periods.

The Group has not provided provision for doubtful receivables depending on guarantees covering overdue receivables, corresponding receivables are from individual customers with no past experience of collection tardiness and even though there is past experience of collection tardiness, balances are due from individual customers that collections are made.

Aging analysis of the Group's receivables overdue but not impaired including due from related parties with respect to overdue dates is as follows:

| | 2008 | 2007 |
|---|---|---|
| Up to 1 month | 24,371 | 7,327 |
| 1-3 months | 11,363 | 12,099 |
| 3-12 months | 2,738 | 6,575 |
| 1-5 years | 13,741 | 3,081 |
| | **52,213** | **29,082** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### b) Geographical concentration of the trade receivables

| | 2008 | 2007 |
|---|---|---|
| Turkey | 35,955 | 24,370 |
| Europe | 285,944 | 300,425 |
| Other | 4,996 | 5,555 |
| | **326,895** | **330,350** |

*Foreign exchange risk*

The Group is exposed to foreign exchange rate risk through operations made in multiple currencies. The main principle in the management of this foreign currency risk is maintaining foreign exchange position in a way to be affected least by the fluctuations in foreign exchange rates, in other words, maintaining a foreign exchange position close to zero.

For this reason, the proportion of the positions of these currencies among each other or against new Turkish lira to equity is aimed to be controlled within certain limits.

Derivative financial instruments are also used, when necessary. In this context, the Group's primary method is utilising forward foreign currency transactions.

The Group is exposed to foreign exchange rate risk mainly for EUR, USD and GBP.

*Foreign currency position*

Assets and liabilities denominated in foreign currency at 31 December are as follows:

| | 2008 | 2007 |
|---|---|---|
| Assets denominated in foreign currency | 461,898 | 438,280 |
| Liabilities denominated in foreign currency (-) | (464,067) | (405,562) |
| **Net balance sheet position** | **(2,169)** | **32,718** |
| **Net position of off-balance sheet derivative financial instruments** | **(5,453)** | **(1,483)** |
| **Net foreign currency position** | **(7,622)** | **31,235** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2008, original amount and/or TRY equivalent of the Group's foreign currency assets and liabilities are as follows:

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Total TRY equivalent | EUR | USD | GBP | Other TRY equivalent |
| Trade receivables | 284,103 | 85,686 | 32,968 | 7,602 | 34,143 |
| Monetary financial assets | 28,111 | 5,176 | 9 | 1,263 | 14,249 |
| Other | 147,711 | 58,758 | 10,224 | 6 | 6,447 |
| **Current assets** | **459,925** | **149,620** | **43,201** | **8,871** | **54,839** |
| Other | 1,973 | 527 | - | - | 844 |
| **Non-current assets** | **1,973** | **527** | **-** | **-** | **844** |
| **Total assets** | **461,898** | **150,147** | **43,201** | **8,871** | **55,683** |
| Trade payables | 74,017 | 3,527 | 41,645 | 111 | 3,243 |
| Financial liabilities | 232,575 | 94,462 | 20,069 | - | - |
| Other non-monetary liabilities | 116,807 | 36,505 | 12,899 | 1,190 | 16,542 |
| **Current liabilities** | **423,399** | **134,494** | **74,613** | **1,301** | **19,785** |
| Financial liabilities | 24,161 | 682 | 15,012 | - | - |
| Other non-monetary liabilities | 16,507 | 3,031 | 286 | 3,697 | 1,481 |
| **Non-current liabilities** | **40,668** | **3,713** | **15,298** | **3,697** | **1,481** |
| **Total liabilities** | **464,067** | **138,207** | **89,911** | **4,998** | **21,266** |
| **Net balance sheet position** | **(2,169)** | **11,940** | **(46,710)** | **3,873** | **34,417** |
| **Net position of off-balance sheet derivative financial instruments** | **(5,453)** | **(60,455)** | **81,974** | **-** | **-** |
| Off-balance sheet derivative financial assets | 133,897 | 2,500 | 85,000 | - | - |
| Off-balance sheet derivative financial liabilities | (139,350) | (62,955) | (3,026) | - | - |
| **Net foreign currency asset/(liability) position** | **(7,622)** | **(48,515)** | **35,264** | **3,873** | **34,417** |
| **Net foreign currency asset/(liability) position of the monetary items** | **(18,539)** | **(7,809)** | **(43,749)** | **8,754** | **45,149** |

As of 31 December 2008, Group's total foreign currency position excluding TRY is negative TRY7,662 which is equivalent to EUR3,560,351.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2007, original amount and/or TRY equivalent of the Group's foreign currency assets and liabilities are as follows:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Total TRY equivalent | EUR | USD | GBP | Other TRY equivalent |
| Trade receivables | 304,305 | 85,691 | 99,897 | 504 | 40,234 |
| Monetary assets | 18,099 | 3,500 | 4,656 | 1,216 | 3,862 |
| Other | 115,525 | 35,781 | 36,881 | 8 | 11,358 |
| **Current assets** | **437,929** | **124,972** | **141,434** | **1,728** | **55,454** |
| Other | 351 | 38 | - | - | 286 |
| **Non-current assets** | **351** | **38** | **-** | **-** | **286** |
| **Total assets** | **438,280** | **125,010** | **141,434** | **1,728** | **55,740** |
| Trade payables | 125,036 | 17,754 | 76,393 | 503 | 4,529 |
| Financial liabilities | 183,975 | 20,103 | 128,440 | - | - |
| Other non-monetary liabilities | 66,012 | 27,059 | 6,021 | 1,079 | 10,214 |
| **Current liabilities** | **375,023** | **64,916** | **210,854** | **1,582** | **14,743** |
| Financial liabilities | 25,773 | 1,450 | 20,000 | - | - |
| Other non-monetary liabilities | 4,766 | 2,252 | - | - | 914 |
| **Non-current liabilities** | **30,539** | **3,702** | **20,000** | **-** | **914** |
| **Total liabilities** | **405,562** | **68,618** | **230,854** | **1,582** | **15,657** |
| **Net balance sheet position** | **32,718** | **56,392** | **(89,420)** | **146** | **40,083** |
| **Net position of off-balance sheet derivative financial instruments** | **(1,483)** | **(42,334)** | **60,890** | **-** | **-** |
| Off-balance sheet derivative financial assets | 70,918 | - | 60,890 | - | - |
| Off-balance sheet derivative financial assets | (72,401) | (42,334) | - | - | - |
| **Net foreign currency asset/(liability) position** | **31,235** | **14,058** | **(28,530)** | **146** | **40,083** |
| **Net foreign currency asset/(liability) position of the monetary items** | **(12,380)** | **49,884** | **(120,280)** | **1,217** | **39,567** |

As of 31 December 2007, Group's total foreign currency position excluding TRY is negative TRY31,235 which is equivalent to EUR18,263,946.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange sensitivity analysis as of 31 December is as follows:

**31 December 2008**

| | Gain/loss | | Equity | |
|---|---|---|---|---|
| | Foreign exchange appreciation over TRY | Foreign exchange depreciation over TRY | Foreign exchange appreciation over TRY | Foreign exchange depreciation over TRY |
| +/-10% fluctuation of USD rate | | | | |
| USD net asset/liability | (5,723) | 5,723 | (5,723) | 5,723 |
| Secured portion from USD risk (-) (*) | 12,397 | (12,397) | 12,397 | (12,397) |
| **USD net effect** | **6,674** | **(6,674)** | **6,674** | **(6,674)** |
| +/-10% fluctuation of EUR rate | | | | |
| EUR net asset/liability | 3,704 | (3,704) | 10,675 | (10,675) |
| Secured portion from EUR risk (-) (*) | - | - | (12,942) | 12,942 |
| **EUR net effect** | **3,704** | **(3,704)** | **(2,267)** | **2,267** |
| +/-10% fluctuation of GBP rate | | | | |
| GBP net asset/liability | 1,484 | (1,484) | 1,603 | (1,603) |
| Secured portion from GBP risk (-) (*) | - | - | - | - |
| **GBP net effect** | **1,484** | **(1,484)** | **1,603** | **(1,603)** |
| +/-10% fluctuation of other exchange rates | | | | |
| Other exchange net asset/liability | (4) | 4 | (4) | 4 |
| Secured portion from other exchange risk (-) (*) | - | - | - | - |
| **Other foreign currency assets net effect** | **(4)** | **4** | **(4)** | **4** |
| | **11,858** | **(11,858)** | **6,006** | **(6,006)** |

**31 December 2007**

| | Gain/loss | | Equity | |
|---|---|---|---|---|
| | Foreign exchange appreciation over TRY | Foreign exchange depreciation over TRY | Foreign exchange appreciation over TRY | Foreign exchange depreciation over TRY |
| +/-10% fluctuation of USD rate | | | | |
| USD net asset/liability | (5,434) | 5,434 | (5,434) | 5,434 |
| Secured portion from USD risk (-) (*) | 7,092 | (7,092) | 7,092 | (7,092) |
| **USD net effect** | **1,658** | **(1,658)** | **1,658** | **(1,658)** |
| +/-10% fluctuation of EUR rate | | | | |
| EUR net asset/liability | 7,069 | (7,069) | (2,037) | 2,037 |
| Secured portion from EUR risk (-) (*) | - | - | (7,240) | 7,240 |
| **EUR net effect** | **7,069** | **(7,069)** | **(9,277)** | **9,277** |
| +/-10% fluctuation of GBP rate | | | | |
| GBP net asset/liability | (132) | 132 | 92 | (92) |
| Secured portion from GBP risk (-) (*) | - | - | - | - |
| **GBP net effect** | **(132)** | **132** | **92** | **(92)** |
| +/-10% fluctuation of other exchange rates | | | | |
| Other exchange net asset/liability | (7) | 7 | 4,008 | (4,008) |
| Secured portion from other exchange risk (-) (*) | - | - | - | - |
| **Other foreign currency assets net effect** | **(7)** | **7** | **4,008** | **(4,008)** |
| | **8,588** | **(8,588)** | **(3,519)** | **3,519** |

(*) Includes effects of off-balance sheet derivative instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 31 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

At 31 December, the import and export amounts are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Original amount** | **TRY equivalent** | **Original amount** | **TRY equivalent** |
| EUR | 92,601 | 175,694 | 162,312 | 287,868 |
| USD | 325,809 | 427,894 | 320,334 | 404,030 |
| GBP | 19,116 | 45,730 | 9,539 | 25,093 |
| Other | - | 296 | - | - |
| **Total exports** | | **649,614** | | **716,991** |
| EUR | 34,727 | 64,522 | 85,774 | 153,869 |
| USD | 478,311 | 612,205 | 504,283 | 651,590 |
| GBP | 46 | 108 | 65 | 173 |
| Other | - | 2,386 | - | 3,337 |
| **Total imports** | | **679,221** | | **808,969** |

*Capital Risk Management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The gearing ratios at 31 December are as follows:

| | **2008** | **2007** |
|---|---|---|
| Total liabilities | 953,555 | 1,004,454 |
| Cash and cash equivalents | 28,112 | 18,099 |
| Net debt | 925,443 | 986,355 |
| Total equity | 308,629 | 100,067 |
| Invested capital | 1,234,072 | 1,086,422 |
| **Gearing ratio** | **75%** | **91%** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 32 - FINANCIAL INSTRUMENTS (FAIR VALUE ESTIMATION AND HEDGE ACCOUNTING)

**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. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

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

Financial assets

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

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short-term.

The fair values of financial assets carried fair value are determined using the undisputed similar transactions method. The carrying values of financial assets along with the related allowances for impairment are estimated to be their fair values.

Financial liabilities

The carrying values of trade payables denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate fair values. The carrying values of other trade payables are estimated to be their fair values since they are short-term.

The fair values of short-term financial liabilities are estimated to be their fair values since they are short-term.

The fair values of long term financial liabilities are determined by discounting contractual cash flows with current market interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

(Amounts expressed in thousands of New Turkish lira ("TRY") unless otherwise indicated.)

## NOTE 33 - SUPPLEMENTARY CASH FLOW INFORMATION

"Changes in accruals and provisions" and "changes in operating assets and liabilities" shown in the consolidated cash flows statements are as follows:

| | 2008 | 2007 |
|---|---|---|
| **Changes in provisions and accruals** | | |
| Provision for doubtful receivables | 21,063 | (3,479) |
| Provision for impairment on inventories | 3,954 | 2,980 |
| Warranty provision | (3,537) | (27,892) |
| Provision for sales expenses | 21,124 | 2,358 |
| Accruals for license expenses | 10,223 | 3,501 |
| Provision for outstanding invoices | 2,648 | 1,952 |
| Provision for employment termination benefits | (542) | (310) |
| Other expense accruals | 7,456 | (196) |
| | **62,389** | **(21,086)** |
| **Changes in operating assets and liabilities** | | |
| Trade receivables and due from related parties | 74,617 | 281,627 |
| Other short-term receivables and other current assets | (95) | 20,267 |
| Inventories | 108,527 | 33,855 |
| Other long-term receivables and other non-current assets | 392 | 436 |
| Trade payables and due to related parties | (175,534) | (186,474) |
| Provisions and other short-term liabilities | (45,428) | 6,586 |
| Long-term provisions and other long-term liabilities | (1,090) | (9,407) |
| | **(38,611)** | **146,890** |

## NOTE 34 - SUBSEQUENT EVENTS

The Board of Directors decided for the merger of Grundig Elektronik with Arçelik A.Ş. in accordance with the relevant clauses of Turkish Commercial Code and the Corporate Tax Law, and Turkish Capital Markets Board ("CMB") legal framework over the balance sheets which have been prepared in accordance with the CMB regulations by the whole transfer of all assets and liabilities of Grundig Elektronik as of 31 December 2008 to Arçelik A.Ş., and authorised management to execute the merger in the meeting held on 27 February 2009.

In accordance with Article 1 of Law No. 5083 concerning the "Currency of the Republic of Turkey" and according to the Decision of The Council of Ministers dated 4 April 2007 and No: 2007/11963, the prefix "new" used in "new Turkish lira" and "new kuruş" will be removed as of 1 January 2009. When the prior currency, new Turkish lira ("TRY"), values are converted into TL and Kr, one TRY (TRY1) and one YKr (YKr1) shall be equivalent to one TL (TL1) and one Kr (Kr1).

All references made to new Turkish lira or lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to TL at the conversion rate indicated above. Consequently, effective from 1 January 2009, the TL replaces the TRY as a unit of account in keeping and presenting of books, accounts and financial statements.

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