**(Convenience translation of auditors' report and financial statements and footnotes originally issued in Turkish)**

# Alkim Kağıt Sanayi ve Ticaret A.Ş.

## Financial statements together with report of independent auditors December 31, 2013

**Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi**

**Contents**

**(Convenience translation of independent auditors' report originally issued in Turkish)**

## Independent auditors' report

To the shareholders of
Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi

### Introduction

We have audited the accompanying statement of financial position of Alkim Kağıt Sanayi ve Ticaret A.Ş. ("the Company") as at 31 December 2013 and the related statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

### Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error and/or fraud

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards issued by the Capital Markets Board of Turkey. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying financial statements present fairly the financial position of Alkim Kağıt Sanayi ve Ticaret A.Ş. as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards (Note 2).

**Reports on independent auditor's responsibilities arising from other regulatory requirements**

In accordance with Article 402 of the Turkish Commercial Code ("TCC"); the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit, additionally, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2013 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

Pursuant to Article 378 of Turkish Commercial Code no. 6102, Board of Directors of publicly traded companies are required to form an expert committee, and to run and to develop the necessary system for the purposes of: early identification of causes that jeopardize the existence, development and continuity of the company; applying the necessary measures and remedies in this regard; and, managing the related risks. According to subparagraph 4, Article 398 of the code, the auditor is required to prepare a separate report explaining whether the Board of Directors has established the system and authorized committee stipulated under Article 378 to identify risks that threaten or may threaten the company and to provide risk management, and, if such a system exists, the report, the principles of which shall be announced by the POA, shall describe the structure of the system and the practices of the committee. This report shall be submitted to the Board of Directors along with the auditor's report. Our audit does not include evaluating the operational efficiency and adequacy of the operations carried out by the management of the Company in order to manage these risks. As of the balance sheet date, POA has not announced the principles of this report yet so no separate report has been drawn up relating to it. On the other hand, the Company formed the mentioned committee on 9 April, 2013 and it is comprised of 5 members.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Necati Tolga Kırelli, SMMM
Partner

March 3, 2014
İstanbul, Turkey

**(Convenience translation of financial statements and footnotes originally issued in Turkish)**

**Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi**

**Balance sheet**
**as at December 31, 2013**
**(Currency –Turkish Lira (TL) unless otherwise indicated)**

| | Notes | **Current period Audited December 31, 2013** | *(Restated Note 2)* Prior period Audited December 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | **99.294.880** | 85.555.250 |
| Cash and cash equivalents | 4 | **21.044.382** | 19.657.757 |
| Trade receivables | | | |
| - Other trade receivables | 7 | **49.300.955** | 28.033.842 |
| Other receivables | | | |
| - Due from related parties | 20 | **873** | 1.221 |
| - Other receivables | 8 | **1.233.701** | 1.099.040 |
| Inventories | 9 | **19.487.064** | 29.031.959 |
| Prepaid expenses | 13 | **926.907** | 729.788 |
| Other current assets | 14 | **7.300.998** | 7.001.643 |
| **Non-current assets** | | **54.205.654** | 58.067.370 |
| Trade receivables | | | |
| - Other trade receivables | 7 | **-** | 75.000 |
| Investment in associates accounted by equity method | 10 | **214.439** | 162.110 |
| Property, plant and equipment | 11 | **53.111.857** | 56.839.317 |
| Intangible assets | | | |
| - Other non-current assets | 12 | **2.886** | 7.253 |
| Prepaid expenses | 13 | **876.472** | 983.690 |
| **Total assets** | | **153.500.534** | 143.622.620 |

The accompanying policies and explanatory notes on pages 8 through 54 form an integral part of the financial statements.

**(Convenience translation of financial statements and footnotes originally issued in Turkish)**

**Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi**

**Balance sheet**
**as at December 31, 2013**
**(Currency –Turkish Lira (TL) unless otherwise indicated)**

| | | | *(Restated Note 2)* |
|---|---|---|---|
| | | **Current period** | Prior period |
| | | **Audited** | Audited |
| | **Notes** | **December 31, 2013** | December 31, 2012 |
| **Liabilities** | | | |
| **Current liabilities** | | **41.475.147** | 27.627.970 |
| Short-term financial liabilities | 5 | **5.954.697** | - |
| Current portion of long term financial liabilities | 5 | **15.432.200** | 15.001.014 |
| Other financial liabilities | 6 | **7.605.223** | 414.406 |
| Trade payables | | | |
| -Trade payables from related parties | 20 | **830.081** | 617.926 |
| - Other trade payables | 7 | **9.053.370** | 9.308.153 |
| Liabilities of employee benefits | 17 | **1.171.131** | 1.160.737 |
| Deferred income | 18 | **1.224.427** | 40.080 |
| Current income tax payable | 29 | **171.103** | 148.870 |
| Provisions | | | |
| - Provisions for employee benefits | 16 | **-** | 623.094 |
| - Other provisions | | **-** | 97.149 |
| Other short term liabilities | 19 | **32.915** | 216.541 |
| **Non-current liabilities** | | **9.304.550** | 12.246.345 |
| Long-term financial liabilities | 5 | **4.734.877** | 7.571.219 |
| Other financial liabilities | 6 | **-** | 75.000 |
| Provisions | | | |
| - Provisions for employee benefits | 16 | **3.123.998** | 2.893.302 |
| Deferred tax liability | 29 | **1.445.675** | 1.706.824 |
| **Equity** | | **102.720.837** | 103.748.305 |
| Paid-in share capital | 21 | **52.500.000** | 52.500.000 |
| Inflation adjustment on paid-in share capital | 21 | **32.414.361** | 32.414.361 |
| Restricted reserves | 21 | **4.612.298** | 3.995.963 |
| Other comprehensive income/(expense) not to be reclassified to profit or loss | | | |
| - Actuarial loss arising from defined benefit plans | 21 | **(346.681)** | (115.075) |
| Prior year profits | | **9.343.207** | 8.069.360 |
| Net income for the year | | **4.197.652** | 6.883.696 |
| **Total liabilities and equity** | | **153.500.534** | 143.622.620 |

The accompanying policies and explanatory notes on pages 8 through 54 form an integral part of the financial statements.

**Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi**

**Statement of comprehensive income**
**for the year ended December 31, 2013**
**(Currency –Turkish Lira (TL) unless otherwise indicated)**

| | Notes | **Current period Audited January 1 – December 31 2013** | *(Restated Note 2)* Prior period Audited January 1 – December 31 2012 |
|---|---|---|---|
| Revenue | 23 | **116.486.824** | 122.392.346 |
| Cost of sales (-) | 23 | **(106.079.491)** | (104.313.685) |
| **Gross profit** | | **10.407.333** | 18.078.661 |
| General and administrative expenses (-) | 24 | **(4.814.997)** | (4.355.409) |
| Selling, marketing and distribution expenses (-) | 24 | **(3.452.964)** | (3.979.780) |
| Research and development expenses (-) | 24 | **(53.235)** | (124.890) |
| Other operating income | 26 | **7.425.694** | 1.025.057 |
| Other operating expense (-) | 26 | **(1.484.330)** | (1.793.495) |
| **Operating profit** | | **8.027.501** | 8.850.144 |
| Income from investment activities | 27 | **431.451** | 605.193 |
| Expense from investment activities (-) | 27 | **-** | (294.382) |
| Share from loss in Investment in associates accounted by equity method | 10 | **52.329** | 37.080 |
| **Operating profit before financial income/(expense** | | **8.511.281** | 9.198.035 |
| Financial income | 28 | **946.086** | 819.185 |
| Financial expense (-) | 28 | **(4.109.173)** | (1.276.343) |
| **Profit before taxation** | | **5.348.194** | 8.740.877 |
| **Tax income/(expense)** | | | |
| - Current tax | 29 | **(1.353.790)** | (1.902.215) |
| - Deferred tax (expense)/income | 29 | **203.248** | 45.034 |
| **Profit for the period** | | **4.197.652** | 6.883.696 |
| **Other comprehensive income/(loss)** | | | |
| Items not to be reclassified to profit or loss | | | |
| Defined benefit plans remeasurement losses | | **(289.507)** | (143.844) |
| Tax income | 29 | **57.901** | 28.769 |
| **Other comprehensive expense** | | **(231.606)** | (115.075) |
| **Total comprehensive income** | | **3.966.046** | 6.768.621 |
| **Earnings per share** | 22 | **0,0008** | 0,0013 |

The accompanying policies and explanatory notes on pages 8 through 54 form an integral part of the financial statements.

**Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi**

**Statement of changes in equity**
**as at December 31, 2013**
**(Currency –Turkish Lira (TL) unless otherwise indicated)**

| | | | | Other comprehensive income/(expense) not to be reclassified to profit or loss | Accumulated profit | | |
|---|---|---|---|---|---|---|---|
| | Paid in share capital | Adjustments to share capital | Restricted reserves | Actuarial gain or loss arising from defined benefit plans | Prior year profits | Net profit for the year | Total equity |
| **January 1, 2012** | 52.500.000 | 32.414.361 | 2.737.673 | - | 6.096.142 | 12.175.201 | 105.923.377 |
| Net profit for the period | - | - | - | - | - | 6.768.621 | 6.768.621 |
| Changes in accounting policy (Note 2.2)) – Other comprehensive loss | - | - | - | (115.075) | - | 115.075 | - |
| Total comprehensive profit ( loss ) | - | - | - | (115.075) | - | 6.883.696 | 6.768.621 |
| Transfers | - | - | - | - | 12.175.201 | (12.175.201) | - |
| Dividend payment | - | - | 1.258.290 | - | (10.201.983) | - | (8.943.693) |
| **December 31, 2012** | 52.500.000 | 32.414.361 | 3.995.963 | (115.075) | 8.069.360 | 6.883.696 | 103.748.305 |
| **January 1, 2013** | **52.500.000** | **32.414.361** | **3.995.963** | **-** | **8.069.360** | **6.768.621** | **103.748.305** |
| Changes in accounting policy (Note 2.2)) | - | - | - | **(115.075)** | - | **115.075** | - |
| Net profit for the period | **-** | **-** | **-** | **-** | **-** | **4.197.652** | **4.197.652** |
| Other comprehensive loss | **-** | **-** | **-** | **(231.606)** | **-** | **-** | **(231.606)** |
| Total comprehensive profit ( loss ) | **-** | **-** | **-** | **(231.606)** | **-** | **4.197.652** | **3.966.046** |
| Transfers | **-** | **-** | - | **-** | **6.883.696** | **(6.883.696)** | **-** |
| Dividend payment | **-** | **-** | **616.335** | **-** | **(5.609.849)** | - | **(4.993.514)** |
| **December 31, 2013** | **52.500.000** | **32.414.361** | **4.612.298** | **(346.681)** | **9.343.207** | **4.197.652** | **102.720.837** |

The accompanying policies and explanatory notes on pages 8 through 54 form an integral part of the financial statements.

## Alkim Kağıt Sanayi ve Ticaret Anonim Şirketi

## Statement of cash flows
## for the year ended December 31, 2013
### (Currency –Turkish Lira (TL) unless otherwise indicated)

| | Notes | Current period Audited January 1 – December 31, 2013 | Prior period Audited January 1 – December 31, 2012 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before taxation | | **5.348.194** | 8.740.877 |
| **Adjustments to reconcile profit before tax to net cash generated from operating activities:** | | | |
| Depreciation and amortization | 25 | **6.414.025** | 5.639.306 |
| Collection of doubtful receivables | 7, 26 | **(42.205)** | (102.064) |
| Provision for employee termination benefits | 16 | **283.609** | 375.992 |
| Provision for impairment on inventories | 9 | **16.330** | 53.378 |
| Share of profit of an associate | 10 | **(52.329)** | (37.080) |
| Gain on sale of property, plant and equipment | 27 | **(1.630)** | 294.382 |
| Provision for unused vacation rights | 16 | **15.116** | 51.135 |
| Interest income | 27 | **(429.821)** | (605.193) |
| Interest expenses | 28 | **635.311** | 332.460 |
| Reversal of provision for litigations | | **(97.034)** | 97.034 |
| Interest ıncome on customer receivables | 26 | **(731.923)** | (31.259) |
| Unrealized foreign currency (gains) / losses | | **(400.455)** | 8.210 |
| **Net cash flow used in by operating activities before changes in assets and liabilities** | | **10.957.188** | 14.817.178 |
| **Changes in assets and liabilities** | | | |
| Short term trade receivables (including related parties) | | **(18.841.711)** | 737.080 |
| Other receivables | | **(375.363)** | 248.641 |
| Inventories | | **9.527.640** | (1.940.775) |
| Long-term trade receivables | | **75.000** | (75.000) |
| Other current assets | | **(299.355)** | (3.097.423) |
| Decrease in other non-current assets | | - | 301.979 |
| Prepaid expenses | | **(89.901)** | (11.316.061) |
| Trade payables (including related parties) | | **(42.628)** | 3.231.889 |
| Deferred income | | **1.184.347** | - |
| Liabilities for employee benefits | | **10.394** | 395.316 |
| Provision for employee benefits | | **(487.036)** | 29.493 |
| Other short term provisions and other liabilities | | **(280.775)** | (599.251) |
| Interest income on customer receivables | 26 | **731.923** | 31.259 |
| Cash flows generated from operating activities: | | **2.069.723** | 2.764.325 |
| Taxes paid | 29 | **(1.331.557)** | (2.360.149) |
| Employment termination benefits paid | 16 | **(357.536)** | (224.472) |
| **Cash flows used in operating activities** | | **380.630** | 179.704 |
| Investing activities | | | |
| Interest received | | **394.829** | 624.155 |
| Purchase of property, plant and equipment and intangible assets | | **(2.751.047)** | (2.178.171) |
| Proceeds from sale of property, plant and equipment | | **32.379** | - |
| **Cash flows used in investing activities** | | **(2.323.839)** | (1.554.016) |
| Financing activities: | | | |
| Repayments of financial liabilities, net | | **1.774.164** | 6.637.978 |
| Interest paid | | **(601.626)** | (245.519) |
| Factored receivables, net | | **7.115.818** | (798.000) |
| Dividend paid | 21 | **(4.993.514)** | (8.943.693) |
| **Net cash provided by/(used in) financing activities** | | **3.294.842** | (3.349.234) |
| Net increase/(decrease) in cash and cash equivalents | | **1.351.633** | (4.723.546) |
| Cash and cash equivalents at beginning of the year | 4 | **19.644.376** | 24.367.922 |
| **Cash and cash equivalents at the end of the year** | 4 | **20.996.009** | 19.644.376 |

The accompanying policies and explanatory notes on pages 8 through 54 form an integral part of the financial statements.

## 1. Organization and nature of operations

The nature of the operations of Alkim Kağıt Sanayi ve Ticaret A.Ş. (the "Company") is the manufacturing and sales of offset, glossy and photocopies papers. The main shareholder of the Company is Alkim Alkali Kimya A.Ş. ("Alkim Kimya").

The Company is registered in the Turkish Capital Markets Board ("CMB") and its shares have been traded on the Borsa Istanbul ("BİST"). As at December 31, 2013, the shares traded on BİST are 20% (2012: 20%) of the total shares.

As of December 31, 2013, the number of personnel of the Company is 161 (2012 - 180).

The address of the registered office is as follows:

Organize Sanayi Bölgesi Kırovası Mevkii
Kemalpaşa-İzmir

Cihat Kora, M. Reha Kora, Arkın Kora, A. Haluk Kora, Ferit Kora, Özay Kora, Tülay Önel, Mithat Kora (members of the Kora family) holding shares equivalent to 67,2831% of the share capital of Alkim Alkali Kimya A.Ş., which is a majority shareholder of the Company, notified in Istanbul Stock Exchange in 17 October 2012, that they had signed a contract with İş Yatırım Menkul Değerler A.Ş. for consultancy services for the partial or whole sale of their shares, establishment of relations with investors at home or abroad regarding this matter and evaluation of various options.

### Dividend paid

As decided on the Ordinary General Meeting held on March 27, 2013, the Company distributed gross dividend from profit of 2012 and prior years amounting to TL 4.993.514 (net 4.244.487). In accordance with the decision, related amount transferred to the accounts of shareholders on April 15, 2013

### Approval of Financial Statements

Financial statements are approved for issue by board of directors on March 4, 2014. General Assembly has the power to amend the financial statements.

## 2. Basis of preparation of financial statements

### 2.1 Basis of preparation

The consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting in Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") (hereinafter will be referred to as "the CMB Reporting Standards") on June 13, 2013 which is published on Official Gazette numbered 28676. Companies should apply Turkish Accounting Standards / Turkish Financial Reporting Standards and interpretations regarding these standards as adopted by Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA").

## 2. Basis of preparation of financial statements (continued)

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Group's financial statements have been prepared in accordance with this decision items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales described in "Revenue Recognition" are presented as net provided that if the nature of the transaction or the event qualify for offsetting.

Financial statements have been prepared under the historic cost convention except for the financial assets and liabilities which are stated at fair values and presented in Turkish Lira ("TL"), which is the functional and presentation currency of the Company.

### 2.2 Comparative information and restatement of prior period financial statements

In order to provide chance to identify trend of financial performance and financial position, financial statements are prepared comparative to the prior period. When presentation of current year financial statements is revised for more accurate presentation, prior year financial statements are reclassified accordingly, to be comparative

(i) TAS 19, Employee Benefits, effective from January 1, 2013, requires the recognition of actuarial gain / loss related to the employment termination benefits in the statement of comprehensive income. Until December 31, 2012, the Company accounted actuarial gain/losses arising from provisions for employment termination benefits in the statement of profit or loss. The Company applied the change in accounting policy retrospectively and actuarial gain/losses reported in previous periods' profit or loss statements were restated in actuarial gain and losses arising from defined benefit plans under shareholders' equity. Actuarial losses (deferred tax effect netted) reported under cost of goods sold amounting to TL117.379, general and administrative expenses amounting to TL 15.083 and selling, marketing and distribution expenses amounting to TL 11.382 at December 31, 2012 is restated into "defined benefit plans remeasurement losses" under other comprehensive income/(loss). Actuarial loss amounting to TL 143.844 shown in profit before tax in statement of cash flow at December 31, 2012 was reclassified under actuarial loss provision for retirement payment.

    Provision for vacation pay liability amounting to TL 294.274 in financial statement table as of December 31, 2012, shown in provision for short-term payables were reclassified under long term provision for employee benefit due to the changes in TAS 19, Employee Benefits, effective from January 1, 2013.

## 2. Basis of preparation of financial statements (continued)

According to amendments in TAS 19, short-term employee benefits includes the short term-benefits expected to be accomplished in subsequent twelve months of the yearly report period service provided. Within this scope, provision for vacation pay liability were reclassified as long – term employee benefits and required reclassifications related to prior year financial statements were performed due to the fact expectation of the Company is not to be accomplished in subsequent twelve months of the yearly report period.

(i) Prepaid expenses amounting to TL 36.428 shown in other trade receivables were reclassified under prepaid expenses.
(ii) Time deposit interest income accruals amounting to TL 13.381 shown in other current assets were reclassified in cash and cash equivalents.
(iii) Transportation service income amounting to TL 324.380 shown in revenue was net-off by selling, marketing and distribution expenses.

Pursuant to the decree taken in the CMB's meeting dated June 7, 2013 and numbered 20/670, for capital market board institutions within the scope of the Communiqué on Principles Regarding Financial Reporting in the Capital Market, financial statement templates and a user guide have been published, effective as of the interim periods ended after March 31, 2013. Various classifications were made in the Company's statement of financial position pursuant to these formats which have taken effect. The classifications made in the statement of financial position of the Company as of 31 December 2012 and the statement of comprehensive income for the period ended 31 December 2012 are as follows:

- Prepaid insurance expenses amounting to TL 29.076 shown in other trade receivables were reclassified under short-term prepaid expenses
- Advance given for fixed assets amounting to TL 971.876 and prepaid expenses amounting to TL 11.814 shown in other non-current assets were reclassified under long term prepaid expenses.
- Personnel salaries payable and taxes and other fund payables amounting to TL 554.155 and 606.582, respectively shown in other short-term liabilities were reclassified liabilities for employee benefits. ,
- Provision for personnel retirement payment amounting to TL 623.094 shown in other short-term liabilities were reclassified under short-term provision for the employee benefits
- Expense accruals related to suppliers amounting to TL 78.617 shown in other short term liabilities were reclassified under trade payables to third parties.
- Advances amounting to TL 40.080 shown in other short term liabilities were reclassified under deferred income
- Provision for litigation amounting to TL 97.149 shown in other short term liabilities were reclassified under other short term provisions
- Interest income on trade receivables amounting to TL 31.259 shown in financing income were reclassified under other operating income.
- Foreign exchange losses on receivables and payables amounting to TL 1.658.178 shown in financing expenses were reclassified under other operation expenses
- Time deposit interest income amounting to TL 605.193 shown in financing income were reclassified under income from investment activities

### 2.3 Amendments in Financial Reporting Standards in Turkey

### Application of new IFRS standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2013 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2013. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

## 2. Basis of preparation of financial statements (continued)

**The new standards, amendments and interpretations which are effective as at 1 January 2013 are as follows:**

**TFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amended)**

The amendment requires the disclosure of the rights of the entity relating to the offsetting of the financial instruments and some information about the related regulations (e.g. collateral agreements). New disclosures would provide users of financial statements with information that is useful in;

i) evaluating the effect or potential effect of netting arrangements on an entity's financial position and,
ii) analyzing and comparing financial statements prepared in accordance with TFRSs and other generally accepted accounting standards.

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset according to TAS 32. Such disclosures are applicable to financial instruments in the balance sheet that have not been offset according to TAS 32 but are available for offsetting according to main applicable offsetting regulations or other financial instruments that are subject to a similar agreement. The amendment affects disclosures only and did not have any impact on the financial statements of the Company.

**TAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income**

The amendments to TAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. The amendment affects presentation only and did not have an impact on the financial position or performance of the Company.

**TAS 19 Employee Benefits (Amended)**

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain/(loss) under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Company used to recognize the actuarial gain and loss in profit and loss statement before this amendment. The Company disclosed the retrospective effect of the changes in Note 2.2.

**TAS 27 Separate Financial Statements (Amended)**

As a consequential amendment to TFRS 10 and TFRS 12, the TASB also amended TAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment did not have any material impact on the financial position or performance of the Company.

## 2. Basis of preparation of financial statements (continued)

### TAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to TFRS 11 and TFRS 12, the POA also amended TAS 28, which has been renamed TAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to TFRS 11. The amendment did not have any impact on the financial position or performance of the Company.

### TFRS 10 Consolidated Financial Statements

TFRS 10 replaces the parts of previously existing TAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard did not have any impact on the financial position or performance of the Company.

### TFRS 11 Joint Arrangements

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard did not have any impact on the financial position or performance of the Company

### TFRS 12 Disclosure of Interests in Other Entities

TFRS 12 includes all of the requirements that are related to disclosures of an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The standard affects presentation only and did not have an impact on the disclosures given by the Company.

### TFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under TFRS but does not change when an entity is required to use fair value. It is a single source of guidance under TFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures are only required for periods beginning after TFRS 13 is adopted. This standard did not have a material impact on the fair value measurements of the Company.

### TFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This interpretation is not applicable for the Company and did not have any impact on the financial position or performance of the Company.

### Transition Guidance (Amendments to TFRS 10, TFRS 11 and TFRS 12)

The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as ‘the beginning of the annual reporting period in which TFRS 10 is applied for the first time’. The assessment of whether control exists is made at ‘the date of initial application’ rather than at the beginning of the comparative period. If the control assessment is different between TFRS 10 and TAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons TFRS 11 and TFRS 12 has also been amended to provide transition relief. These amendments did not have an impact on the financial statements of the Company.

## 2. Basis of preparation of financial statements (continued)

### Improvements to TFRSs

Annual Improvements to TFRSs – 2009 – 2011 cycles, which contains amendments to its standards, is effective for annual periods beginning on or after 1 January 2013. This project did not have an impact on the financial position or performance of the Company.

*TAS 1 Financial Statement Presentation:*
Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

*TAS 16 Property, Plant and Equipment:*
Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory

*TAS 32 Financial Instruments: Presentation:*
Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with TAS 12 Income Taxes. The amendment removes existing income tax requirements from TAS 32 and requires entities to apply the requirements in TAS 12 to any income tax arising from distributions to equity holders.

*TAS 34 Interim Financial Reporting:*
Clarifies the requirements in TAS 34 relating to segment information for total assets and liabilities for each reportable segment. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

### Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

### TAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the TAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

### TFRS 9 Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

## 2. Basis of preparation of financial statements (continued)

**TFRIC Interpretation 21 Levies**

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted. Retrospective application of this interpretation is required. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

**The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA**

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

**IFRS 10 Consolidated Financial Statements (Amendment)**

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

**IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial assets (Amendment)**

The IASB, as a consequential amendment to IFRS 13 Fair Value Measurement, modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The amendment has affected to disclosure principles. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.
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**IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendment)**

In June 2013, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement that provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014.The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

## 2. Basis of preparation of financial statements (continued)

**IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)**

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

**Improvements to IFRSs**
In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective as of 1 July 2014. Earlier application is permitted.

***Annual Improvements to IFRSs – 2010–2012 Cycle***

*IFRS 2 Share-based Payment:*
Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is effective prospectively.

*IFRS 3 Business Combinations*
Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. The amendment is effective for business combinations prospectively.

*IFRS 8 Operating Segments*
The changes are as follows: i) Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

*IFRS 13 Fair Value Measurement Decision Requirements*
As clarified in the Basis for Conclusions, short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the carrying amount equals to the market value. The amendment is effective retrospectively.

*IAS 24 Related Party Disclosures*
The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment is effective retrospectively.

## 2. Basis of preparation of financial statements (continued)

***Annual Improvements to IFRSs – 2011–2013 Cycle***

*IFRS 3 Business Combinations*
The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

*IFRS 13 Fair Value Measurement*
The portfolio exception in IFRS 13 can be applied to the contracts within the context of IAS 39, not just financial assets and financial liabilities. The amendment is effective prospectively.

*IAS 40 Investment Properties*
The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The amendment is effective prospectively. These amendments did not have an impact on the financial position or performance of the Company.

*FRS 14 - interim standard on regulatory deferral accounts.*

In January 2014, the IASB issued this standard. IFRS 14 permits first-time adopter rate regulated entities to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. Existing IFRS preparers are prohibited from adopting this Standard. The Standard will be applied on a full retrospective basis and is effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. *The Standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.*

**Resolutions promulgated by the Public Oversight Authority**

In addition to those mentioned above, the POA has promulgated the following resolutions regarding the implementation of Turkish Accounting Standards. “The financial statement examples and user guide” became immediately effective at its date of issuance; however, the other resolutions shall become effective for the annual reporting periods beginning after 31 December 2012.

2013-1 Financial Statement Examples and User Guide

The POA promulgated “financial statement examples and user guide” on May 20, 2013 in order to ensure the uniformity of financial statements and facilitate their audit. The financial statement examples within this framework were published to serve as an example to financial statements to be prepared by companies obliged to apply Turkish Accounting Standards, excluding financial institutions established to engage in banking, insurance, private pensions or capital market. The Company has made the classification stated in Note 2.2 in order to comply with the requirements of this regulation

**2013-2 Accounting of Combinations under Common Control**

In accordance with the resolution it has been decided that i) combination of entities under common control should be recognized using the pooling of interest method, ii) and thus, goodwill should not be included in the financial statements and iii) while using the pooling of interest method, the financial statements should be prepared as if the combination has taken place as of the beginning of the reporting period in which the common control occurs and should be presented comparatively from the beginning of the reporting period in which the common control occurred. This resolution did not have any impact on the financial statements of the Company.

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 2. Basis of preparation of financial statements (continued)

### 2013-3 Accounting of Redeemed Share Certificates

Clarification has been provided on the conditions and circumstances when the redeemed share certificates shall be recognized as a financial liability or equity based financial instruments. This resolution did not have any impact on the financial statements of the Company

### 2013-4 Accounting of Cross Shareholding Investments

If a subsidiary of an entity holds shares of the entity then this is defined as cross shareholding investment. Accounting of this cross investment is assessed based on the type of the investment and different recognition principles adopted accordingly. With this resolution, this topic has been assessed under three main headings below and the recognition principles for each one of them has been determined.

i) the subsidiary holding the equity based financial instruments of the parent,
ii) the associates or joint ventures holding the equity based financial instruments of the parent
iii) the parent's equity based financial instruments are held by an entity, which is accounted as an investment within the scope of TAS 39 and TFRS 9 by the parent.

This resolution did not have any impact on the financial statements of the Company.

### 2.4 Basis of consolidation

The financial statements reflect company and subsidiaries' accounts according to equity method as declared "Subsidiaries" article below.The financial statements of the subsidiary consolidated according to equity method were prepared as of the financial statement date.

**<u>Subsidiaries</u>**

Investments are subsidiaries were recognized according to equity method. These are the organizations that the company generally has 20% and 50% vote right or, important impact on subsidiary operations. Unrealized gains arising from transactions between company and subsidiary were restated on scale of share of the company on subsidiary and unrealized losses were restated if the transaction would have not been indicated the impairment of the transferred asset. As long as the Company has not been under liability with subsidiary about mentioned situation or not been made any commitment, investment in subsidiary with book value of zero or, important effect of the company ended then, equity method would not been carried on. Booked value of the investment at date important effect ended has revealed as cost value after mentioned date.

Subsidiaries of the company and shareholdings as of December 31, 2013 and 2012 were as follows:

| | | **Share (%)** |
|---|---|---|
| | **December 31, 2013** | December 31, 2012 |
| Alkim Sigorta Aracılık Hiz. Ltd. Şti. ("Alkim Sigorta") | **50.00** | 50.00 |

### 2.5 Summary of important accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarized below.

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 2. Basis of preparation of financial statements (continued)

### 2.5.1 Revenue recognition

Revenues are recognized on an accrual basis at the time deliveries or acceptances are made, the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company, at the fair value of consideration received or receivable. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes.(Note 23). Interest income is recognized by using the effective interest rate and rent income is recognized in the period on accrual basis. When impairment provision is recognized for receivable the Company rediscounts carried value of the related receivable according to estimated cash flow in the future by using original effective interest rate and recognized related rediscount as interest income. Dividend is recognized when collection right is available

### 2.5.2 Inventories

Inventories consist of cellulose stocks, work in process and finished goods as bobbin or different size, chemicals, consumable stocks and spare parts. Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. The cost of inventories consists of cost of inventories purchased, cost of conversion and other cost related to conversion of inventories to current condition and position. Method to determine the cost for all inventories is carried out according to moving weighted average method.(Note 9)

### 2.5.3 Property, plant and equipment

Property, plant and equipment acquired before January 1, 2005 are carried at cost in purchasing power of TL as at December 31, 2004; less accumulated depreciation and impairment losses, if any. Property, plant and equipment acquired after January 1, 2005 are carried at cost less accumulated depreciation and impairment losses, if any.

Property, plant and equipments are capitalized and depreciated when they are fully commissioned and in a physical state to meet their designated production capacity. Residual values of property, plant and equipment are considered to be immaterial.

Depreciation is provided using the straight-line method based on the estimated useful lives of the assets (Note 11). Land is not depreciated as it is deemed to have an indefinite life. The annual depreciation rates accordingly the estimated useful lives for property, plant and equipment are as follows:

| | Rates (%) |
|---|---|
| Land improvements | 2-13 |
| Buildings | 2-4 |
| Machinery and equipment | 4-25 |
| Motor vehicles | 10-25 |
| Furniture and fixtures | 5-20 |

Where the carrying amount of a property, plant and equipment is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the other income and expense accounts, as appropriate

## 2. Basis of preparation of financial statements (continued)

Repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred. Subsequent costs are included in the asset's carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The Company derecognizes the carrying amounts of the replaced parts related to renovations regardless of whether the replaced parts were depreciated separately. Subsequent costs included in the asset's carrying value or recognized as separate asset, are depreciated based on their useful lives.

### 2.5.4 Intangible assets

Intangible assets comprise of acquired rights, information systems and software. Those acquired before January 1, 2005 are carried at cost in the purchasing power of TL as at December 31, 2004; less accumulated depreciation and impairment losses, if any; those acquired after January 1, 2005 are carried at cost less accumulated depreciation and impairment losses, if any, which are depreciated using the straight-line method over 10 – 20 years following the acquisition date in either case. Residual values of intangible assets are deemed as negligible. In case of impairment, the carrying amount of an intangible asset is written down to its recoverable amount

### 2.5.5 Impairment on assets

At each reporting date, the Company assesses whether there is an impairment indication for the assets, except for the deferred income tax assets and financial assets stated at fair values. An impairment loss is recognized for the amount by which the carrying amount of the asset or any cash generating unit of that asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. Impairment losses are accounted for in the statement of comprehensive income. Impairment loss on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

### 2.5.6 Borrowings and borrowing costs

If the maturity of these instruments is less than 12 months, these loans are classified in current liabilities and if more than 12 months, classified in non-current liabilities (Note 5). Borrowings are stated at amortized cost using the effective yield method. Any proceeds and the redemption value are recognized in the statement of comprehensive income as borrowing cost over the period of the borrowings. Borrowing costs are recognized in the statement of comprehensive income as incurred (Note 28).

Assets that necessarily take a substantial period of time to get ready for its intended use or sale are defined as qualifying assets. The Company has no qualifying assets during the reporting periods.

## 2. Basis of preparation of financial statements (continued)

### 2.5.7 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method (Note 7).

### 2.5.8 Financial assets

Loans and receivables constitute non-derivative financial instruments, which are not quoted in active markets and have fixed or scheduled payments. Loans and receivables arise, without held-for-sale intention, from the Company’s supply of goods, service or direct fund to any debtor. They are classified as current assets when they have a maturity less than 12 months, and non-current assets when they have a maturity more than 12 months as of balance sheet date. Loans and receivables are recognized initially at their fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset. These loans and receivables are included in trade receivables and other receivables in the balance sheet. Loans and receivables are recorded at the proceeds received, net of any transaction costs incurred. In subsequent periods, loans and receivables are stated at amortized cost using the effective yield method.

### 2.5.9 Foreign currency transactions

Foreign currency transactions (all currencies other than TL) are translated by applying the exchange rate of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. The non-monetary items that are carried at historical cost are not retranslated at the balance sheet date.

### 2.5.10 Earnings per share

Earnings per share indicated in the statements of comprehensive income are determined by dividing net profit for the year by the weighted average number of shares that have been outstanding during the year concerned (Note 22).

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 issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

In case of dividend distribution, earnings per share is calculated by dividing net income by the number of shares, rather than dividing by weighted average number of shares outstanding.

## 2. Basis of presentation of financial statements (continued)

### 2.5.11 Subsequent events

Subsequent events, announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue (Note 31).

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Company makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and not require a correction to be made are disclosed in accompanying notes, when they may affect decision of making of users of financial statements.

### 2.5.12 Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

In cases where the time value of money is material, provisions are determined as the present value of expenses required to be made to honor the liability. The rate used to discount provisions to their present values is determined taking into account the interest rate in the related markets and the risk associated with the liability. This discount rate does not consider risks associated with future cash flow estimates.

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 Company are treated as contingent assets or liabilities. The Company does not recognize contingent assets and liabilities (Note 15, 16).

### 2.5.13 Accounting policies, changes in accounting estimates and errors

If appropriate, significant changes in accounting policies and errors are applied on a retrospective basis and reflected upon previous periods' financial statements. Changes in accounting estimates involving single periods are reflected upon the current period when the change occurs; changes involving future periods are reflected both upon the current period when the change occurs and the future period, on a prospective basis

### 2.5.14 Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## 2. Basis of presentation of financial statements (continued)

### 2.5.15 Related parties

a) A person or a close member of that person's family is related to a reporting entity if that person:
   - (i) has control or joint control over the reporting entity;
   - (ii) has significant influence over the reporting entity; or
   - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
   - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - (iii) Both entities are joint ventures of the same third party.
   - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   - (vi) The entity is controlled or jointly controlled by a person identified in (a).
   - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### 2.5.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided the chief operating decision makers. The chief operating decision makers, who are responsible for allocation resources and assessing performance of the operating segments, have been identified as the senior management that makes strategic decisions

The senior management of the Company makes strategic decisions as a whole over the operations of the Company as the Company operates in a single industry and operations outside Turkey do not present an important portion in overall operations. Based on those reasons, there is a single reportable segment in accordance with the provisions in IFRS 8 and segment reporting is not applicable.

### 2.5.17 Taxation on income

Taxation on income includes current period tax liability and deferred income taxes. Current period tax liability includes the taxes payable calculated on the taxable portion of period income with tax rates enacted on the balance sheet date and the correction adjustments related to prior period tax liabilities (Note 29). The adjustments related to prior period tax liabilities are recognized in other operating income and expenses.

Deferred tax assets and liabilities are provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes with the enacted tax rates as of the balance sheet date (Note 29).

## 2. Basis of presentation of financial statements (continued)

Deferred tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will reverse. Deferred tax liabilities are recognized for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. To the extent that deferred tax assets will not be utilized, the related amounts have been deducted accordingly.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly, if current tax assets can be offset against current tax liabilities (Note 29).

## 3 Employee benefits

### a) Defined benefit plans

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The Company has reflected a liability using the “Projected Unit Credit Method”. The employee termination benefits are discounted to the present value of the estimated future cash outflows using the interest rate.(Note16). All actuarial gains and losses calculated are reflected in the comprehensive income statement.

### b) Defined contribution plans

The Company pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

### 3.5.1 Statement of cash flow

In the statement of cash flows, cash flows are classified into three categories as operating, investing and financing activities. Cash flows from operating activities are those resulting from the Company’s main operations. Cash flows from investing activities indicate cash inflows and outflows resulting from fixed asset and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand accounts, bank deposits, mutual funds and loans originated by the Company by providing money directly to a bank under reverse repurchase agreements with a predetermined sale price at fixed future dates of less than or equal to 3 months

### 3.5.2 Trade receivables and impairment of receivables

Trade receivables that are realized by the Company by way of providing goods or services directly to a debtor are carried at amortized cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

## 2. Basis of presentation of financial statements (continued)

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

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income in the statement of comprehensive income.

Trade receivables from certain customers that are assigned to a factor by the Company, are followed as long and short term trade receivables in the accompanying balance sheet and commission paid to factoring company as a result of the mentioned transaction. Payable to factoring company is followed as long and short term other financial liabilities in the balance sheet (Note 6 and 7).

### 2.5.21 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

### 2.5.22 Share capital and dividends

Share capital is classified as capital and dividends distributed from common stocks are deducted at the period of the declaration from the retained earnings. Dividend income is recognized when the Company's right to receive the payment is established.

### 2.5.23 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Preparation of financial statements requires disclosure of reported assets and liabilities, contingent assets and liabilities as at balance sheet date and utilization of estimates and assumptions that can effect income and expense balances of the reporting period. Estimations and assumptions can differ from actual results in spite of these estimations and assumptions are based on the Company management's best estimate. Significant accounting estimates are as follows

a) There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Company recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 2. Basis of presentation of financial statements (continued)

b) Retirement pay liability is determined by using actuarial assumptions (discount rates, future salary increases and employee turnover rates). As of December 31, 2013 and 2012, retirement pay liability amounts to TL 2.814.608 and TL 2.599.028, respectively.

c) Allowance for doubtful receivables is an estimated amount that the Company's management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions.

d) Tangible and intangible assets are depreciated based on their expected useful lives. Useful lives settled by management were explained in Note 2.5.3 and Note2.5.4.

## 3. Segment reporting

None (Please refer to Note 2.4.16).

## 4. Cash and cash equivalents

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Cash on hand | **32.104** | 22.593 |
| Banks | | |
| - TL denominated time deposits | **17.798.373** | 10.811.017 |
| - TL denominated demand deposits | **62.601** | 91.719 |
| - Foreign currency denominated time deposits | **2.827.948** | 8.611.380 |
| - Foreign currency denominated demand deposits | **16.823** | 14.356 |
| Other current assets (*) | **306.533** | 106.692 |
| | **21.044.382** | 19.657.757 |
| Less: interest accrual | **(48.373)** | (13.381) |
| **Total cash and cash equivalents base for cash flow statement** | **20.996.009** | 19.644.376 |

(*) Credit card receivables with maturity less than 3 months.

As of December 31, 2013, maturity of TL denominated time deposits is one month (2012 – average 1 month) and the weighted average effective interest rate is 9,30% per annum ("p.a.") (2012 – 8% p.a.).

As of December 31, 2013, maturity of foreign currency denominated time deposits is less than one month (2012 – less than one month) and the weighted effective interest rate is 1,25% per annum ("p.a.") (2012 – 2%).

The details of the foreign currency denominated demand deposits are disclosed in Note 30. Based on the independent data with respect to the credit risk assessment of the banks at which the Company has deposits, are sufficient in terms of credit quality of the banks. The fair values of cash and cash equivalents approximate carrying values, including accrued income at the respective balance sheet dates.

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 5. Financial liabilities

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Short-term bank borrowings | **5.954.697** | - |
| Short-term portion of long-term bank borrowings | **15.432.200** | 15.001.014 |
| **Short-term financial liabilities** | **21.386.897** | 15.001.014 |
| Long-term bank borrowings | **4.734.877** | 7.571.219 |
| **Long-term financial liabilities** | **4.734.877** | 7.571.219 |
| **Total financial liabilities** | **26.121.774** | 22.572.233 |

### a) Bank borrowings:

| | **December 31, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| | **Effective weighted average interest rate p.a. (%)** | **Amount** | Effective weighted average interest rate p.a. (%) | Amount |
| **Short-term bank borrowings:** | | | | |
| USD bank borrowings | **2,55** | **5.954.697** | - | - |
| | | **5.954.697** | | - |
| **Short-term portion of long-term bank borrowings :** | | | | |
| USD bank borrowings (*) | **0,63** | **15.432.200** | 0,86 | 15.001.014 |
| | | **15.432.200** | | 15.001.014 |
| **Long-term bank borrowings:** | | | | |
| USD bank borrowings (*) | **0,68** | **4.734.877** | 0,84 | 7.571.219 |
| | | **4.734.877** | | 7.571.219 |

(*) The interest rates of the USD denominated GSM bank borrowings vary between Libor+0,30% p.a. with six month contractual reprising dates (2012 - Libor+0,25%) and the Company did not provide any guarantees for the mentioned bank borrowings

The redemption schedules of long-term bank borrowings at December 31, 2013 and 2012 are as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| 2014 | **-** | 7.571.219 |
| 2015 | **4.734.877** | - |
| | **4.734.877** | 7.571.219 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 5. Financial liabilities (continued)

The carrying amounts of the financial liabilities with floating and fixed rates which were classified in terms of periods remaining to contractual reprising dates as of December 31, 2013 and 2012 are as follows:

| | up to 3 months | 3 months – 1 year | Total |
|---|---|---|---|
| **- December 31, 2013** | | | |
| Financial liabilities with floating interest rate | **3.251.266** | **16.915.807** | **20.167.077** |
| Financial liabilities with fixed interest rate | **5.954.697** | **-** | **5.954.697** |
| **Total** | **9.205.963** | **16.915.807** | **26.121.774** |
| - **December 31, 2012** | | | |
| Financial liabilities with floating interest rate | 3.623.807 | 18.948.426 | 22.572.233 |
| Financial liabilities with fixed interest rate | - | - | - |
| **Total** | 3.623.807 | 18.948.426 | 22.572.233 |

## 6. Other financial liabilities

As of December 31, 2013, other financial liabilities amounting to TL 7.605.223 (December 31, 2012 - TL 489.406) consist of the liabilities of the Company in connection with its receivables factored under revocable factoring agreements. As of December 31, 2012, TL 414.406 of total amount is classified as short-term other financial liabilities and remain TL 75.000 is classified as long-term other financial liabilities).

## 7. Trade receivables and payables

### a) Other trade receivables

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Cheques and notes receivables, net | **38.843.995** | 22.968.563 |
| Customer current accounts, net | **2.851.737** | 4.654.171 |
| Factored receivables | **7.605.223** | 411.108 |
| Doubtful receivables | **15.865** | 58.070 |
| | **49.316.820** | 28.091.912 |
| Less: Allowance for doubtful receivables | **(15.865)** | (58.070) |
| | **49.300.955** | 28.033.842 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 7. Trade receivables and payables (continued)

As of December 31, 2013, the effective weighted average interest rates used in the calculation of discounted carrying value of TL, USD and EUR denominated short-term trade receivables are 8,8% p.a., 0,39% p.a. and 0,1% p.a., respectively (2012: 5,95% p.a., 0,31% p.a. and 0,26% p.a., respectively). Trade receivables mature within 3 months (2012: 2 months).

As of December 31, 2013 and 2012, the Company's receivables amounting to TL 37.532.146 and TL 13.639.979, respectively consists of trade receivables from two customers. Also, As of December 31, 2013 and 2012, approximately 45% and 24% of sales revenue of the Company consist of the sales to mentioned two customers.

**The aging analysis of trade receivables as of December 31, 2013 and 2012 is as follows:**

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Overdue receivables(*) | **93.465** | 115.655 |
| 0-30 days | **4.609.990** | 10.017.351 |
| 31-60 days | **3.977.869** | 9.925.766 |
| 61-90 days | **11.479.611** | 4.037.467 |
| 91-120 days | **3.710.091** | 3.099.897 |
| 121 days and over(**) | **25.429.929** | 837.706 |
| | **49.300.955** | 28.033.842 |

(*) Based on past experiences and relations with related customers, management believes that there is no collection risk on overdue receivables. As of December 31, 2013 and 2012, aging analysis of overdue trade receivables and credit risk analysis were explained in detail in Note 30.

(**) TL 24.148.932 consists of cheque receivables with maturity mostly between May and September 2014 from two customers. Besides, Current account receivable from one of mentioned two customers is TL 1.254.800 with May 2014 maturity. Cash advance amounting to TL 1.208.472 TL have been obtained by one of mentioned customers and reflected to income account. (Note 18). As of December 31, 2013, TL 17.000.000 joint guarantee (from member of the customer company exists for these trade receivables ( 2012: TL 5.000.000)

The movement in the provision for doubtful receivables during the year is as follows:

| | **2013** | 2012 |
|---|---|---|
| **January 1** | **58.070** | 160.134 |
| Collected in the current year | **(42.205)** | (102.064) |
| **December 31** | **15.865** | 58.070 |

The Company has accounted allowance for doubtful receivables based on its past experiences. Therefore, the management believes that no additional credit risk exists beyond the Company's trade receivables, which have been identified as doubtful receivable and allowance have been accounted for.

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 7. Trade receivables and payables (continued)

### b) Long-term trade receivables

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Factored receivables (Note 6) (*) | - | 75.000 |
| | **-** | 75.000 |

(*) Factored receivables with 1-2 years maturity.

### c) Short term trade payables

| | **December 31, 2013** | December 31, 2011 |
|---|---|---|
| Supplier current accounts | **9.081.141** | 9.326.124 |
| Less: Rediscount | **(27.771)** | (17.971) |
| **Total trade payables** | **9.053.370** | 9.308.153 |

As of December 31, 2013, the effective weighted average interest rates used in the calculation of discounted carrying value of TL, USD and EUR denominated short-term trade payables are 8,8% p.a., 0,17% p.a. and 0,2% p.a., respectively (2012 – 5,83% p.a., 0,23 % p.a. and 0,07%p.a., respectively). Trade payables mature within 45 days (2012 - 2 months).

## 8. Other receivables

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Value Added Tax (“VAT”) receivables(*) | **1.144.005** | 978.048 |
| Other | **89.696** | 120.992 |
| | **1.233.701** | 1.099.040 |

(*) Consists of VAT receivables in 1 year

## 9. Inventories

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Raw materials | **6.581.999** | 9.066.288 |
| Work-in-progress | **1.760.739** | 4.161.819 |
| Finished goods | **1.991.069** | 4.365.994 |
| Goods in transit | **9.151.641** | 11.381.565 |
| Other inventories | **1.616** | 56.293 |
| | **19.487.064** | 29.031.959 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 9. Inventories (continued)

The movement in the provision for inventory impairment during the year is as follows:

| | **2013** | 2012 |
|---|---|---|
| January 1 | **53.378** | - |
| Provision in the current year | **16.330** | 53.378 |
| **December 31** | **69.708** | 53.378 |

## 10. Investment in associates accounted by equity method

**Investment in Associate:**

| | | **December 31, 2013** | | December 31, 2012 |
|---|---|---|---|---|
| | **Carrying value** | **Share (%)** | Carrying value | Share (%) |
| Alkim Sigorta | **214.439** | **50.00** | 162.110 | 50.00 |
| | **214.439** | | 162.110 | |

Movement of investment in associate during the years is as follows:

| | **2013** | 2012 |
|---|---|---|
| **January 1** | **162.110** | 125.030 |
| Share of results of investment in associate | **52.329** | 37.080 |
| **December 31** | **214.439** | 162.110 |

Financial information of Alkim Sigorta that is incorporated into financial statements using equity accounting method is summarized as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Total assets | **1.827.901** | 1.684.649 |
| Total liabilities | **1.399.023** | 1.360.429 |
| Net sales | **347.708** | 297.429 |
| Net profit for the year | **104.658** | 74.160 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 11. Property, plant and equipment

The movements of property, plant and equipment for the period between January 1 and December 31, 2013 were as follows:

| | January 1, 2013 Opening | Additions | Disposals | Transfers | December 31, 2013 Closing |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Land** | **7.316.240** | **-** | **-** | **-** | **7.316.240** |
| **Land improvements** | **1.708.781** | **-** | **-** | **-** | **1.708.781** |
| **Buildings** | **10.707.260** | **-** | **-** | **-** | **10.707.260** |
| **Machinery and equipments** | **92.831.032** | **565.491** | **(10.200)** | **1.576.717** | **94.963.040** |
| **Motor vehicles** | **706.552** | **-** | **(57.136)** | **-** | **649.416** |
| **Furniture and fixtures** | **2.517.379** | **109.338** | **-** | **-** | **2.626.717** |
| **Construction in progress** | **260.897** | **2.072.032** | **-** | **(1.576.717)** | **756.212** |
| | **116.048.141** | **2.746.861** | **(67.336)** | **-** | **118.727.666** |
| **Less: Accumulated depreciation:** | | | | | |
| **Land improvements** | **(620.243)** | **(85.709)** | **-** | **-** | **(705.952)** |
| **Buildings** | **(5.319.088)** | **(405.243)** | **-** | **-** | **(5.724.331)** |
| **Machinery and equipments** | **(50.911.617)** | **(5.684.885)** | **7.628** | **-** | **(56.588.874)** |
| **Motor vehicles** | **(324.819)** | **(123.651)** | **28.959** | **-** | **(419.511)** |
| **Furniture and fixtures** | **(2.033.057)** | **(144.084)** | **-** | **-** | **(2.177.141)** |
| | **(59.208.824)** | **(6.443.572)** | **36.587** | **-** | **(65.615.809)** |
| **Net Book value** | **56.839.317** | | | | **53.111.857** |

The movements of property, plant and equipment for the period between January 1 and December 31, 2012 were as follows:

| | January 1, 2012 Opening | Additions | Disposals | Transfers | December 31, 2012 Closing |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Land | 7.316.240 | - | - | - | 7.316.240 |
| Land improvements | 1.704.931 | 3.850 | - | - | 1.708.781 |
| Buildings | 10.699.260 | 8.000 | - | - | 10.707.260 |
| Machinery and equipments | 88.601.280 | 908.069 | (452.738) | 3.774.421 | 92.831.032 |
| Motor vehicles | 577.221 | - | (134.641) | 263.972 | 706.552 |
| Furniture and fixtures | 2.348.870 | 168.509 | - | - | 2.517.379 |
| Construction in progress | 3.223.728 | 1.075.562 | - | (4.038.393) | 260.897 |
| | 114.471.530 | 2.163.990 | (587.379) | - | 116.048.141 |
| Accumulated depreciation: | | | | | |
| Land improvements | (534.372) | (85.871) | - | - | (620.243) |
| Buildings | (4.912.877) | (406.211) | - | - | (5.319.088) |
| Machinery and equipments | (46.163.282) | (4.918.015) | 169.680 | - | (50.911.617) |
| Motor vehicles | (319.219) | (128.917) | 123.317 | - | (324.819) |
| Furniture and fixtures | (1.898.182) | (134.875) | - | - | (2.033.057) |
| | (53.827.932) | (5.673.889) | 292.997 | - | (59.208.824) |
| Net book value | 60.643.598 | | | | 56.839.317 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 11. Property, plant and equipment (continued)

TL 6.266.185 (2012 – TL 5.506.029) of the current year depreciation charge has been allocated to cost of production, TL 116.456 (2012 – TL 105.843) to general and administrative expenses, and TL 31.384 (2012 – TL 27.434) to marketing, selling and distribution expenses and TL 29.547 (2012 – TL 34,583) to stocks.

As of December 31, 2013 and 2012, there are no pledges or liens on property, plant and equipment.

As of December 31, 2013 and 2012, cost of fully depreciated items which are still in use is as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Buildings | **74.711** | 74.711 |
| Machinery and equipment | **819.395** | 819.395 |
| Motor vehicles | **60.593** | 60.593 |
| Furniture and fixtures | **1.776.919** | 1.697.895 |
| | **2.731.618** | 2.652.594 |

## 12. Intangible assets

The movements of intangible assets for the period between January 1 and December 31, 2013 were as follows:

| | **January 1, 2013** | | **December 31, 2013** |
|---|---|---|---|
| | **Opening** | **Additions** | **Closing** |
| Rights - software | **691.203** | **4.186** | **695.389** |
| Less: accumulated amortization | **(683.950)** | **(8.553)** | **(692.503)** |
| **Net book value** | **7.253** | | **2.886** |

The movements of intangible assets for the period between January 1, and December 31, 2012 were as follows:

| | January1, 2012 | | December 31, 2012 |
|---|---|---|---|
| | Opening | Additions | Closing |
| Rights - software | 677.022 | 14.181 | 691.203 |
| Less: accumulated amortization | (659.085) | (24.865) | (683.950) |
| Net book value | 17.937 | | 7.253 |

As of December 31, 2013 and 2012, cost of fully amortized items which are still in use is as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Rights - software | **342.254** | 335.499 |
| | **342.254** | 335.499 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 13. Prepaid expenses

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| **Short term prepaid expenses** | | |
| Prepaid expenses | **926.907** | 729.788 |
| | **926.907** | 729.788 |
| **Long term prepaid expenses** | | |
| Prepaid expenses | **11.727** | 11.814 |
| Advances given for fixed assets | **864.745** | 971.876 |
| | **876.472** | 983.690 |
| **Total prepaid expenses** | **1.803.379** | 1.713.478 |

## 14. Other current assets:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| VAT to be transferred | **7.207.285** | 6.837.827 |
| Due from personnel | **51.841** | 91.566 |
| Job advances given | **41.872** | 62.976 |
| Other | **-** | 9.274 |
| | **7.300.998** | 7.001.643 |

## 15. Provisions, contingent assets and liabilities:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| **a) Guarantees received:** | | |
| Bails | **24.000.000** | 12.000.000 |
| Mortgage | **-** | 5.250.000 |
| Bank guarantee letters | **1.776.406** | 3.727.358 |
| Trade receivables protection (*) | **4.213.878** | 5.620.563 |
| Guarantee notes | **55.000** | 25.000 |
| Guarantee cheques | **341.488** | 285.216 |
| | **30.386.772** | 26.908.137 |

(*) It is a service received from an international professional organization in order to cover credit risks like customer insolvency, bad debts, overdue accounts, commercial risks and political risks.

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 15. Provisions, contingent assets and liabilities (continued)

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| **b) Guarantees given:** | | |
| Bank guarantee letters | **13.514.865** | 16.764.957 |
| | **13.514.865** | 16.764.957 |

Collaterals, Pledges and Mortgages ("CPM") positions of the Company as of December 31, 2013 and 2012 are summarized as follows;

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| **A.** Total amount of CPM given for the Company's own legal personality | **13.514.865** | 16.764.957 |
| **B.** Total amount of CPM given on behalf of fully consolidated companies | **-** | - |
| **C.** Total amount of CPM given for continuation of its economic activities on behalf of third parties | **-** | - |
| **D.** Total amount of other CPM | **-** | - |
| **i.** Total amount of CPM given on behalf of the majority shareholder | **-** | - |
| **ii.** Total amount of CPM given to on behalf of other group companies which are not in scope of B and C. | **-** | - |
| **iii.** Total amount of CPM given on behalf of third parties which are not in scope of C | **-** | - |
| | **13.514.865** | 16.764.957 |
| Ratio of other GPMs given by the Company to the equity of the Company | **%13** | %16 |

## 16. Employee benefits

### a) Short term employee termination benefits provision:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| **- Short term employee termination benefits provision** | | |
| Provision for employment termination benefits | **-** | 623.094 |
| | **-** | 623.094 |

### b) Long term employee termination benefits provision

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Provision for vacation pay liability | **309.390** | 294.274 |
| Provision for employment termination benefits | **2.814.608** | 2.599.028 |
| | **3.123.998** | 2.893.302 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 16. Employee benefits (continued)

Provision for employment termination benefits has been calculated in accordance with explanations below:

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

The amount payable consists of one month's salary limited to a maximum of TL 3.254 for each year of service as of December 31, 2013 (December 31, 2012: TL 3.034).The Company accounts for the employee termination benefits in accordance with the provisions of IAS 19 calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions have been used in the calculation of the total provision:

| | | |
|---|---|---|
| Discount rate (%)) | **3,49** | 3,50 |
| Turnover rate to estimate the probability of retirement (%) | **98,31** | 98,32 |

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.

Effective from January 1, 2014, the retirement pay liability ceiling is increased from TL 3.254 to TL 3.438.

Movements of the provision for employment termination benefits during the year are as follows:

| | **2013** | 2012 |
|---|---|---|
| **January 1** | **2.599.028** | 2.303.664 |
| Interest cost | **68.029** | 80.628 |
| Actuarial losses | **289.507** | 143.844 |
| Increase during the year | **215.580** | 295.364 |
| Paid during the year | **(357.536)** | (224.472) |
| **December 31** | **2.814.608** | 2.599.028 |

Total provision expense for employee termination benefits of TL 283.609 (2012 – TL 375.992) for the year has been allocated to cost of production amounting to TL 222.672 (2012 - TL 195.603), to marketing, selling and distribution expenses amounting to TL 35.716 (2012 - TL 82.269) and to general and administrative expenses amounting to TL 25.221 (2012 - TL 98.120).

Movement of provision vacation pay liability is as follows:

| | **2013** | 2012 |
|---|---|---|
| **January 1** | **294.274** | 243.139 |
| Current year provision expense | **15.116** | 51.135 |
| **December 31** | **309.390** | 294.274 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 17. Short term liabilities for employee benefits

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Accrued payroll | **554.364** | 554.155 |
| Withholding tax | **394.707** | 227.778 |
| Social security premiums payable | **221.330** | 378.804 |
| Other | **730** | - |
| | **1.171.131** | 1.160.737 |

## 18. Deferred income

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Advance Given (*) | **1.224.427** | 40.080 |
| | **1.224.427** | 40.080 |

As of December 31, 2013 given advances amount of TL 1.208.472 is included cash in advances from one customer. (December 31, 2012 – TL 36.659)

## 19. Other short term payables

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Taxes and funds payable | **32.915** | 216.541 |
| **Total** | **32.915** | 216.541 |

## 20. Related party disclosures

### a) Due to related parties short term trade payable

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Alkim Sigorta (2) | **830.081** | 617.926 |
| | **830.081** | 617.926 |

As of December 31, 2013, the effective weighted average interest rates used in the calculation of discounted carrying value of TL and USD denominated due to related parties are 9,33% p.a. and 2,46% p.a., respectively (2012: 5,95% p.a., 0,31% p.a respectively). Due to related parties mature within 3 months (2012: 3 months).

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 20. Related party disclosures (continued)

### b) Due to related parties short term trade receivable

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Alkim Kimya (1) | **873** | 873 |
| Sodaş Sodyum A.Ş. (3) | **-** | 348 |
| | **873** | 1.221 |

(1) Shareholder of the Company
(2) Subsidiary of the Company
(3) The Company partner is shareholder

| | **January 1 – December 31, 2013** | January 1 – December 31, 2012 |
|---|---|---|
| **c) Product sales:** | | |
| Alkim Kimya | **27.387** | 26.317 |
| Sodaş Sodyum A.Ş. (3) | **645** | 348 |
| | **28.032** | 26.665 |
| **d) Service taken:** | | |
| Alkim Kimya | **85.606** | 84.017 |
| Alkim Sigorta | **903.761** | 714.169 |
| | **989.367** | 798.186 |
| **e) Dividend Paid:** | | |
| Alkim Kimya | **3.991.242** | 7.148.693 |
| Other | **1.002.272** | 1.795.000 |
| | **4.993.514** | 8.943.693 |

### f) Key management compensations:

Key management is comprised of the general manager, vice general manager and members of Board of Directors. The benefits provided to key management are as follows:

| | **January 1 – December 31, 2013** | January 1 – December 31, 2012 |
|---|---|---|
| Short term benefits provided to key management | **2.194.853** | 1.439.005 |
| Bonus and profit-sharing | **128.039** | 229.325 |
| | **2.322.892** | 1.668.330 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 21. Equity

The Company's shareholders and their shareholding percentages as of December 31, 2013 and 2012 are as follows:

| | **December 31, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| **Shareholders** | **Participation (%)** | **Amount (TL)** | Participation (%) | Amount (TL) |
| Alkim Kimya | **79,93** | **41.962.500** | 79,93 | 41.962.500 |
| Public quotation | **20,00** | **10.500.000** | 20,00 | 10.500.000 |
| Other | **0,07** | **37.500** | 0,07 | 37.500 |
| **Total paid-in share capital** | **100,00** | **52.500.000** | 100,00 | 52.500.000 |
| Adjustment to share capital (*) | | **32.414.361** | | 32.414.361 |
| | | **84.914.361** | | 84.914.361 |

(*) Adjustment to share capital" represents the difference between the amounts of cash and cash equivalents contributions, restated for inflation, to share capital and the amounts before the restatement.

The Company's capital consists of bearer shares of A, B, C, D, E and F groups; and F group shares are traded on ISE. Shareholders of A, B, C, D and E groups have privileges concerning voting rights in the General Assembly and recommending candidates to management board.

As of December 31, 2013, the capital of the Company consist of 5,25 million shares with TL 0,01 par value each (2012 – 5.25 million and TL 0,01 par value each).

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

The aforementioned amounts shall be classified in "Restricted Reserves" in accordance with CMB Financial Reporting Standards. At December 31, 2013, the restricted reserves of the Company amount to TL 4.612.298 (December 31, 2012 - TL 3.995.963).

Listed companies shall distribute their profit in accordance with the Capital Market Board's Communiqué on Dividends II-19.1 which is effective from February 1, 2014.

Companies shall distribute their profits as part of the profit distribution policies to be determined by their general assemblies and in accordance with the related regulation provisions. A minimum distribution rate has not been determined in these regulations. The companies pay dividends as determined in their main agreements or profit distribution policies. Furthermore, dividends may be paid in instalments with same or different amounts and profit share advances may be distributed over the profit in the interim financial statements.

In accordance with the Turkish Commercial Code (TCC), no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of a usufruct right certificate, to the members of the board of directors or to the employees unless the required reserves and the dividend for shareholders as determined in the main agreement or in the dividend distribution policy of the company are set aside; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 21. Equity (continued)

Inflation adjustments to shareholders' equity and book value of extraordinary reserves can be used as an internal source in share capital increase, dividend distribution in cash or net-off against prior years' loss. In case the inflation adjustment to shareholders' equity is used for dividend distribution in cash, the distribution is subject to corporate tax.

As of December 31, 2013 and 2012 balances of shareholders equity items (as per Statutory Financial Statements of the Company) are as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Legal reserves (1st and 2nd legal reserves) | **4.612.298** | 3.995.963 |
| Extraordinary reserves | **5.931.449** | 4.335.732 |
| Net profit for the year | **4.470.487** | 7.333.605 |
| | **15.014.234** | 15.665.300 |

### Dividends

As agreed in the ordinary general meeting dated March 27, 2013, remaining balance of 2012 distributable profit after assigning first legal reserve is TL 366.680 (distributable profit of 20%) and second legal reserve is TL 249.655 (nominal issued capital of 4%), which amounted to TL 4.993.514. The Company paid cash dividend which corresponds to TL 0,0951 as gross and TL 0,0809 as net cash dividend for the shares with a nominal value of TL 1.00 to shareholders as of April 15, 2013.

### Other funds

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Actuarial loss arising from defined benefit plans | **433.351** | 143.844 |
| Tax effect | **(86.670)** | (28.769) |
| **Net** | **346.681** | 115.075 |

## 22. Earnings per share

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/(loss) per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

Earnings per share is calculated by dividing net profit for the period to weighted average number of shares in issue during that period.

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 22. Earnings per share (continued)

**Net earnings per share:**

| | | January 1 - December31, 2013 | January 1 - December31, 2012 |
|---|---|---|---|
| Net profit for the period | A | **4.197.652** | 6.883.696 |
| Weighted average number of the shares | B | **5.250.000.000** | 5.250.000.000 |
| **Earnings per share (TL)** | **A/B** | **0.0008** | 0,0013 |

## 23. Sales and cost of sales

| | January 1 - December 31, 2013 | January 1 - December 31, 2012 |
|---|---|---|
| Domestic sales | **112.700.916** | 115.280.535 |
| Export sales | **3.913.308** | 7.418.691 |
| | **116.614.224** | 122.699.226 |
| Less: Discounts | **(47.368)** | (266.317) |
| Returns | **(80.032)** | (40.563) |
| **Net sales** | **116.486.824** | 122.392.346 |
| Cost of sales | **(106.079.491)** | (104.313.685) |
| **Gross profit** | **10.407.333** | 18.078.661 |

## 24. Research and development expenses, marketing, selling and distribution expenses, general administrative expenses

| | January 1 - December 31, 2013 | January 1 - December 31,2012 |
|---|---|---|
| **Research and development expenses:** | | |
| Staff cost | **53.227** | 124.030 |
| Other | **8** | 860 |
| | **53.235** | 124.890 |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 24. Research and development expenses, marketing, selling and distribution expenses, general administrative expenses (continued)

| | January 1 – December 31 2013 | January 1 – December 31 2012 |
|---|---|---|
| **Marketing, selling and distribution expenses:** | | |
| Transportation | **1.464.074** | 1.917.762 |
| Staff cost | **1.212.397** | 1.138.510 |
| Advertising | **390.674** | 145.953 |
| Travel | **79.579** | 86.107 |
| Insurance | **61.411** | 58.301 |
| Rent | **51.600** | 51.600 |
| Taxes and funds | **36.901** | 34.785 |
| Communication | **32.365** | 30.486 |
| Depreciation and amortization | **31.384** | 27.434 |
| Commission | **21.336** | 43.980 |
| Other | **71.243** | 444.862 |
| | **3.452.964** | 3.979.780 |
| **General administrative expenses:** | | |
| Staff cost | **3.518.593** | 2.488.703 |
| Consultancy | **521.433** | 299.383 |
| Travel expenses | **136.112** | 131.379 |
| Depreciation and amortization | **116.356** | 105.843 |
| Taxes and funds | **69.497** | 64.265 |
| Communication | **22.873** | 12.395 |
| Provision for doubtful allowance | **-** | 654.858 |
| Provision for legal cases | **-** | 97.034 |
| Other | **430.133** | 501.549 |
| | **4.814.997** | 4.355.409 |

## 25. Expenses by nature

| | January 1 - December 31, 2013 | January 1 - December 31, 2012 |
|---|---|---|
| Raw materials | **72.284.580** | 70.998.425 |
| Energy | **12.211.409** | 12.312.392 |
| Staff cost | **12.028.027** | 10.840.982 |
| Depreciation and amortization | **6.414.025** | 5.639.306 |
| Transportation | **1.490.775** | 2.283.172 |
| Spare part | **1.334.905** | 1.824.438 |
| Maintenance and repair | **1.071.700** | 1.177.608 |
| Consumables | **975.676** | 892.491 |
| Cost of merchandises | **312.227** | 631.730 |
| Insurance expense | **653.240** | 580.882 |
| Consultancy | **521.433** | 299.383 |
| Subcontract labor expense | **499.159** | 638.358 |
| Advertising | **390.674** | 145.953 |
| Other cost of other sales | **291.216** | 548.443 |
| Doubtful receivables | **-** | 654.858 |
| Other | **3.921.641** | 3.305.343 |
| | **114.400.687** | 112.773.764 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 26. Other operating income/(expense)

### a) Other operating income:

| | **January 1 - December 31, 2013** | January 1 - December 31, 2012 |
|---|---|---|
| Foreign exchange gains on receivable and supplier | **6.364.138** | 120.247 |
| Delay interest income | **731.923** | 31.259 |
| Scrap sales income | **126.726** | 179.150 |
| Compensation income from insurance companies | **81.744** | 347.136 |
| Provisions no longer required | **42.205** | 102.064 |
| Other | **78.958** | 245.201 |
| | **7.425.694** | 1.025.057 |

### b) Other operating expense:

| | **January 1- December 31, 2013** | January 1 - December 31, 2012 |
|---|---|---|
| Foreign exchange gain from suppliers and customers | **1.409.472** | 1.778.425 |
| Other | **74.858** | 15.070 |
| | **1.484.330** | 1.793.495 |

## 27. Finance income/expense(-) and income from investing operations

| | **January 1- December 31, 2013** | January 1- December 31, 2012 |
|---|---|---|
| **Finance income** | | |
| Interest income from time deposit | **429.821** | 605.193 |
| Gain on sale of fixed asset | **1.630** | - |
| | **431.451** | 605.193 |
| **Finance expense** | | |
| Gain on sale of fixed asset | **-** | (294.382) |
| | **-** | (294.382) |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 28. Finance income/ (expense)

| | **January 1- December 31, 2013** | January 1- December 31, 2012 |
|---|---|---|
| **Finance income** | | |
| Foreign exchange gain | **946.086** | 819.185 |
| | **946.086** | 819.185 |

### a) Finance expense

| | **January 1- December 31, 2013** | January 1- December 31, 2012 |
|---|---|---|
| **Finance expense** | | |
| Foreign exchange loss | **3.473.862** | 943.883 |
| Interest expense | **635.311** | 332.460 |
| | **4.109.173** | 1.276.343 |

## 29. Taxes

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Corporation taxes currently payable | **1.353.790** | 1.902.215 |
| Less: Prepaid income taxes | **(1.182.687)** | (1.753.345) |
| **Current income tax (assets)/liabilities** | **171.103** | 148.870 |

Breakdown of taxation on income for the years ended December 31, 2013 and 2012 are as follows:

| | **January 1 - December 31, 2013** | January 1 - December 31, 2012 |
|---|---|---|
| Current corporation tax expense | **(1.353.790)** | (1.902.215) |
| Deferred tax income | **203.248** | 45.034 |
| **Total tax expense** | **(1.150.542)** | (1.857.181) |

Corporation tax is payable at a rate of 20% for 2013 (2012 - 20%) on the total income of the Company after adjusting for certain disallowable expenses, exempt income (e.g. income from associates exemptions, investment incentive allowance exemptions) and investment and other allowances (e.g. research and development allowance). No further tax is payable unless the profit is distributed.

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 29. Taxes (continued)

The reconciliations of the taxation on income for the years ended December 31, 2013 and 2012 are as follows:

| | January 1- December 31, 2013 | January 1- December 31, 2012 |
|---|---|---|
| **Profit before tax** | **5.348.194** | 8.740.877 |
| Taxes calculated on profit before tax | **(1.069.639)** | (1.748.175) |
| Expenses not deductible for tax purposes | **(66.673)** | (37.048) |
| Income not subject to tax | **-** | (69.914) |
| Other | **(14.230)** | (2.044) |
| **Taxes on income** | **(1.150.542)** | (1.857.181) |

### Deferred taxes

The Company calculates deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Financial Reporting Standards and their statutory financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in the following periods under the liability method using the enacted tax rate of 20% (2012 - 20%).

Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of December 31, 2013 and 2012 were as follows:

| | Taxable temporary differences | | Deferred income tax assets/ (liabilities) | |
|---|---|---|---|---|
| | **December 31, 2013** | December 31, 2012 | **December 31, 2013** | December 31, 2012 |
| Difference on property, plant and equipment and intangible assets | **(11.458.703)** | (12.329.239) | **(2.291.741)** | (2.465.848) |
| Provision for employment termination benefits (Note 16) | **2.814.608** | 2.599.028 | **562.922** | 519.806 |
| Allowance for doubtful receivables | **9.195** | 51.400 | **1.839** | 10.280 |
| Other | **1.406.502** | 1.144.691 | **281.305** | 228.938 |
| **Deferred tax liabilities – net** | | | **(1.445.675)** | (1.706.824) |

Movement for deferred tax liability can be analyzed as follows:

| | 2013 | 2012 |
|---|---|---|
| **January 1** | **1.706.824** | 1.780.627 |
| Credited to statements of comprehensive income | **(203.248)** | (45.034) |
| Reflection of other comprehensive (income)/loss | **(57.901)** | (28.769) |
| **December 31** | **1.445.675** | (1.706.824) |

## 30. Financial instruments and financial risk management

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow, fair value interest rate risk), capital risk, credit risk and liquidity risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Risk management is carried out by the senior management and finance department of the Company under policies approved by Board of Directors. The Board provides principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and capital risk and closely monitors financial and operational (mainly due to the changes in cellulose prices) risks.

The financial risk management objectives of the Company are defined as follows:

- safeguarding the Company's core earnings stream from its major assets through the effective control and management of foreign exchange risk and interest rate risk;
- effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity management planning and procedures
- effective monitoring and minimizing risks sourced from counterparts.

### a) Credit risk:

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are managed by collecting the Company’s deposits at financially strong banks, by restricting risk from counterside (excluding related parties) through collecting collateral. The Company manages the credit risk from the direct customers by regularly updating their credit limits. The use of credit limits is regularly monitored and financial position of the customers, past experiences, reputation in the market and other factors are considered by the Management in order to evaluate the quality of the credits.

A large part of the company's customers consists of dealers. As of December 31, 2013 and 2012, the company's receivables of its two biggest client’s share are respectively 76% and 49% within the total trade receivables. As of December 31, 2013, partners of the customer company gave about amount of TL 17.000.000 (2012: 5.000.000 TL) bail for these trade receivables. In addition, the company achieved respectively, about 45% and 24% sales revenues ended on December 31, 2013 and 2012 from his two customer sales again.

The credit risk exposure in terms of financial instruments as of December 31, 2013 and 2012 were as follows:

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 30.
## Financial instruments and financial risk management (continued)

**December 31, 2013:**

| | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade Receivables (1) | | Other Receivables | | | |
| | Related parties | Third parties | Related parties | Third parties | Bank deposits | Total |
| **Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E)** (2) | - | **49.300.955** | **873** | **1.233.701** | **20.705.745** | **71.241.274** |
| - The part of maximum credit risk covered with guarantees | | **30.386.772** | - | - | - | **30.386.772** |
| **A.** Net book value of financial assets not due or not impaired (3) | - | **49.207.490** | **873** | **1.233.701** | **20.705.745** | **71.147.809** |
| **B.** Net book value of financial assets whose conditions are renegotiated, | - | - | - | - | - | - |
| **C.** Net book value of financial assets impaired | - | **93.465** | - | - | - | **93.465** |
| - The amount covered by guarantees. | - | **(93.465)** | - | - | - | **(93.465)** |
| **D.** Net book value of financial assets impaired | - | - | - | - | - | **-** |
| - Past due (gross book value) | - | **15.865** | - | - | - | **15.865** |
| - Impairment (-) | - | **(15.865)** | - | - | - | **(15.865)** |
| - The amount covered with guarantees | - | - | - | - | - | - |
| - Not due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - The amount covered with guarantees | - | - | - | - | - | - |
| **E.** Off balance items exposed to credit risk | - | - | - | - | - | - |

(1) The Company's trade receivables contains offset, copier and coated paper.
(2) The determination of the relevant amount, increase in credit reliability such as guarantees received are not taken into account.
(3) Considering the past experience of the Company's management in the collection of the relevant amount is not expected to encounter any problems.

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 30. Financial instruments and financial risk management (continued)

December 31, 2012:

| | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade Receivables(1) | | Other Receivables | | | |
| | Related parties | Third parties | Related parties | Third parties | Bank deposits | Total |
| Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2) | - | 28.033.842 | 1.221 | 1.099.040 | 19.514.116 | 48.648.219 |
| - The part of maximum credit risk covered with guarantees | | 26.908.137 | - | - | - | 26.908.137 |
| A. Net book value of financial assets not due or not impaired (3) | - | 27.918.187 | 1.221 | 1.099.040 | 19.514.116 | 48.532.564 |
| B. . Net book value of financial assets whose conditions are renegotiated, | - | - | - | - | - | - |
| C. Net book value of assets past due but not impaired | - | 115.655 | - | - | - | 115.655 |
| - The amount covered by guarantees. | - | (115.655) | - | - | - | (115.655) |
| D. Net book value of financial assets impaired | - | - | - | - | - | - |
| - Past due (gross book value) | - | 58.070 | - | - | - | 58.070 |
| - Impairment (-) | - | (58.070) | - | - | - | (58.070) |
| - The amount covered with guarantees | - | - | - | - | - | - |
| - Not due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - The amount covered with guarantees | - | - | - | - | - | - |
| E. Off balance items exposed to credit risk | - | - | - | - | - | - |

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 30. Financial instruments and financial risk management (continued)

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| | **Trade receivables** | Trade receivables |
| | **Third parties** | Third parties |
| 1-30 days overdue | **93.465** | 115.655 |
| The amount covered with guarantees | **(93.465)** | (115.655) |
| | **-** | - |

### Liquidity risk:

Prudent liquidity risk management comprises maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers' lines from high quality lenders. In order to maintain liquidity, the Company management closely monitors the collection of trade receivables on time in order to and to prevent any financial burden that may result from late collections and arranges cash and non-cash credit lines with banks for the use of the Company. The Company's financial liabilities and liquidity analysis into relevant maturity groupings based on the remaining period as of December 31, 2013 and 2012 are as follows:

**December 31, 2013:**

| **Contractual maturity dates** | **Book value** | **Total cash outflows per agreement (=I+II+III)** | **Less than 3 months ( I )** | **3 - 12 months (II)** | **1 - 5 years(III)** |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Bank borrowings | **26.121.774** | **26.154.948** | **9.193.441** | **12.210.906** | **4.750.601** |
| Other financial liabilities | **7.605.223** | **7.698.120** | **-** | **7.698.120** | **-** |
| Trade payables to related parties | **830.081** | **830.081** | **830.081** | **-** | **-** |
| Other trade payables to third parties | **9.053.370** | **9.081.140** | **9.081.140** | **-** | **-** |
| Short term liabilities for employee benefits | **1.171.131** | **1.171.131** | **1.171.131** | **-** | **-** |
| Other short term liabilities | **32.915** | **32.915** | **32.915** | **-** | **-** |
| | **44.814.494** | **44.968.335** | **20.308.708** | **19.909.026** | **4.750.601** |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 30. Financial instruments and financial risk management (continued)

December 31, 2012:

| Contractual maturity dates | Book value | Total cash outflows per agreement (=I+II+III) | Less than3 Months (I ) | 3 - 12 ay months (II) | 1 - 5 years(III) |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Bank borrowings | 22.572.233 | 22.629.889 | 3.862.864 | 11.087.217 | 7.679.808 |
| Financial liabilities | 489.406 | 557.014 | - | 471.074 | 85.940 |
| Trade payables to related parties | 617.926 | 617.926 | 617.926 | - | - |
| Other trade payables | 9.308.153 | 9.326.124 | 9.326.124 | - | - |
| Employee benefit liabilities | 1.160.737 | 1.160.737 | 1.160.737 | - | - |
| Short term provisions | 720.243 | 720.243 | 720.243 | - | - |
| Other short term liabilities | 216.541 | 216.541 | 216.541 | | |
| | 35.085.239 | 35.228.474 | 15.904.435 | 11.558.291 | 7.765.748 |

### c) Market risk:

### i) Foreign exchange risk

The Company is exposed to currency risk on assets or liabilities denominated in foreign currencies. Management has set up a balancing policy to manage their foreign exchange risk. Existing risks are followed in meetings held by the Company's Audit Committee and Board of Directors and foreign currencies are followed closely in terms of the Company's foreign exchange position.

As of December 31, 2013 and 2012 the Company's foreign currency position summarized as below. The Company's hold foreign currency asset and liability amounts in foreign currency as follows:

| | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Assets | **41.348.087** | 33.299.147 |
| Liabilities | **(33.708.699)** | (28.837.342) |
| **Net foreign currency position** | **7.639.388** | 4.461.805 |
| Net off- balance sheet items derivative instruments foreign currency position | **-** | - |
| **Net foreign currency position** | **7.639.388** | 4.461.805 |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 30. Financial instruments and financial risk management (continued)

As of year end, foreign currency denominated monetary assets and liabilities of the Company are as follows:

| December 31, 2013 | Table of foreign exchange position | | | |
|---|---|---|---|---|
| | TL equivalent | USD | Euro | Other |
| 1. Trade receivables | **38.497.811** | **17.927.623** | **79.988** | **-** |
| 2a. Monetary financial assets (cash, bank accounts included) | **2.850.276** | **1.332.703** | **2.005** | **-** |
| 2b. Non-monetary financial assets | | | | |
| 3. Other | **-** | **-** | **-** | **-** |
| **4. Current Assets (1+2+3)** | **41.348.087** | **19.260.326** | **81.993** | **-** |
| 5. Trade receivables | **-** | **-** | **-** | **-** |
| 6a. Monetary financial assets | **-** | **-** | **-** | **-** |
| 6b. Non-monetary financial assets | **-** | **-** | **-** | **-** |
| 7. Other | **-** | **-** | **-** | **-** |
| **8. Tangible assets (5+6+7)** | **-** | **-** | **-** | **-** |
| **9. Total Asset (4+8)** | **41.348.087** | **19.260.326** | **81.993** | **-** |
| 10. Trade payable | **6.352.179** | **2.842.243** | **97.388** | **-** |
| 11. Financial liability | **21.386.897** | **10.020.568** | **-** | **-** |
| 12a. Monetary financial liabilities | **1.234.746** | **578.501** | **17** | **-** |
| 12b. Non-monetary financial liabilities | **-** | **-** | **-** | **-** |
| **13. Short term liabilities (10+11+12)** | **28.973.822** | **13.441.312** | **97.405** | **-** |
| 14. Trade payables | **-** | **-** | **-** | **-** |
| 15. Financial liabilities | **4.734.877** | **2.218.468** | **-** | **-** |
| 16a. Other monetary liabilities | **-** | **-** | **-** | **-** |
| 16b. Other non-monetary liabilities | **-** | **-** | **-** | **-** |
| **17. Long term liabilities (14+15+16)** | **4.734.877** | **2.218.468** | **-** | **-** |
| **18. Total Liabilities (13+17)** | **33.708.699** | **15.659.780** | **97.405** | **-** |
| **19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b)** | **-** / **-** | **-** / **-** | **-** / **-** | **-** / **-** |
| **19a. Asset nature net foreign currency asset/(liability) position of off-balance sheet derivative instruments** | **-** | **-** | **-** | **-** |
| **19b. Liability nature net foreign currency asset/(liability) position of off-balance sheet derivative instruments** | **-** | **-** | **-** | **-** |
| **20.Net foreign currency asset/(liability) position (9-18+19)** | **7.639.388** | **3.600.546** | **(15.412)** | **-** |
| **21.Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)** | **7.639.388** | **3.600.546** | **(15.412)** | **-** |
| **22.Total fair value of financial instruments used for foreign currency hedging** | **-** | **-** | **-** | **-** |
| **23. Export** | **3.913.058** | **2.078.332** | **-** | **-** |
| **24. Import** | **31.845.974** | **59.660.105** | **-** | **-** |

As of December 31, 2013, the foreign exchange balances are valued with these exchange rates; TL 2,1343 = ABD $ 1, TL 2,9365 = EURO 1 (December 31, 2012 – TL 1,7826 = ABD$ 1, TL 2,3517 = EURO 1)

**(Currency –Turkish Lira (TL) unless otherwise indicated).**

## 30. Financial instruments and financial risk management (continued)

| December 31, 2012 | | | | Table of foreign exchange position |
|---|---|---|---|---|
| | TL equivalent | USD | Euro | Other |
| 1. Trade receivables | 24.032.251 | 13.334.716 | 111.318 | - |
| 2a.Monetary financial assets (cash, bank accounts included) | 9.266.896 | 4.978.473 | 162.496 | 3.500 |
| 2b. Non-monetary financial assets | - | - | - | - |
| 3. Other | - | - | - | - |
| 4. Current Assets (1+2+3) | 33.299.147 | 18.313.189 | 273.814 | 3.500 |
| 5. Trade receivables | - | - | - | - |
| 6a. Monetary financial assets | - | - | - | - |
| 6b Non-monetary financial assets | - | - | - | - |
| 7. Other | - | - | - | - |
| 8. Tangible assets (5+6+7) | - | - | - | - |
| 9. Total Asset (4+8) | 33.299.147 | 18.313.189 | 273.814 | 3.500 |
| 10. Trade payable | 6.215.824 | 3.364.142 | 93.083 | - |
| 11. Financial liability | 15.001.014 | 8.415.244 | - | - |
| 12a. Monetary financial liabilities | 49.285 | 27.648 | - | - |
| 12b. Non-monetary financial liabilities | - | - | - | - |
| 13. Short term liabilities (10+11+12) | 21.266.123 | 11.807.034 | 93.083 | - |
| 14. Trade payables | - | - | - | - |
| 15. Financial liabilities | 7.571.219 | 4.247.290 | - | - |
| 16a. Other monetary liabilities | - | - | - | - |
| 16b. Other non-monetary liabilities | - | - | - | - |
| 17. Long term liabilities (14+15+16) | 7.571.219 | 4.247.290 | - | - |
| 18. Total Liabilities (13+17) | 28.837.342 | 16.054.324 | 93.083 | - |
| 19. Net asset/(liability) position of off-balance sheet derivative instruments (19a-19b) | - | - | - | - |
| 19a Asset nature net foreign currency asset/(liability) position of off-balance sheet derivative instruments | - | - | - | - |
| 19b. Liability nature net foreign currency asset/(liability) position of off-balance sheet derivative instruments | - | - | - | - |
| 20. Net foreign currency asset/(liability) position (9-18+19) | 4.461.805 | 2.258.865 | 180.731 | 3.500 |
| 21. Net foreign currency asset/(liability) position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a) | 4.461.805 | 2.258.865 | 180.731 | 3.500 |
| 22. Total fair value of financial instruments used for foreign currency hedging | - | - | - | - |
| 23. Export | 7.411.957 | 4.146.232 | - | - |
| 24. Import | 69.489.277 | 38.783.533 | - | - |

## 30. Financial instruments and financial risk management (continued)

| December 31, 2013 | Table of sensitivity analysis of foreign currency risk | | | |
|---|---|---|---|---|
| | | Profit/Loss | | Equity |
| | **Appreciation of foreign currency** | **Depreciation of foreign currency** | **Appreciation of foreign currency** | **Depreciation of foreign currency** |
| **Change of USD by 10% against TL:** | | | | |
| 1- Asset/ Liability denominated in USD - net | **768.465** | **(768.465)** | - | - |
| 2- The part hedged for USD risk (-) | - | - | - | - |
| **3- USD net effect (1 +2))** | **768.465** | **(768.465)** | - | - |
| **Change of EUR by 10% against TL:** | | | | |
| 4- Asset/ Liability denominated in EUR - net | **(4.526)** | **4.526** | - | - |
| 5- The part hedged for EUR risk (-) | - | - | - | - |
| **6- EUR net effect (4+5)** | **(4.526)** | **4.526** | - | - |
| **Change of Other Currencies by 10% against TL** | | | | |
| 7- Assets/ Liabilities denominated in other foreign currencies - net | - | - | - | - |
| 8- The part hedged for other foreign currency risk (-) | - | - | - | - |
| **9- Other Foreign Currency effect - net (7+8)** | - | - | - | - |
| **Total (3 + 6 +9)** | **763.939** | **(763.939)** | - | - |

| December 31, 2012 | Table of sensitivity analysis of foreign currency risk | | | |
|---|---|---|---|---|
| | | Profit/Loss | | Equity |
| | **Appreciation of foreign currency** | **Depreciation of foreign currency** | **Appreciation of foreign currency** | **Depreciation of foreign currency** |
| **Change of USD by 10% against TL:** | | | | |
| 1- Asset/ Liability denominated in USD - net | 402.665 | (402.665) | - | - |
| 2- The part hedged for USD risk (-) | - | - | - | - |
| **3- USD net effect (1 +2))** | 402.665 | (402.665) | - | - |
| **Change of EUR by 10% against TL:** | | | | |
| 4- Asset/ Liability denominated in EUR - net | 42.503 | (42.503) | - | - |
| 5- The part hedged for EUR risk (-) | - | - | - | - |
| **6- EUR net effect (4+5)** | 42.503 | (42.503) | - | - |
| **Change of Other Currencies by 10% against TL** | | | | |
| 7- Assets/ Liabilities denominated in other foreign currencies - net | 1.013 | (1.013) | - | - |
| 8- The part hedged for other foreign currency risk (-) | - | - | - | - |
| **9- Other exchange rates net effect (7+8)** | 1.013 | (1.013) | - | - |
| **Total (3 + 6 +9)** | 446.181 | (446.181) | - | - |

(Currency –Turkish Lira (TL) unless otherwise indicated).

## 30. Financial instruments and financial risk management (continued)

### ii) Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities. The interest rate risk of the Company is mainly resulted from bank borrowings. The interest rate risk of bank borrowings with floating interest rates is partially offset by financial assets with floating rates. These exposures are managed by balancing interest rate sensitive assets and liabilities.

| | Interest rate position | |
|---|---|---|
| | **December 31, 2013** | December 31, 2012 |
| **Financial instruments with fixed interest rate** | | |
| Financial assets | **10.338.078** | 9.814.161 |
| Financial liabilities | **13.559.920** | 489.406 |
| **Financial instruments with variable interest rate** | | |
| Financial assets | **49.300.955** | 28.033.842 |
| Financial liabilities | **36.005.225** | 32.498.312 |

According to interest rate sensitivity analysis performed by the Company as of December 31, 2013, if interest rates had been 1% higher while all other variables being constant, income for the period would be TL 360.052 (2012 - TL 324.983) lower as a result of additional interest expense that would be incurred on financial instruments with floating rates.

### iii) Price risk

The Company's operational profitability and cash inflows from its operations are exposed to risk arising from fluctuations in paper prices which are affected from the competition in the raw material prices. The Company management manages the risk by regularly reviewing the amount of inventory held on hand and takes action for cost reduction to decrease the pressure of cost on the prices. The Company has not used derivative instruments or entered into a similar agreement. Existing risks are monitored through regular meetings by the Company's Board of Directors.

### d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of debt/equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities (including borrowings, trade payables and due to related parties payables as shown in the balance sheet) less cash and cash equivalents:

| | **December 31, 2013** | December31, 2012 |
|---|---|---|
| Total debt | **50.779.697** | 39.874.315 |
| Less: Cash and cash equivalents (Note 4) | **(20.996.009)** | (19.644.376) |
| Net debt | **29.783.688** | 20.229.939 |
| Total equity | **102.720.837** | 103.748.305 |
| Total equity | **132.504.525** | 123.978.244 |
| **Debt/equity ratio** | **%22** | %16 |

**30. Financial instruments and financial risk management (continued)**

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

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

**Financial assets**

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate to their carrying values. Cash and cash equivalents are carried at their fair values. The fair values of trade receivables are considered to approximate their respective carrying values due to their short-term nature.

**Financial liabilities**

Trade payables, payables to related parties and other monetary liabilities are estimated to be presented with their discounted carrying amounts and they are considered to approximate to their fair values. Due to the floating long-term bank loans are updated during the year, fair value is considered to approximate carrying value.

## 31. Subsequent events

The Company, with the decision of Board of Directors date of January 7, 2014, verified the sale of the real estate property to 1.710.000 TL which located in İzmir, Kemalpasa District, the village of Ulucak, Kırovası. The book value of related real estate is amount of TL 1.650.000.

## 32. Other matters which are significant to the financial statements or which should be disclosed for the purpose of true and fair interpretation of the financial statements

None (2012 - None).