# Tümosan Engine and Tractor Industry Inc.

## Condensed financial statements for the interim period from January 1 to March 31, 2013

**Tümosan Engine and Tractor Industry Inc.**

## Contents

## Tümosan Engine and Tractor Industry Inc.

## Interim balance sheet as of March 31, 2013
**(Currency: Turkish Lira (TL))**

| | | Current period | Prior period |
|---|---|---|---|
| | | **Unaudited** | Unaudited |
| **Assets** | Note references | **March 31, 2013** | December 31, 2012 |
| **Current assets** | | **271,223,846** | 252,744,115 |
| Cash and cash equivalents | 5 | **432,415** | 22,021,785 |
| Trade receivables | 8 | **71,412,404** | 51,962,276 |
| Receivables from related parties | 23 | **84,655,294** | 79,150,558 |
| Inventories | 9 | **76,040,708** | 67,260,905 |
| Other current assets | 15 | **38,683,025** | 32,348,591 |
| **Fixed assets** | | **74,120,301** | 75,278,795 |
| Tangible fixed assets, net | 10 | **73,006,584** | 74,139,688 |
| Intangible fixed assets, net | | **748,056** | 418,512 |
| Investment property | | **365,661** | 367,847 |
| Other fixed assets | 15 | **-** | 352,748 |
| **Total assets** | | **345,344,147** | 328,022,910 |
| **Liabilities** | | | |
| **Short-term liabilities** | | **126,917,750** | 124,871,919 |
| Financial payables | 6 | **37,553,743** | 47,393,248 |
| Trade payables | 8 | **66,521,763** | 53,839,719 |
| Payables to related parties | 23 | **520,726** | 68,777 |
| Tax liability on income for the period | | **4,554,742** | 7,838,393 |
| Debt provisions | 12 | **1,669,550** | 4,403,167 |
| Provisions for employee benefits | 14 | **374,916** | 385,980 |
| Other short-term liabilities | 15 | **15,722,310** | 10,942,635 |
| **Long-term liabilities** | | **3,299,204** | 4,661,182 |
| Financial payables | 6 | **618,184** | 1,797,539 |
| Provisions for employee benefits | 14 | **1,574,160** | 1,582,941 |
| Deferred tax liability | 21 | **1,106,860** | 1,280,702 |
| **Equity** | | **215,127,193** | 198,489,809 |
| **Equity** | | | |
| Paid-in capital | 16 | **115,000,000** | 115,000,000 |
| Share premium | 16 | **26,241,624** | 26,241,624 |
| Reserves on retained earnings | 16 | **85,576** | 85,576 |
| Tangible fixed assets valuation fund | 2.3.1 | **39,371,136** | 39,371,136 |
| Accumulated losses | | **17,791,473** | (11,727,598) |
| Net income for the period | | **16,637,384** | 29,519,071 |
| **Total liabilities and equity** | | **345,344,147** | 328,022,910 |

The accompanying accounting policies and notes on pages 7 to 49 are an integral part of these financial statements.

## Statement of comprehensive income for the interim period ended March 31, 2013
**(Currency: Turkish Lira (TL))**

| | | Current period | Prior period |
|---|---|---|---|
| | | **Unaudited** | Unaudited |
| **Assets** | **Note references** | **January 1 - March 31, 2013** | January 1 - March 31, 2012 |
| **Real operating income** | | | |
| Sales revenue | 17 | **90,265,745** | 86,122,417 |
| Cost of sales (-) | 17 | **(71,157,463)** | (68,363,390) |
| **Gross profit** | 17 | **19,108,282** | 17,759,027 |
| Research and development expenses (-) | | **(501,665)** | (204,634) |
| Marketing, sales and distribution expenses (-) | | **(352,490)** | (5,489,561) |
| General administrative expenses (-) | | **(1,151,984)** | (1,384,078) |
| Other operating income | 18 | **662,288** | 706,183 |
| Other operating expenses (-) | 18 | **(7,369)** | (19,964) |
| **Operating profit** | | **17,757,062** | 11,366,973 |
| Financial income | 19 | **6,622,150** | 3,606,515 |
| Financial expenses | 20 | **(4,330,559)** | (2,336,059) |
| **Profit before tax** | | **20,048,653** | 12,637,429 |
| **Tax expense** | | | |
| - Tax expense for the period (-) | 21 | **(3,804,231)** | (2,643,651) |
| - Deferred tax income/(expense) | 21 | **173,842** | 102,740 |
| **Net income for the period** | | **16,418,264** | 10,096,518 |
| **Other comprehensive income/(expense):** | | | |
| Actuarial gains for employee benefits | | **219,120** | 540,543 |
| **Other comprehensive income (after tax)** | | **219,120** | 540,543 |
| **Total comprehensive income** | | **16,637,384** | 10,637,061 |
| **Earnings per share attributable to major shareholders (full TL)** | 22 | **0.1428** | 0.0962 |
| **Weighted average number of shares (average share for 1 TL)** | | **115,000,000** | 105,000,000 |

The accompanying accounting policies and notes on pages 7 to 49 are an integral part of these financial statements.

**Tümosan Engine and Tractor Industry Inc.**

**Statement of changes in equity for the period ended**
**March 31, 2013**
**(Currency: Turkish Lira (TL))**

| | **Capital** | **Share premium (Note 18)** | **Tangible fixed assets Valuation fund (Note 2.3.1)** | **serves on retained earnings** | **Accumulated profits/(losses) and net income for the period** | **Total** |
|---|---|---|---|---|---|---|
| January 1, 2012 | 55,950,000 | | 39,371,136 | 85,576 | 46,609,418 | 142,016,130 |
| Net income for the period | - | | - | - | 10,096,518 | 10,096,518 |
| Actuarial gains/losses for employee benefits | - | | - | - | 540,543 | 540,543 |
| Total comprehensive income | - | | - | - | 10,637,061 | 10,637,061 |
| **March 31, 2012** | 55,950,000 | | 39,371,136 | 85,576 | 57,246,479 | 152,653,191 |
| **January 1, 2013** | **115,000,000** | **26,241,624** | **39,371,136** | **85,576** | **17,791,473** | **198,489,809** |
| Net income for the period | - | | - | - | **16,418,264** | **16,418,264** |
| Actuarial gains/losses for employee benefits | - | | - | - | **219,120** | **219,120** |
| **Total comprehensive income** | - | | - | - | **16,637,384** | **16,637,384** |
| **March 31, 2013** | **115,000,000** | **26,241,624** | **39,371,136** | **85,576** | **34,428,857** | **215,127,193** |

The accompanying accounting policies and notes on pages 7 to 49 are an integral part of these financial statements.

## Cash-flow statement for the period ended March 31, 2013

**(Currency: Turkish Lira (TL))**

| | | Current period | Prior period |
|---|---|---|---|
| | | **Unaudited** | Unaudited |
| **Assets** | **Note references** | **January 1 - March 31, 2013** | January 1 - March 31, 2012 |
| **Real operating income** | | | |
| Net profit before tax | | **16,418,264** | 10,096,518 |
| Reconciliation of net income to net cash provided by operating activities: | | | |
| Depreciation, amortisation and depletion | | **1,444,496** | 2,334,301 |
| Provision for severance payments | 14 | **210,338** | (159,438) |
| Provision for doubtful receivables | 8 | **122,824** | - |
| Cancellation of provision for inventories | 9 | **(587,408)** | (1,098,996) |
| Provision for unused vacation entitlements | 14 | **(11,064)** | 5,228 |
| **Net cash from operating activities before changes in operating assets and liabilities** | | **17,597,450** | 11,177,613 |
| **Change in assets and liabilities** | | **(19,572,952)** | (34,193,365) |
| Trade and other receivables, net | | | |
| Commercial transactions with related parties, net | | **451,949** | 231,813 |
| Inventories | | **(8,192,395)** | 8,744,241 |
| Other current assets | | **(6,334,433)** | (1,598,759) |
| Other fixed assets | | **352,748** | (639) |
| Trade payables | | **12,682,044** | (10,447,820) |
| Other liabilities and provisions | | **2,046,058** | 6,404,411 |
| Other long-term liabilities and provisions | | **(19,845)** | (154,209) |
| **Net cash from/(used in) operating activities** | | **(989,376)** | (19,836,714) |
| **Cash used in investing activities** | 10 | **(2,250,242)** | (2,357,934) |
| Purchases of tangible and intangible fixed assets | | | |
| Advances given to related parties | | **(5,504,736)** | (6,334,250) |
| **Net cash from/(used in) investing activities** | | **(7,754,978)** | (8,692,184) |
| **Net cash used in financial activities** | | **(12,885,016)** | 28,364,446 |
| Financial payables net | | | |
| **Net cash from financial activities** | | **(12,885,016)** | **28,364,446** |
| Net (decrease)/increase in cash and cash equivalents | | **(21,629,370)** | (164,452) |
| Cash and cash equivalents at the beginning of the period | 5 | **22,021,785** | 288,474 |
| **Cash and cash equivalents at the end of the period** | 5 | **392,415** | **124,022** |

The accompanying accounting policies and notes on pages 7 to 49 are an integral part of these financial statements.

**(Currency: Turkish Lira (TL))**

## 1. Organization and area of activity of the Company

Tümosan Engine and Tractor Inc. (formerly Alçelik Çelik Yapı Construction Industry and Trade Inc.) (hereinafter "Tümosan" or the "Company") was established in 1975 to produce engine parts, transmission organs and similar equipment, but later on has concentrated its activities in the production of diesel engines and tractors. Tümosan, being Turkey's first diesel-engine manufacturer, has been supplying diesel engines for tractors manufactured under the same brand, as well as other manufacturers of diesel-powered vehicles for many years.

The Company was included in the privatization program on August 18, 1998, and the Company's shares belonging to the Mechanical and Chemical Industry Corporation were transferred to the Privatization Administration and it was decided to complete the privatization process within one year.

Four companies participated in the privatization tender held on April 24, 2000. Anadolu Joint Venture Group ranked first and Konya Selçuklu Joint Venture Group ranked second, according to the results of the tender. As the entrepreneurs determined to be the buyers as per the tender result were not able to sign the sales contract offered to them respectively within the given time period, the tender could not be concluded positively and their tender guarantees were forfeited in connection therewith.

Tümosan, which continued its activities limitedly after the tender, was attached to Sümer Holding on February 7, 2003.

The second tender for its privatization was announced in 2004 and Alçelik Çelik Yapı Construction Industry and Trade Inc. purchased Tümosan by means of an asset sale and the transfer was completed on July 1, 2004.

On December 5, 2013, 26% of the Company's shares were offered to the public at Istanbul Stock Exchange.

Tümosan Engine and Tractor Industry Inc.'s shares are traded on the Istanbul Stock Exchange since 5 December 2013.

The Company's headquarters and factory are located at the

following addresses: Head office:

Istanbul World Trade Centre A3 Blok Kat: 8, 34149-Istanbul/Turkey

Factory:

Büyükkayacık Mahallesi Aksaray Çevre Yolu Caddesi No: 7/1 Selçuklu, Konya/Turkey

Information on the Company's shareholders and their shares is as follows:

| Real operating income | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Ereğli Textile Tourism Industry and Trade Inc. | **67.35%** | 67.58% |
| Muzaffer Albayrak | **5.72%** | 5.72% |
| Ahmet Albayrak (son of Ahmet) | **2.84%** | 2.84% |
| Bayram Albayrak | **2.84%** | 2.84% |
| Nuri Albayrak | **2.84%** | 2.84% |
| Kazım Albayrak | **2.84%** | 2.84% |
| Mustafa Albayrak | **2.84%** | 2.84% |
| Free-float portion | **12.73%** | 12.50% |
| | **100%** | 100% |

The Company is controlled by the Albayrak Family although Ereğli Textile Tourism Industry and Trade Inc. is the main shareholder.

As of March 31, 2013, the average number of white-collar workers employed by the Company is 114 (December 31, 2012 - 106) and the number of blue-collar workers is 279 (December 31, 2012 - 255).

## 2. Basis of presentation of financial statements

### 2.1 Basis of presentation Applied

### financial reporting standards

The Capital Markets Board's ("CMB") "Communiqué on Principles Relating to Financial Reporting in Capital Markets (Serial: XI, No: 29)" ("Communiqué") sets down the principles and procedures pertaining to financial reports to be prepared by entities and the preparation and submission of financial reports. This Communiqué is effective for the first interim financial statements for the periods starting from 1 January 2008. The CMB's "Communiqué on Accounting Standards in Capital Markets (Serial XI, No. 25)" has been repealed. In accordance with this Communiqué, enterprises are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IAS / IFRS") as in the form accepted by the European Union. However, IAS / IFRS will be applied until the differences between the IAS / IFRS accepted by the European Union and those published by the International Accounting Standards Board ("IASB") are announced by the Turkish Accounting Standards Board ("TASB"). In this context, Turkish Accounting / Financial Reporting Standards ("TAS / TFRS") published by TASB that are not contrary to the adopted standards will be taken as a basis.

By a decision dated 17 March 2005 which would be effective from 1 January 2005, CMB announced that the implementation of inflation accounting was not required for companies operating in Turkey and preparing financial statements according to accounting and reporting principles adopted by CMB ("CMB Financial Reporting Standards"). Accordingly, IAS 29 "Financial Reporting in Hyperinflationary Economies" published by IASB has not been applied in financial statements since January 1, 2005.

As the differences between the IAS / IFRS endorsed by the European Union and those issued by the IASB were not announced by TASB as of the date of preparation of the financial statements, the financial statements have been prepared, within the frame of the Communiqué and announcements clarifiying this communiqué, in accordance with the CMB Financial Reporting Standards. The financial statements and notes thereof are presented in accordance with CMB's announcements dated April 17, 2008 and January 9, 2009 and the formats recommended by the CMB and with the inclusion of compulsory information.

Financial statements are prepared on a cost basis except for financial assets that are carried at fair value.

The Company's financial statements as of March 31, 2013 and December 31, 2012 and for the operating periods ended March 31, 2013 and 2012 have been prepared on the basis of the "Communiqué on the Principles of Financial Reporting in Capital Markets (Serial XI No. 29)" ("Communiqué") issued by CMB on April 9, 2008.

### Functional and presentation currency

The functional and presentation currency of the Company is accepted as TL.

### Going concern

The Company has prepared the financial statements on a going concern basis.

### 2.2 Changes in accounting policies New

### and amended standards and interpretations

The accounting policies adopted in preparation of the financial statements for the period ended March 31, 2013 are consistent with those of the previous year, except for the new and amended IFRS and IFRIC interpretations effective as of January 1, 2013 that are summarised below. The effects of these standards and interpretations on the Company's financial position and performance are disclosed in the related paragraphs.

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

**IFRS 7 Financial Instruments: Disclosures - Offsetting of Financial Assets and Liabilities (Amendment)**

The amendment requires the entity to disclose certain information about the rights to offset financial instruments and related arrangements (e.g. guarantee contracts). The disclosures presented to the users of the financial statements provide useful information for;

i) the assessment of the effects of offsetting the transactions on the financial position of the company and their possible effects, and

ii) the comparison and analysis of financial statements prepared in accordance with IFRS and other generally accepted accounting principles.

New disclosures should be given for all financial instruments that are offset in the balance sheet in accordance with IAS 32. Such disclosures are also applicable to financial instruments that are subject to applicable main offsetting arrangements or a similar agreement, even if they could not be offset in the balance sheet pursuant to IAS 32. The amendment affects only disclosure rules and does not have an impact on the Company's condensed interim financial statements.

**IAS 1 Presentation of Financial Statements (Revised) - Presentation of Components of Other Comprehensive Income (Statement of Comprehensive Income)**

The amendments made only change the grouping of items shown in the statement of other comprehensive income. In the statement of other comprehensive income, hereinafter, items that can be classified (or that may be reversed) to the income statement at a future date will be shown separately from items that can never be classified to the income statement. The amendment has only affected the basis of presentation, but not the Company's financial position or performance.

**IAS 19 Employee Benefits (Revised)**

Within the scope of the amendment to the standard, either many issues were clarified or amendments were made in the implementation. The most important ones of the many changes that have been made are the removal of the application of the mechanism of indemnification corridor, the recognition of actuarial gains/losses on defined benefit plans in the other comprehensive income and the determination of the distinction of short- and long-term employee benefits according to the estimated date of payment obligation rather than according to the principle of employee's entitlement.
The Company has accounted for actuarial gains and losses arising from employee benefits as of March 31, 2013 in other comprehensive income and expenses in its financial statements. This change has also been applied in the prior period financial statements and the related gains and losses are shown under other comprehensive income and expenses.

**IAS 27 Separate Financial Statements (Revised)**

As a result of the publication of IFRS 10 and IFRS 12, IASB has also amended IAS 27. As a result of the amendments, IAS 27 now includes only the accounting of subsidiaries, jointly controlled entities and associated companies in separate financial statements. This amendment has not affected the Company's financial position or performance.

## 2. Basis of presentation of financial statements

### (continued) Improvements in IFRS

2009-2011 annual IFRS improvements, which are effective for annual periods beginning on or after 1 January 2013 and explained below, have not affected the Company's financial position or performance

*IAS 1 Presentation of Financial Statements:*
It has clarified the difference between additional comparative information that is optional and comparative information that must be presented as a minimum.

*IAS 16 Property, Plant and Equipment:*
It has clarified that spare parts and maintenance equipment, which conform to the definition of tangible fixed assets (property, plant and equipment), are not an inventory item.

*IAS 32 Financial Instruments: Presentation:*
It has clarifies that the tax effect of distributions to shareholders should be accounted for in accordance with IAS 12. The amendment requires that existing obligations in IAS 32 be removed and all income taxes arising from distributions made by companies to shareholders be accounted for in accordance with IAS 12.

*IAS 34 Interim Financial Reporting:*
IAS 34 clarifies the disclosures required about total segment assets and liabilities for each operating segment. The total assets and liabilities of operating segments should only be disclosed if such information is regularly reported to the competent authority to take decisions about the entity's operations and if there is a significant change in the total amounts disclosed compared to the previous year's financial statements.

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

The new standards, interpretations and amendments published as of the date of approval of the financial statements but not yet effective for the current reporting period and not applied early by the Company are as follows. Unless otherwise stated, the Company will make the necessary changes that will affect the financial statements and notes after the entry into force of the new standards and interpretations.

IAS 32 Financial Instruments: Presentation - Offsetting of Financial Assets and Liabilities (Amendment)

The amendment clarifies the meaning of the expression "presence of a legal right available on offsetting the amounts accounted for" and clarifies the application area of IAS 32 offsetting principle in accounting systems (such as clearing offices) which are not realized simultaneously and where gross settlement is made. The amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. It is not expected that this standard will have any significant effect on the Company's financial position or performance.

IFRS 9 Financial Instruments - Classification and Disclosure

With the amendment made in December 2011, the new standard will be effective for annual periods beginning on or after 1 January 2015. The first phase of the standard IFRS 9 Financial Instruments introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities that are classified as the ones which are measured by reflecting the fair value difference to profit or loss. These amendments require that the portion relating to credit risk of the fair value changes of this kind of financial liabilities be presented in the statement of other comprehensive income. Early application of the standard is permitted. This standard has not yet been endorsed by the European Union. The Company is assessing the impact of the standard on its financial position and performance.

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

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 has been amended to provide an exception to the waiver of companies that meet the definition of an investment company from the consolidation provisions. With the exception introduced for the consolidation provisions, the investment companies are required to account for their subsidiaries at fair value in accordance with the provisions of IFRS 9 Financial Instruments. It is not expected that this standard will have any effect on the Company's financial position or performance.

## 2.3 Summary of significant accounting

**policies Cash and cash equivalents**

Cash and cash equivalents include cash, checking accounts and other short-term highly liquid investments with a maturity of 3 months or less at the time of purchase, which are readily convertible to cash and not subject to significant risks in terms of change in value.

**Financial instruments**

***Financial assets***

The Company has classified its financial assets as trade receivables, available-for-sale financial investments and cash and cash equivalents. Classification is made according to the purpose of acquisition of financial assets. The management classifies the financial assets on the date of purchase.

*Available-for-sale financial investments*

The subsequent valuation following the initial recognition of available-for-sale securities classified under financial investments is made at fair value. Profit or loss arising from changes in the fair value of available-for-sale securities is presented in a separate line item under equity until the related assets are sold, converted to cash, or otherwise disposed of, or until their value decreases, and after that date, the accumulated fair value differences are associated with income and expenditure account.

The fair values of securities available for sale that are traded in active markets are determined either at the current market rates as of the balance sheet date or at the prices quoted on the Stock Exchange or at the current market buying prices.

Dividends received from securities available for sale are accounted for in dividend income.

*Trade receivables*

Trade receivables are recognized with their invoiced amounts and are carried at their net values discounted using the effective interest rate method and, if any, after deducting provision for doubtful receivables in the following periods.

Notes and postdated cheques classified in trade receivables are carried at their discounted values rediscounted using the effective interest rate method.

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

The provision for doubtful receivables is recognized as an expense. If there is a concrete indication that the due receivables cannot be collected, a provision for doubtful receivables is allocated. The provision is the amount that is estimated by the Company management and considered to cover the possible losses that may arise from economic conditions or risks which the account carries by its very nature. Uncollectible receivables (bad debts) are completely deleted from the records in case they are detected.

The Company collects some of its receivables through factoring. The Company follows the related receivables in the financial statements since the collection risk belongs to the Company until the factoring company collects the transferred receivables from the customers. Advances received from the factoring company in exchange of these receivables are reported as factoring payables under "Financial Payables". Factoring expenses are accounted for on accrual basis in financing expenses account.

*Impairment of financial assets*

At each balance sheet date, financial assets or groups of financial assets are assessed on whether there are any indicators of impairment. An impairment loss exists if, after the initial recognition of a financial asset, one or more events occur and there is an objective indicator that the related financial asset, or assets group, is impaired in value due to the negative impact of the said event(s) on the foreseeable future cash flows of the related financial asset, or assets group. The amount of impairment on loans and receivables is the difference between the asset's carrying amount and the present value of its anticipated future cash flows, which are discounted using the financial asset's effective interest rate. The Company follows its receivables separately and does not allocate a collective provision.

For all financial assets, except for trade receivables where the carrying amount is written down by the use of a reserve (provision) account, the impairment is directly deducted from the carrying amount of the related financial asset. A trade receivable will be deducted and deleted from the reserve account if it cannot be collected. Changes in the reserve account are recognized in the statement of comprehensive income/(expense)

Negative differences between the acquisition cost and the fair value of available-for-sale financial assets are associated with the statement of comprehensive income in case the difference is significant and prolonged. Impairment losses recognized in profit or loss (income statement) relating to investments in equity instruments classified as available for sale are not reversed through profit or loss.

Except for equity instruments available for sale, if the impairment loss decreases in the following period and the decrease can be attributed to an event occurring after the impairment loss is recognized, the previously recognized impairment loss will be cancelled in the statement of comprehensive income in a manner that will not exceed the amount of the amortized cost that would have been achieved if the impairment of the investment had not been accounted for at the date the impairment was cancelled.

The increase occurred after the impairment in the fair value of available-for-sale equity instruments is accounted for directly in equity.

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

### *Financial liabilities*

Financial liabilities are accounted for at their fair value and are carried at amortized cost using the effective interest method in the following periods together with the interest expense calculated according to the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the related interest expense over the relevant period. The effective interest rate is the rate at which the estimated future cash payments are discounted over the expected life of the financial instrument or a shorter period, where applicable, to arrive at the net present value of the related financial liability.

*Bank loans*

All bank loans are recorded at time of the initial recognition at the cost value that is considered to reflect their fair value and that includes the transaction cost.

After initial recognition, the loans are shown with their net values discounted using the effective interest rate method. When calculating discounted value, costs at the time of initial issue and discounts and premiums during the reimbursement are taken into account.

*Trade payables*

Trade payables are recognised at discounted cost value representing the fair value of the invoiced or uninvoiced amount related to the purchase of goods and services to be incurred in the future. A part of the Company's trade payables is paid by the factoring company and the bank and the Company owes the amount paid to the factoring company or bank. The related amounts are reported as factoring payables and letter of credit liabilities under "Financial Payables", respectively.

### *Recognition and derecognition of financial assets and liabilities*

All purchases and sales of financial assets are recognized on the transaction date, i.e. on the date the Company commits to purchase or sell the asset. Such purchases and sales are trades that generally require the delivery of the financial asset within the time-frame determined by general custom and regulations of the market.

A financial asset (or part of a financial asset, or a part of a group consisting of similar financial assets) is derecognized;

- if the time relating to the right to obtain cash flow from the asset is over;
- if the Company has the right to obtain cash flow from the asset but is obligated to pay the full amount without spending too much time under an agreement requiring direct transfer to a third party;
- if, in the case the Company transfers its right to obtain cash flows from the asset, (a) all risks or rewards with respect to the asset have been transferred or (b) all controls on the asset have been transferred although all rights or rewards have not been transferred.

If, in the case the Company transfers its right to obtain cash flows from the asset, all risks or rewards with respect to the asset have not been transferred or controls on it have not been transferred, the asset is carried in the financial statements according to the Company's ongoing relationship with the asset.

Financial liabilities are derecognized if the debts arising from these liabilities are abolished, cancelled or expired.

### *Netting / Offsetting*

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

### Effects of changes in foreign exchange rates

*Transactions and balances*

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the transaction dates when they are initially recognized. Monetary assets and liabilities denominated in foreign currencies are measured at the rates prevailing at the reporting date and foreign exchange gains and losses resulting therefrom are recognized in the comprehensive income statement for the related period. All monetary assets and liabilities are translated at the period-end exchange rates and the related foreign exchange differences are recognized in the comprehensive income statement. Non-monetary items denominated in foreign currencies and measured at cost value are translated into functional currency at the rates prevailing at the initial transaction date. Non-monetary items denominated in foreign currencies and measured at fair value are translated into functional currency at the exchange rates prevailing at the time the fair value was determined.

### Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements ('reporting entity').

(a) A person or a close member of that person's family is deemed related to the reporting entity in the following situations:

If that person:

(i) has control or joint control over the reporting entity;
(ii) exercises significant influence over the reporting entity;
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) The entity is related to the 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) The 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 has a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity has 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. Basis of presentation of financial statements (continued)

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

### Inventories

Inventories are measured at the lower of cost and net realizable value. Cost includes all costs incurred in bringing the inventories to their present location and condition. Material, direct labor and general manufacturing costs consist the cost included in the inventories. Direct raw materials and supplies, work in process, finished goods, commodities, and spare parts that consist other inventories are valued using the moving weighted average cost method.

The Company has allocated provision for impairment of inventories for the parts of spare parts and commodity inventories that are not expected to be sold/used.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

### Tangible fixed assets

Tangible fixed assets other than land are stated at cost less accumulated depreciation and impairment, if any. Lands are stated at fair value in accordance with the revaluation model as permitted by IAS 16 and are not depreciated. When the tangible assets are sold, the income or expense that arises after the deduction of the cost and accumulated depreciation of these assets from the related accounts is included in the comprehensive income/loss statement.

The initial cost of a tangible fixed asset comprises its purchase price, import duties, non-refundable taxes and any directly attributable costs of preparing the asset for its intended use. Expenses such as repair and maintenance that occur after the use of the tangible fixed asset has started are recognized as expense in the period in which they are incurred. If the expenditures made provide economic added value for the future use of the related tangible asset, these costs are added to the cost of the asset.

Tangible fixed assets are capitalized and depreciated when their capacity is fully available for use. Depreciable assets are depreciated on prorata basis over their useful lives.

Depreciation periods are as follows:

| | **Period** |
|---|---:|
| Buildings | 25-50 years |
| Machinery and equipment | 4-20 years |
| Vehicles | 4-5 years |
| Furniture and fixtures | 2-10 years |
| Rights | 7-14 years |
| Special costs | 5 years |

The useful life and depreciation method are regularly reviewed and accordingly the compliance of the method and period of depreciation with the economic benefits to be gained from the related asset are looked through and thus prospective amendments are made if they are in compliance.

## 2. Basis of presentation of financial statements

### (continued) Intangible fixed assets

Intangibles fixed assets consisting of software rights are recognized at acquisition cost. Software rights are amortized over their adjusted cost values using straight-line method of depreciation on prorata basis over 3 to 15 years.

The carrying values of intangible fixed assets are reviewed and the necessary provision is allocated if the changes in conditions and the events indicate a possible decrease in the carrying value.

### Investment property

Investment property is property held to earn rental income and/or for the purpose of capital appreciation. It is measured initially at cost, including transaction costs directly associated with acquisition. The book value also covers the cost of replacing a part of the investment property if the recognition principle of adding such costs is met. This value does not include daily expenditures made for the provision of services for investment properties.

Depreciation is calculated using the ordinary depreciation method over the estimated useful life of the investment property other than land. In this context, depreciation period applied for buildings is 25 to 50 years.

### Research and development expenses

Research expenditures are recognised as an expense when incurred. Costs incurred in development projects (related to the design and testing of new or improved products) are recognized as intangible fixed assets if the following conditions are met:

- In case the intangible asset is completed, it can be sold and used taking account of its technical feasibility;
- The management's intention to complete the intangible asset and either use it or sell it,
- the intangible assets can be used or sold,
- the demonstration of possible future economic benefits,
- Sufficient technical, financial and other resources for the completion, use or sale of the intangible asset;
- Reliable measurement of costs incurred during the development of the intangible asset.

Other development costs that do not meet these criteria are recorded as expense in the period in which they are incurred. Development costs recorded as expense in prior periods cannot be capitalized in subsequent periods. Capitalized development costs are recognized as intangible fixed assets and are amortized on a straight-line basis over the useful life not exceeding 5 years from the date the related asset is ready for use.

### Government grants

All government grants, including non-monetary government grants monitored at fair value, are recognized in the financial statements only when there is reasonable assurance that the Company will comply with necessary conditions attached to the grant and the grant will be received or when the Company receives the grant. Government grants are accounted for as a deduction from the costs of the capitalizable intangible fixed assets that are intended to be financed with these grants.

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

### Impairment of non-financial assets

Impairment test is conducted for depreciable assets if it is not possible for the asset to recover its carrying amount. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level where cash flows are separately identifiable (cash-generating units). Non-financial assets are reviewed at each reporting date for possible indications of impairment.

### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that require significant time to be ready for their intended use or sale are capitalized as part of the cost of the related assets. Other borrowing costs are accounted for as expense in the periods they are incurred. Borrowing costs include interest and other costs incurred due to borrowing.

### Provisions, contingent liabilities and contingent assets

#### *Provisions*

Provisions are only recognized if, and only if the Company has a present obligation resulting from a past event, and there is a probability of an outflow of economic resources providing economic benefit to the entity due to this obligation and the amount of the obligation can be estimated reliably.

Where the time value of money is material, provisions are reflected with the discounted value of possible future costs at the balance sheet date. Provisions are reviewed at each balance sheet date and necessary adjustments are made to reflect the management's best estimates.

#### *Contingent liabilities and contingent assets*

Contingent liabilities are not recognized in the financial statements, but disclosed in the notes if the situation requiring the transfer of resources is not highly probable. Contingent assets are not recognized in the financial statements, but disclosed in the notes where an inflow of economic benefits is probable.

### Leasing transactions - as lessee

#### *Finance leases*

The Company recognizes fixed assets acquired through finance lease at the fair value at the beginning of the lease date on the balance sheet or, if lower, the value of the minimum rent payments at the balance sheet date (they are included in the related tangible asset items in the financial statements). In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease if this is practicable to determine, if not, borrowing interest rate is used as the discount factor. The expenses incurred during the initial acquisition of the fixed asset subject to finance lease are included in the cost. The liability arising from the leasing transaction is divided into interest payable and principal debt. Interest expenses are calculated over the fixed interest rate and included in the comprehensive income statement accounts of the related period. Leased fixed assets recognized in the financial statements are depreciated according to the corresponding useful lives of the depreciable assets owned by the Company.

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

***Operating leases***

If, in the lease of an asset, all risks and benefits remain with the lessor, such leases are classified as operating leases. Lease payments made under an operating lease are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term.

**Taxes calculated on the basis of the company's earnings**

Tax expense or income is the sum of the current and deferred taxes calculated in relation to the gains or losses incurred in the period.

In the calculation of current and deferred tax, the tax rates that are valid as at the balance sheet date are used in accordance with the tax legislation in force in the country in which the Company operates.

Deferred tax is calculated according to the balance sheet liability method. Deferred tax is the tax effect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their statutory tax bases, and is accounted for financial reporting purposes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the enterprise.

Deferred tax is directly associated with equity account group if it relates to transactions that are directly associated with equity at a similar or different period.

The Company recognizes the deferred tax asset for deductible temporary differences only in the following situations and only when both situations are probable:

(a) Temporary differences will reverse in the foreseeable future; and
(b) The taxable profit will be available against which the deductible temporary difference can be utilized.

**Employee benefits**

***Provision for severance payments***

Pursuant to the existing Turkish Labour Law, the Company is obligated to make a certain amount of severance payment to the personnel, who has served at least for one year, that leaves work due to retirement or resignation or that is dismissed from work for reasons other than misconduct.

The Company calculated the provision for severance pay contained in the financial statements using the "Projection Method" based on the Company's experience gained in the past years concerning the completion of the personnel service period and severance pay entitlements and discounted them according to the government bond rates on the date of the balance sheet. All actuarial gains and losses calculated are recognized in the statement of comprehensive income/expense.

***Unused vacation entitlements***

The unused vacation entitlements in the financial statements represent the estimated total sum of possible future liabilities related to the accumulated vacation days of the employees as of the balance sheet date.

## 2. Basis of presentation of financial statements

### (continued) Events occurring after the balance sheet date

Post-balance-sheet events (events requiring adjustments) that provide additional information about the Company's position at the balance sheet date are reflected in the accompanying financial statements. Post-balance-sheet events that do not require adjustment are disclosed in the notes if they are material.

### Earnings per share (TL)

Earnings per share disclosed in the statement of comprehensive income are calculated by dividing the net income for the period by the weighted average number of shares outstanding during the reporting period.

In Turkey, companies can increase their capital through "bonus shares" distributed to their present shareholders from prior years' earnings. Such "bonus share" distributions are treated as issued shares in the calculation of earnings per share. Accordingly, the weighted average number of shares used in these calculations is found by also taking into account the retrospective effects of such share distributions.

### Income

Sales revenues are recognized on an accrual basis at the fair value of the consideration received or receivable in the cases the goods are delivered or the service is provided, the product-related important risks and benefits are transferred to the buyer, the amount of income can be calculated reliably or if it is very likely that the Company will obtain the economic benefits related to the transaction. Net sales show the invoiced value, excluding sales tax of the sold product or completed service, less rebates and discounts (Note 17).

Interest income obtained within other income is calculated using the effective interest rate method and recognized on an accrual basis, and rental income obtained within operating lease is recognized on a periodical accrual basis.

### Cash-flow statement

In the statement of cash flows, cash flows for the period are classified and reported as operating, investing and financing activities.

Cash flows from operating activities represent the Company's cash flows from tractor and engine selling activities.

Cash flows related to investing activities represent the cash flows which the Company uses in its investment activities (tangible and intangible investments and financial investments).

Cash flows from financing activities represent the resources which the Company uses in its financing activities and the repayments of those resources.

Cash and cash equivalents include cash, checking accounts and other short-term highly liquid investments with a maturity of 3 months or less at the time of purchase, which are readily convertible to cash and not subject to significant risks in terms of change in value.

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

### 2.3.1 Changes in accounting policies Lands

As of 31 December 2011, the Company changed its policy in the measurement of lands after the recognition within the frame of IAS 16, and decided to apply the revaluation method, which represents the fair value, instead of applying the cost model. The Company determined the fair value of its lands according to the valuation work made by a valuation company holding a valuation licence issued by CMB and recognized them as of 31 December 2011. The following accounting entries were made in the financial statements of December 31, 2011 due to the Company's accounting policy change:As a result of the evaluations made as of March 31, 2013, no impairment in the fair value of these assets were estimated.

Increase in the value of lands: 41,443,301 TL.
Increase in tangible fixed assets revaluation fund:
39,371,136 TL. Increase in deferred tax liability: 2,072,165
TL.

**Inventories**

As at 1 January 2012, the Company changed its valuation method for inventories from moving weighted average to first-in-first-out (FIFO) basis. This voluntary change in accounting policies requires a retrospective application in financial statements. However, retrospective application was not possible because it was not practical to determine the retrospective effects of the change in inventory valuation method.

### 2.4 Significant accounting judgments, estimates and assumptions

In the preparation of the financial statements, the Company's management is required to make judgments, estimations and assumptions to determine the liabilities and commitments that may occur as of the balance sheet date and the amounts of income and expenses for the reporting period, which will effect the amounts of reported assets and liabilities. Actual results may differ from estimates. Estimations are regularly reviewed and revised and necessary adjustments are made, and they are reflected in the statement comprehensive income for the period in which they occur.

Significant assumptions, which were made taking into consideration the main sources of estimations that were available at the balance sheet date or that may be realized in the future, that may have a significant effect on the amounts reflected in the financial statements are as follows:

*Economic lives of tangible and intangible fixed assets*

The Company's management has made significant assumptions in determining the economic lifetimes of tangible assets (Note 2.3). The Company constantly reviews the physical and economic usability of the machinery and equipment currently in use. The physical and economic lifetimes of the main production lines has been determined based on the assumption that the main production lines are not overly worn due to below-capacity production during and after the privatisation process.

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

*Provision for warranties*

Repair and maintenance costs made for the goods manufactured and sold by the Company, labour and material costs of the authorised services provided free of charge to the customers within the warranty period, initial maintenance costs incurred by the Company and results of estimations according to historical data for possible returns and repair levels of products in the coming years whose proceeds have been recognised as income in the current period are recognised as warranty expenses. The Company provides a two-year warranty for the goods which it sells. As the Company expects a significant part of the warranty expenses to be realised within 1 year, the Company reflects the provisions for warranties as short-term expenses.

*Provision for doubtful trade receivables*

The Company management has made estimates for the determination of doubtful trade receivables in its trade receivables portfolio, taking into account past collection history and the current status of customers (Note 8).

*Provision for severance payments*

Provision for severance pay is determined using actuarial calculations based on a number of assumptions, including discount rates, future salary increases and employee turnover rates. Because these plans are long-term, the assumptions involve significant uncertainties (Note 14).

*Provision for inventories*

In relation to inventory impairment, inventories are examined physically and in terms of the length of time passed, their usability is determined according to the technical personnel's opinions and a provision is allocated for the items which are estimated as unusable (Note 9). In the determination of the net realizable value of inventories, the list prices and data regarding the average discount rates given during the year are used, and estimates related to the sales expenses to be incurred are made.

*Deferred taxes*

Deferred tax assets are accounted for to the extent that it is very likely that a taxable profit will be available to benefit from tax advantage in the future. Deferred tax assets are calculated on the basis of unused tax deductions and other temporary differences if the tax advantage is probable (Note 21).

## 3. Business combinations

The Company does not have a business combination in the current and prior periods.

## 4. Reporting by segments

The Company management does not report financial information by segments because there are no different types of products and different geographical areas that need to be reported by segments. The distribution of the Company's sales according to geographical markets (domestic-foreign) and product groups are shown in Note 17.

**(Currency: Turkish Lira (TL))**

## 5. Cash and cash equivalents

As of March 31, 2013 and December 31, 2012, the amounts of the Company's time deposits, their average rates of return and average maturity are as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Cash | **10,643** | 5,999 |
| Demand deposits in banks | **355,115** | 21,968,573 |
| Time deposits in banks | **66,657** | 47,213 |
| | **432,415** | 22,021,785 |

On 31 March 2013 and 31 December 2012, the TL-denominated time deposit amounting to TL 40,000 is a guarantee for an oil company with which the Company has an agreement and is held as time deposit in the bank. This time deposit's interest rate is 6.5% per annum (2012 - 6.5%)

The details of the cash and cash equivalents in the cash-flow statements as of March 31, 2013 and December 31, 2012 are as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Cash | **10,643** | 5,999 |
| Banks | **421,771** | 22,015,785 |
| Less: Blocked bank deposits | **(40,000)** | (40,000) |
| **Cash and cash equivalents in the cash-flow statement** | **392,414** | 21,981,784 |

## 6. Financial payables

### 6.1 Short-term financial payables

### a) Liabilities to financial institutions

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Payables to financial institutions | **28,423,118** | 23,274,471 |
| Payables from factoring transactions (*) | **9,748,809** | 25,916,316 |
| | **38,171,927** | 49,190,787 |
| Less: long-term payables to financial institutions | **(618,184)** | (1,797,539) |
| **Short-term financial payables** | **37,553,743** | 47,393,248 |

(*) Liabilities from factoring transactions are about postdated cheques and notes transferred revocably to factoring institutions and are shown in the balance sheet assets under postdated cheques and notes receivable, details of which are given in Note 8.

**(Currency: Turkish Lira (TL))**

The interest and foreign exchange details of financial loans are as follows:

| | **March 31, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|
| | **Effective interest rate %** | **TL amount** | Effective interest rate % | TL Amount |
| Short term: | | | | |
| - US dollar (*) | **0%-7.63%** | **6,589,602** | 0%-7.63% | 9,578,749 |
| - TL | **13.76%-19.64%** | **21,215,332** | 13.58% - 19.64% | 11,898,182 |
| Long term: | | | | |
| - US dollar (*) | **0%-7.63%** | **225,590** | 0%-7.63% | 102,555 |
| - TL | **18.09%- 18.96%** | **392,594** | 17.77% - 19.64% | 1,694,985 |
| | | **28,423,118** | | 23,274,471 |

(*) In 2012, the Company received an interest-free loan of US dollar 618,420 from the Technology Development Foundation of Turkey. As of March 31, 2013, [the Company] has financial liabilities in the total amount of TL 594,447 (USD 328,660), of which TL 186,427 (USD 103,070) is short-term and TL 408,025 (USD 225,590) is long-term.

Financial loans are measured at discounted value using the effective interest rate method and their carrying amounts are assumed to be close to their fair values.

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Long-term payables to financial institutions | **618,184** | 1,797,539 |
| **Long-term financial payables** | **618,184** | 1,797,539 |

The maturities of long-term financial payables are as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| 2013 | **-** | - |
| 2014 | **583,005** | 1,762,867 |
| 2015 | **35,179** | 34,672 |
| | **618,184** | 1,797,539 |

## 7. Other financial liabilities

As of March 31, 2013 and December 31, 2012, the Company does not have other financial liability.

**(Currency: Turkish Lira (TL))**

## 8. Trade receivables and payables

### a) Trade receivables

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Trade receivables | **34,699,056** | 5,375,255 |
| Postdated cheques and notes receivable | **39,402,775** | 49,091,882 |
| | **74,101,831** | 54,467,137 |
| Less: Provision for doubtful receivables | **2,689,427** | 2,504,861 |
| | **71,412,404** | 51,962,276 |

The aging schedule relating to trade receivables for which a provision for doubtful receivables is not allocated as of March 31, 2013 and December 31, 2012 is as follows:

| | | | **Provision not allocated despite being overdue** | | | |
|---|---|---|---|---|---|---|
| | **Total** | **Amounts that are not past due and for which a provision is not allocated** | **Up to 1 month** | **1 to 3 months** | **3 to 4 months** | **4 months and over** |
| **March 31, 2013** | **34,157,392** | **83,722** | **32,275,089** | **1,128,882** | **164,371** | **505,328** |
| December 31, 2012 | 4,677,268 | 3,470,635 | - | - | 34,425 | 1,172,208 |

The Company did not allocate any provision for its overdue receivables not yet collected because it does not foresee a problem in their collections due to the long-term relationship with its customers and the ongoing trade with the customers in question.

### b) Trade payables

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Trade payables | **31,328,664** | 19,047,028 |
| Notes payable | **35,193,099** | 34,792,691 |
| | **66,521,763** | 53,839,719 |

**(Currency: Turkish Lira (TL))**

## 9. Inventories

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Materials and spare parts | **50,736,231** | 46,844,753 |
| Work in process inventories | **6,031,035** | 3,282,684 |
| Finished goods inventories | **8,047,381** | 11,427,876 |
| Trade goods | **3,190,521** | 2,393,352 |
| Goods in transit | **8,766,401** | 4,630,509 |
| | **76,771,569** | 68,579,174 |
| Less: Provision for inventories (*) | **(730,861)** | (1,318,269) |
| | **76,040,708** | 67,260,905 |

(*) As of March 31, 2013, provision allocated for impairment of finished goods inventories and trade goods is recognised in cost-of-sales account.

As of March 31, 2013 and December 31, 2012, there are no pledges or mortgages on inventories.

## 10. Tangible fixed assets

By the Board of Management's decision of 28 March 2013, the Company decided to move its R&D centre to technocity located in Istanbul Technical University and purchased office equipment and supplies for the branch established in the technocity. The total of fixed assets acquired and capitalised in 2013 is TL 774 thousand. [The Company] did not buy or sell any important fixed assets other than these purchases.

## 11. Completely depreciated and amortised tangible and intangible fixed assets

The book values of tangible and intangible fixed assets that have completed accumulated depreciation for the periods and that have been amortized, but which are still in use in the related periods, are as follows.

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Machinery and equipment | **7,251,550** | 7,174,763 |
| Vehicles | **338,810** | 338,810 |
| Furniture and fixtures | **1,004,803** | 1,000,754 |
| Rights | **125,547** | 125,547 |
| Special costs | **286,273** | 285,538 |
| | **9,006,983** | 8,925,412 |

## 12. Provisions, contingent assets and liabilities

### Debt provisions

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Provision for warranties | **1,383,550** | 4,117,166 |
| Provision for litigation expenses (*)→**286,000** | | 286,001 |
| | **1,669,550** | 4,403,167 |

(*) Includes provision for lawsuits filed against the Company.

**(Currency: Turkish Lira (TL))**

## 13. Commitments

The Company's position for the guarantees, pledges and mortgages ("GPM") as of March 31, 2013 and December 31, 2012 is as follows: GPMs given by the Company:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| A: Guarantees and mortgages given on behalf of its own legal personality | **15,728,665** | 15,856,855 |
| B: The total amount of GPMs given on behalf of other 3rd parties for the continuation of its ordinary business operations (*) | **254,771,245** | 260,663,519 |
| C: The total amount of other GPMs given | **-** | - |
| i. The total amount of GPMs given on behalf of the parent company | **-** | - |
| ii. The total amount of GPMs given on behalf the other Group companies that do not fall under Articles B and C | **-** | - |
| **Total** | **270,499,910** | 276,520,374 |

Details of GPMs in foreign currency are as follows (TL equivalents):

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Turkish lira | **269,308,538** | 275,329,002 |
| US dollar | **1,191,372** | 1,191,372 |
| **Total** | **270,499,910** | 276,520,374 |

(*) The Company and the Turkish Ziraat Bank (hereinafter the "Bank") signed an agreement on December 2010. According to this agreement, in the event the customer that has purchased the tractor which the Company sells through Tümosan's tractor vendors (Vendor) using credit via the Bank fails to repay the credit, the Bank has the right to request from the Company the difference between the income obtained from the forced sale of the tractor and the 75% of the insurable value determined by the Association of the Insurance and Reinsurance Companies of Turkey for the related tractor. However, the Company reflects the difference that the Bank will demand from it to the Vendor that has sold the tractor. Therefore, the liability is ultimately transferred to the Vendor although the guarantee mentioned above is a guarantee given to the Bank by the Company.

## 14. Provisions for employee benefits

### a) Short-term employee benefits

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Provision for unused vacations | **374,916** | 385,980 |
| | **374,916** | 385,980 |

**(Currency: Turkish Lira (TL))**

## 14. Provisions for employee benefits (continued)

### b) Long-term employee benefits

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Provision for severance payments | **1,574,160** | 1,582,941 |
| | **1,574,160** | 1,582,941 |

Pursuant to the existing Turkish Labour Law, the Company is obligated to make a certain amount of severance payment to the personnel, who has served at least for one year, that leaves work due to retirement or resignation or that is dismissed from work for reasons other than misconduct or that is obliged to leave work because of compulsory military service. The amount payable consists of one month's salary for each year of service and is limited to TL 3,129 as of 31 March 2013 and TL 3,034 as of 31 December 2012.

Based on the information gained from past experience, the Company has discounted the benefits gained by employees entitled to severance payments by using the government bond rates valid at the balance sheet date and reflected the discounted net values to the financial statements. Provision for severance payments is allocated by calculating the present value of the possible liability to be paid in case of the employees' retirement. Accordingly, the actuarial assumptions used to calculate the liability as of March 31, 2013 and March 31, 2012 are as follows:

| | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| Discount rate | **8.6%** | 10% |
| Estimated limit/wage increase | **5.00%** | 5.10% |
| Net discount rate | **3.43%** | 4.66% |

The movement of the provision for severance payment is as follows:

| | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| Balance on January 1 | **1,582,941** | 1,303,786 |
| Service cost | **129,988** | 319,118 |
| Interest expense | **136,133** | 130,379 |
| Actuarial income | **(219,119)** | (540,543) |
| Paid | **(55,783)** | (68,392) |
| Balance on 31 March | **1,574,160** | 1,144,348 |

**(Currency: Turkish Lira (TL))**

## 15. Other assets and liabilities

### a) Other current assets

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Deferred VAT | **36,368,535** | 30,880,679 |
| Advances given for orders | **1,478,512** | 684,815 |
| Prepaid expenses | **668,140** | 706,259 |
| Prepaid taxes and funds | **3,998** | - |
| Other | **163,841** | 76,838 |
| | **38,683,025** | 32,348,591 |

### b) Other fixed assets

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Other fixed assets | **-** | 352,748 |
| | **-** | 352,748 |

### c) Other liabilities

**Other short-term liabilities**

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Taxes and funds payable | **11,370,344** | 4,269,019 |
| Advances received for orders | **3,272,576** | 5,963,558 |
| Payables to employees | **545,413** | 428,833 |
| Social security withholdings payable | **495,283** | 262,168 |
| Other VAT | **-** | - |
| Expense accruals | **38,694** | 19,057 |
| | **15,722,310** | 10,942,635 |

**(Currency: Turkish Lira (TL))**

## 16. Equity

### a) Capital

The Company's shareholders and their shares in capital as of March 31, 2013 and December 31, 2012 are as follows:

| | | **March 31, 2013** | | December 31, 2012 |
|---|---|---|---|---|
| | **Rate %** | **TL** | Rate % | TL |
| Ereğli Textile Tourism Industry and Treade Inc. (*)*) | **67.35** | **77,449,911** | 67.58 | 77,716,552 |
| Muzaffer Albayrak | **5.72** | **6,586,381** | 5.72 | 6,586,381 |
| Ahmet Albayrak (son of Ahmet) | **2.84** | **3,264,543** | 2.84 | 3,264,543 |
| Bayram Albayrak | **2.84** | **3,264,543** | 2.84 | 3,264,543 |
| Nuri Albayrak | **2.84** | **3,264,543** | 2.84 | 3,264,543 |
| Kazım Albayrak | **2.84** | **3,264,543** | 2.84 | 3,264,543 |
| Mustafa Albayrak | **2.84** | **3,264,543** | 2.84 | 3,264,543 |
| Free-float portion | **12.73** | **14,640,993** | 12.50 | 14,374,352 |
| **Capital** | **100** | **115,000,000** | 100 | 115,000,000 |
| **Paid-in capital** | | | | 115,000,000 |

(*) Pursuant to the Board of Management's decision dated March 4, 2013 and numbered 2013-02, it has been decided to pledge a total of 46,000,000 non-free float B-group shares of the Company belonging to Ereğli Textile Tourism Industry and Teade Inc. in favour of a financial institution as collateral for all non-cash loans extended or to be extended by that financial institution personally and/or as surety to Albayrak Group of Companies, and the pledge on the shares continues as of March 31, 2013.

As of March 31, 2013, the Company's capital is fully paid up and consists of 115,000,000 shares with nominal value of TL 115,000,000 and TL 1 per share (December 31, 2012 - Capital: TL 115,000,000 and 115,000,000 shares with TL 1 per share).

In accordance with the Communiqué (Serial: XI, No: 29), which entered into force on January 1, 2008, and CMB announcements explaining this Communiqué, "Paid-in Capital", "Reserves on Retained Earnings" and "Share Premiums" are required to be presented at the amounts in statutory records.

The differences in valuations during the implementation of the said Communiqué:

- should be related with the "Capital Adjustment Difference" to be coming after the "Paid-in Capital" item if the differences arise from the "Paid-in Capital" and are not yet added to the capital;

- should be related with the "Accumulated Profits/Losses" if the differences arise from "Reserves on Retained Earnings" and "Share Premiums" and are not yet subject to profit distribution or capital increase. Other equity items are presented with their amounts valuated within the framework of CMB's Financial Reporting Standards.

**Share premium:**

In the public offering held on December 5, 2012, the Company increased its capital by TL 10,000,000 by restricting its shareholders' subscription rights and reflected the share premium of TL 26,241,624, which was obtained after deducting the public offering expenses of TL 3,758,376 occurred during this transaction, in the equity on its financial statements.

**(Currency: Turkish Lira (TL))**

## 16. Equity (contd)

**Dividend Distribution**

Companies whose shares are traded on ISE are subject to the dividend requirement imposed by CMB as follows:

30 Pursuant to Article 19 of the Capital Markets Law No. 6392 which entered into force on [30] December 2012, publicly-listed companies distribute their profits within the frame of their dividend distribution policies to be determined by the general meeting of shareholders and in accordance with the provisions of the applicable legislation. The Capital Markets Board may identify different principles by corporations of similar characteristics with regard to dividend distribution policies of corporations.

Unless and until both the reserve required to be set aside according to the law, and the dividend determined for payment to shareholders in the articles of association are reserved, it cannot be decided to set aside other reserve, or to carry dividend forward to next year, or to distribute dividend to beneficial interest certificate, board members and company's employees, nor can profit shares be distributed to the said persons unless and until the dividend determined for shareholders are fully paid in cash.

In publicly-listed companies, dividends shall be distributed equally to all of the shares existing as of the date of distribution, regardless of their dates of issuance and acquisition.

According to the legislation in force, dividends can be distributed, depending on the decision of the general meeting of shareholders, in cash, or as bonus share distribution to shareholders by adding the capital, or both in cash and bonus share form with certain rates, or the amount of dividends can be kept in the company without distributing them as per the principles set out in the Communiqué Serial: IV, No: 27, in which CMB regulates the principles regarding distribution of dividends to be followed by the publicly-listed companies, the provisions of articles of association, the company's dividend distribution policies disclosed to public.

### b) Reserves on retained earnings

Pursuant to the Turkish Commercial Code, the first order legal reserves are required to be set aside as 5% of the statutory net profit until reaching up to 20% of the company's paid-in capital. Pursuant to the Turkish Commercial Code, legal reserves can only be used for transactions aimed at offsetting losses or ensuring the entity's ability to continue as a going concern, unless they exceed 50% of the paid-in capital. Furthermore, in order to benefit from real estate and participating interests sales gains exemption, 75% of such gains must be held in a passive fund account (special reserves) and not withdrawn for 5 years.

The details of the reserves on retained earnings mentioned above are as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Legal reserves on retained earnings | **85,576** | 85,576 |
| | **85,576** | 85,576 |

### c) Accumulated profits/(losses)

The equity items in the Company's statutory financial statements prepared in accordance with the Tax Procedure Law are as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Legal reserves | **85,576** | 85,576 |
| Accumulated profits/(losses) | **24,768,374** | (8,117,902) |
| Net income for the period | **13,526,537** | 31,353,572 |

| | | |
|---|---|---|
| | **38,,380,487** | 23,321,246 |

**(Currency: Turkish Lira (TL))**

## 17. Sales and cost of sales

### a) Statement of sales and cost of sales

| Sales: | 2013 | 2012 |
|---|---|---|
| Domestic sales | 89,438,061 | 85,089,336 |
| Foreign sales | 903,074 | 1,125,144 |
| Sales returns and allowances | (75,390) | (92,063) |
| **Total sales, net** | **90,265,745** | 86,122,417 |
| **Total cost of sales (-)** | **71,157,463** | 68,363,390 |
| **Gross profit** | **19,108,282** | 17,759,027 |

### b) Distribution of sales by product groups (net)

| | 2013 | 2012 |
|---|---|---|
| Tractor sales | 87,848,147 | 85,189,217 |
| Spare part sales | 1,823,149 | 726,948 |
| Engine sales | 594,449 | 206,252 |
| **Total sales** | **90,265,745** | 86,122,417 |

## 18. Other operating income/expenses

### a) Other operating expenses

| | 2013 | 2012 |
|---|---|---|
| Other | 7,369 | 19,964 |
| | **7,369** | 19,964 |

### b) Other operating income

| | 2013 | 2012 |
|---|---|---|
| Provisions no longer required | 185,340 | 244,509 |
| Revenues from sales of scraps and raw materials | 168,418 | 111,712 |
| Rental income | 85,680 | 129,989 |
| Other | 222,850 | 219,973 |
| | **662,288** | 706,183 |

## 19. Financial income

| | 2013 | 2012 |
|---|---|---|
| Income from exchange differences | 3,519,779 | 1,390,120 |
| Interest income | 3,102,371 | 2,216,395 |
| | **6,622,150** | 3,606,515 |

**(Currency: Turkish Lira (TL))**

## 20. Financial expenses

| | **2013** | 2012 |
|---|---|---|
| Losses from exchange differences (-) | **2,976,486** | 605,980 |
| Factoring commission expenses (-) | **1,338,266** | 456,529 |
| Interest expenses (-) | **15,807** | 1,273,550 |
| | **4,330,559** | 2,336,059 |

**(Currency: Turkish Lira (TL))**

## 21. Tax assets and liabilities

| | **2013** | 2012 |
|---|---|---|
| Corporate income tax for the current period | **(3,804,231)** | (2,643,651) |
| Deferred tax (income)/expense | **173,842** | 102,740 |
| | **(3,630,389)** | (2,540,911) |

In Turkey, the corporate income tax rate is 20% Corporate income tax rate is applied to the net corporation profit calculated by adding non-deductable expenses to the corporation's commercial earnings and deducting exemptions and discounts in tax laws.

Transfer pricing is regulated by Article 13 entitled "Disguised Profit Distribution Through Transfer Pricing" of the Corporate Income Tax Law, and detailed explanations on the subject are given in "General Communiqué on Disguised Profit Distribution Through Transfer Pricing".

Pursuant to the said arrangements, if goods or services are purchased or sold with related parties at prices that do not comply with the arm’s length principle, the related profit is considered to have been distributed in a disguised manner through transfer pricing, and such profit distributions are not accepted as tax deductible for corporate income tax purposes.

According to the Corporate Income Tax Law, financial losses shown on the statement may be deducted from the corporate tax base for a period not exceeding 5 years. Statements and related accounting records can be reviewed by the tax office within five years, including transfer pricing from transactions with related parties, and tax calculations can be revised.

The Company calculates deferred tax assets and liabilities taking into account the effects of temporary differences arising as a result of different assessments of the balance sheet items between the financial statements prepared in accordance with the CMB Financial Reporting Standards and the statutory financial statements. Such temporary differences usually result from the recognition of income and expenses in different reporting periods according to CMB Financial Reporting Standards and Tax Laws.

**(Currency: Turkish Lira (TL))**

## 21. Tax assets and liabilities (contd)

### Deferred tax assets and liabilities

As of March 31, 2013 and December 31, 2012, the breakdown of the deferred tax liability calculated over temporary differences subject to deferred tax by using the prevailing tax rates is summarised below:

| | **Taxable temporary differences** | | **Deferred tax assets/(liabilities)** | | **Income statement and other comprehensive income** | |
|---|---|---|---|---|---|---|
| | **March 31, 2013** | December 31, 2012 | **March 31, 2013** | December 31, 2012 | **March 31, 2013** | December 31, 2012 |
| Tangible and intangible fixed assets | **4,299,867** | 4,890,782 | **(859,973)** | (978,156) | **118,183** | (261,508) |
| Provision for severance payments | **(1,574,160)** | (1,582,941) | **314,832** | 316,588 | **(1,756)** | 55,831 |
| Provision for vacation | **(374,916)** | (385,980) | **74,983** | 77,196 | **(2,213)** | 10,442 |
| Provision for inventories | **(1,172,507)** | (1,318,269) | **234,501** | 263,654 | **(29,153)** | 77,659 |
| Effect of inventory valuation adjustments | **(2,295,427)** | 2,221,450 | **459,085** | (444,290) | **903,375** | (649,437) |
| Provision for doubtful receivables | **(2,322,661)** | (2,504,861) | **464,532** | 500,972 | **(36,440)** | (12,349) |
| Effects of rediscount adjustments | **(485,953)** | (462,975) | **97,191** | 92,595 | **4,596** | 45,925 |
| Provision for warranty expenses | **(1,383,550)** | (4,117,166) | **276,710** | 823,433 | **(546,723)** | (208,813) |
| Interest accruals | **-** | - | **-** | - | **-** | 629,999 |
| Tangible fixed assets valuation fund | **41,443,300** | 41,443,301 | **(2,072,165)** | (2,072,165) | **-** | - |
| Provision for lawsuits | **(286,001)** | (286,001) | **57,200** | 57,200 | **-** | 57,200 |
| Other | **768,781** | (411,355) | **(153,756)** | 82,271 | **(236,027)** | 90,563 |
| **Deferred tax liabilities, net** | **36,616,773** | 37,485,985 | **(1,106,860)** | (1,280,702) | **173,842** | (164,488) |

**(Currency: Turkish Lira (TL))**

## 21. Tax assets and liabilities (continued)

For the periods ended March 31, 2013 and 2012, the reconciliation between the tax expense determined by applying the statutory tax rate to pre-tax profit and the total provision for tax in the accompanying statement of comprehensive income is as follows:

| | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| Profit before tax | **20,048,653** | 12,637,429 |
| Applicable corporate income tax rate is 20% | **(4,009,731)** | (2,527,486) |
| Effect of non-deductible expenses | **(967)** | (286) |
| Effect of other permanent differences | **380,309** | (13,140) |
| Tax expense | **(3,630,389)** | (2,540,911) |

## 22. Earnings per share (TL)

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

In Turkey, companies are entitled to increase their capital through the distribution of bonus shares to be covered from the revaluation surplus fund or accumulated profits. In the calculation of earnings per share, such increases are accepted as bonus issue. Dividend distributions added to capital are also considered in the same way. Therefore, when calculating the average number of shares, it is considered that such shares are in issue during the year. Thus, the weighted average number of the shares used to calculate the earnings per share has been determined taking into account retrospective effects.

| | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| The weighted average number of shares outstanding during the year (*) (1 TL each) | **115,000,000** | 105,739,726 |
| Net income for the period | **16,418,264** | 29,519,072 |
| Earnings per share (TL) | **0.1428** | 0.2792 |

(*) At the Board of Management's meeting held on December 4, 2012, the Company increased its capital from TL 105,000,000 to TL 115,000,000 through rights issues.

**(Currency: Turkish Lira (TL))**

## 23. Related party disclosures

The Company conducts various transactions with related parties during its operations. The details of outstanding balances with related parties are as follows:

### (a) Receivables/payables concerning related parties:

| | | | | | | **March 31, 2013** |
|---|---|---|---|---|---|---|
| | | | | **Receivables** | | **Payables** |
| | | **Short term** | | **Long term** | | **Short term** |
| **Balances with related parties** | **Trade** | **non-trade** | **Trade** | **non-trade** | **Trade** | **non-trade** |
| **Shareholders** | | | | | | |
| Ereğli Textile Tourism Industry Trade Inc. (1) | **-** | **8,459,241** | **-** | **-** | **-** | **-** |
| Other (1) (*) | **-** | **1,149,888** | **-** | **-** | **-** | **-** |
| **Other companies managed by the main shareholder** | | | | | | |
| Albil Central Services and Trade Inc. (2) | **-** | **-** | **-** | **-** | **170,316** | **-** |
| Albayrak Tourism Travel Construction Trade Inc. (2) (*) | **-** | **74,886,544** | **-** | **-** | **-** | **-** |
| Dolu Fuel Marketing Inc. (2) | **-** | **-** | **-** | **-** | **4,977** | **-** |
| Kademe Waste Technologies Industry Inc. (2) | **159,621** | | | | | |
| Tümosan Foundry Inc. | **-** | **-** | **-** | **-** | **345,433** | **-** |
| | **159,621** | **84,495,673** | | | **520,726** | |

| | | | | | | December 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | Receivables | | Payables |
| | | Short term | | Long term | | Short term |
| Balances with related parties | Trade | non-trade | Trade | non-trade | Trade | non-trade |
| Shareholders | | | | | | |
| Ereğli Textile Tourism Industry Trade Inc. (1) | - | 6,420,116 | - | - | - | - |
| Other (1) (*) | - | 1,093,714 | - | - | - | - |
| Other companies managed by the main shareholder | | | | | | |
| Albil Central Services and Trade Inc. (2) | - | - | - | - | 63,794 | - |
| Albayrak Tourism Travel Construction Trade Inc. (2) (*) | - | 71,228,199 | - | - | - | - |
| Albayrak Holding Inc. (2) | - | - | - | - | - | - |
| Dolu Fuel Marketing Inc. (2) | - | - | - | - | 4,983 | - |
| Güneş Albayrak Tourism Travel Industry and Trade Inc. (2) | - | - | - | - | - | - |
| Kademe Waste Technologies Industry Inc. (2) | 147,162 | - | - | - | - | - |
| Net Publishing Industry Trade Inc. (2) | - | - | - | - | - | - |
| Tümosan Foundry Inc. | 261,367 | - | - | - | - | - |
| | 408,529 | 78,742,029 | - | - | 68,777 | - |

(1) Shareholder
(2) Companies controlled by the ultimate partner (Albayrak Group)

(*) In the offering circular prepared on 22 November 2012 for the public offering of the Company, there is a provision regarding the Company's receivable of TL 82,425,792 as of September 30, 2012 from Albayrak Tourism Travel Construction Trade Inc., a related entity of the Company, stating that the amount remaining after deducting the amount to be used for purchases within the scope of "Daily Purchase Order Commitment" from the proceeds obtained from the public offering will be collected from the said company in cash within six months from the public offering. In accordance with the aforementioned provision, the amount of TL 15,764,808 remaining after the repurchases made within the scope of "Daily Purchase Order Commitment" was paid to the Company after its public offering on December 5, 2012. As of March 31, 2013, the Company's receivable from Albayrak Tourism Travel Construction Inc. is TL 74,886,544 and this amount is payable until June 5, 2013. An interest of TL 3,100,293 was accrued for the interim period ended March 31, 2013 at an interest rate of 17.50% per annum.

**(Currency: Turkish Lira (TL))**

## 23. Related party disclosures (continued)

As of March 31, 2013 and December 31, 2012, there is no guarantee obtained from and/or given to related parties.

### (b) Transactions made with related parties

**during the year: Service and other purchases**

| | 2013 | 2012 |
|---|---:|---:|
| Net Publishing Industry and Trade Inc. (d) | - | 75,000 |
| Yeşil Adamlar Waste Management Inc. (f) | - | - |
| Güneş Albayrak Tourism Travel Industry and Trade Inc. (f) | - | - |
| Albayrak Holding Inc. | - | - |
| Ereğli Textile Tourism Industry and Trade Inc.(f) | - | 480 |
| Albil Central Services and Trade Inc. (a) | 241,907 | 159,237 |
| Albayrak Tourism Travel Construction Trade Inc. (f) | - | - |
| Kademe Waste Technologies Industry Inc. | - | - |
| Tümosan Foundry Inc. | 1,911,504 | - |
| Reklam Piri Media Communication Inc. | - | - |
| | 2,153,411 | 234,717 |

(1) Albayrak Group controls the company.

(a) The Company receives data processing service from this company.
(b) The Company receives advertising service from this company.
(c) The Company purchases raw materials from this company.
(d) Other purchases

**Sales and other income**

| | **January 1 - March 31, 2013** | | | January 1 - March 31, 2012 | | |
|---|---:|---:|---:|---:|---:|---:|
| | **Interest** | **Rent** | **Other** | Interest | Rent | Other |
| Albayrak Tourism Travel Construction Trade Inc. (d) | **3,100,293** | **-** | **-** | - | 73,709 | - |
| Albayrak Foundation | **-** | **1,200** | **-** | - | - | - |
| Albayrak Tourism Travel Inc. (d) | **-** | **-** | **-** | - | - | - |
| Ereğli Textile Tourism Industry and Trade Inc. (d) | **343,769** | **16,463** | **-** | - | 16,823 | - |
| Güneş Albayrak Tourism Travel Industry and Trade (d) | **-** | **-** | **-** | - | - | - |
| Albil Central Services and Trade Inc. (a) | **-** | **-** | **-** | - | 17,460 | - |
| Kademe Waste Technologies Industry Inc. (d) | **-** | **36,120** | **7,194** | - | 31,800 | 311,811 |
| Tümosan Foundry Inc. (c) | | **36,120** | **151,156** | - | - | - |
| Varaka Paper Production Inc. (d) | **-** | **-** | **-** | - | - | 900 |
| Muzaffer Albayrak (d) | **-** | **-** | **-** | - | - | - |
| | **3,444,062** | **89,903** | **158,350** | - | 139,792 | 312,711 |

**Benefits provided to the top management**

As of March 31, 2013, the total amount of benefits and advantages provided for the top management is TL 168,411 (March 31, 2012 - TL 117,555).

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies

The Company's major financial instruments consist of bank loans, finance lease liabilities, factoring liabilities, cash and short-term deposits. The main purpose of the financial instruments is to finance the activities of the Company. The Company also has financial instruments such as trade receivables and payables which arise as a result of its activities.

The main risks which the Company's financial instruments generate are interest rate risk, foreign currency risk, credit risk and liquidity risk. The management's policies regarding the management of these risks are summarized below. The Company also takes into account the market-value risk of all its financial instruments.

### *Capital management*

The company aims to increase its profitability in capital management by using the debt and equity balance in the most efficient way on the one hand and trying to maintain the continuity of its activities on the other hand. The Company's capital structure consists of payables, cash and cash equivalents and equity items, which comprise issued capital, capital reserves and profit reserves, as disclosed in Note 16.

The Company's top management assesses the capital cost of the Company and the risk inherent in each capital class. Based on the assessments of the top management and of the Board of Management, the Company intends to keep the capital structure stable by acquiring new debt or repaying existing debt.

The Company monitors the capital using the debt/equity ratio. This ratio is calculated by dividing net debt by total equity. Net debt is calculated by deducting cash and cash equivalents from total debt (which comprises financial payables, trade and other payables and other short- and long-term liabilities as shown in the balance sheet).

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Total debt | **130,216,954** | 129,533,101 |
| Less: Cash and cash equivalents | **432,415** | 22,021,785 |
| Net debt | **129,784,539** | 107,511,316 |
| Total equity | **215,127,195** | 198,489,809 |
| **Debt equity balance** | **85,342,656** | 90,978,493 |
| **Net financial liability/equity ratio** | **60%** | 54% |

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

***Interest rate risk***

As of March 31, 2013 and December 31, 2012, the Company does not carry any interest rate risk since it has no variable interest rate loans.

***Foreign currency risk***

The Company is exposed principally to currency risk in respect of the euro and US dollar and this currency risk arises in general from trade receivables, trade payables and financial payables in the euro and US dollar.
In order to minimize this risk, the Company monitors its financial position, cash inflows/outflows with detailed cash-flow statements.

As of March 31, 2013 and December 31, 2012, the Company's net foreign-exchange position is as follows:

| On a total basis | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| A. Assets in foreign currency | **897,109** | 1,116,677 |
| B. Liabilities in foreign currency | **(14,919,048)** | (14,383,952) |
| Net foreign-exchange position (A + B) | **(14,021,939)** | (13,267,275) |

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

As of March 31, 2013 and December 31, 2012, the details of the Company's foreign-currency position are as follows:

| | | | | | | | | | March 31, 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | US dollar | TL Equivalent | Euro | TL equivalent | GBP | TL equivalent | CHF | TL equivalent | Total TL equivalent |
| Cash and cash equivalents | 130 | 236 | 17,265 | 40,035 | - | - | - | - | 40,271 |
| Trade receivables | 213,627 | 386,388 | 202,877 | 470,450 | - | - | - | - | 856,838 |
| Current assets | 213,757 | 386,624 | 220,142 | 510,485 | - | - | - | - | 897,109 |
| Total assets | 213,757 | 386,624 | 220,142 | 510,485 | - | - | - | - | 897,109 |
| Short-term financial payables and factoring payables | 3,586,295 | 6,486,532 | - | - | - | - | - | - | 6,486,532 |
| Trade payables | 224,179 | 405,472 | 3,461,573 | 8,027,044 | - | - | - | - | 8,432,514 |
| Short-term liabilities | 3,810,474 | 6,892,004 | 3,461,573 | 8,027,044 | - | - | - | - | 14,919,046 |
| Long-term financial payables | - | - | - | - | - | - | - | - | - |
| Long-term liabilities | - | - | - | - | - | - | - | - | - |
| Total liabilities | 3,810,474 | 6,892,004 | 3,461,573 | 8,027,044 | - | - | - | - | 14,919,046 |
| Net foreign-currency position | (3,596,717) | (6,505,380) | (3,241,431) | (7,516,559) | - | - | - | - | (14,021,937) |

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

| | US dollar | TL Equivalent | Euro | TL equivalent | GBP | TL equivalent | CHF | TL equivalent | December 31, 2012 Total TL equivalent |
|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 22,784 | 40,615 | 20,938 | 49,240 | - | - | - | - | 89,855 |
| Trade receivables | 269 ,345 | 480,134 | 232,465 | 546,689 | - | - | - | - | 1,026,823 |
| Current assets | 292,129 | 520,749 | 253,403 | 595,929 | - | - | - | - | 1,116,678 |
| Total assets | 292,129 | 520,749 | 253,403 | 595,929 | - | - | - | - | 1,116,678 |
| Short-term financial payables and factoring payables | 5,373,471 | 9,578,749 | - | - | - | - | - | - | 9,578,749 |
| Trade payables | 59,666 | 106,363 | 2,041,669 | 4,801,396 | - | - | - | - | 4,907,759 |
| Short-term liabilities | 5,433,137 | 9,685,112 | 2,041,669 | 4,801,396 | - | - | - | - | 14,486,508 |
| Long-term financial payables | (57,531) | (102,555) | - | - | - | - | - | - | (102,555) |
| Long-term liabilities | (57,531) | (102,555) | - | - | - | - | - | - | (102,555) |
| Total liabilities | 5,375,606 | 9,582,557 | 2,041,669 | 4,801,396 | - | - | - | - | 14,383,953 |
| Net foreign-currency position | (5,083,477) | (9,061,808) | (1,788,266) | (4,205,467) | - | - | - | - | (13,267,275) |

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

In the profit/loss segment of the foreign currency sensitivity statement, it is presented how the statement of comprehensive income will be affected if the TL gains/loses 10% against the following foreign currencies as of March 31, 2013 and December 31, 2012. When analyzing, it is assumed that all other variables, especially the interest rates, remain constant.

The Company's exchange rate sensitivity analysis statement as of March 31, 2013 and December 31, 2012 is as follows:

| | | | **March 31, 2013** |
|---|---|---|---|
| | | | **Profit/(loss)** |
| | | **Appreciation of the foreign currency** | **Depreciation of the foreign currency** |
| | *If the US dollar appreciates/depreciates* 10% against the Turkish lira | | |
| 1- | Income/(loss) arising from US dollar net asset/(liability) | **(650,538)** | **650,538** |
| 2- | Hedged amount from US dollar risk (-) | **-** | **-** |
| | Net effect of the US dollar | **(650,538)** | **650,538** |
| | *If the euro* appreciates/depreciates 10% against the Turkish lira | | |
| 3- | Income/(loss) arising from euro net asset/(liability) | **(751,656)** | **751,656** |
| 4- | 4- Hedged amount from euro risk (-) | **-** | **-** |
| | Net effect of the euro | **(751,656)** | **751,656** |
| | **Total net effect** | **(1,402,194)** | **1,402,194** |

| | | | March 31, 2012 |
|---|---|---|---|
| | | | Profit/(loss) |
| | | Appreciation of the Foreign Currency | Depreciation of the Foreign Currency |
| | *If the US dollar appreciates/depreciates* 10% against the Turkish lira | | |
| 1- | Income/(loss) arising from US dollar net asset/(liability) | (906,181) | 906,181 |
| 2- | Hedged amount from US dollar risk (-) | - | - |
| | Net effect of the US dollar | | |
| | *If the euro* appreciates/depreciates 10% against the Turkish lira | | |
| 3- | Income/(loss) arising from euro net asset/(liability) | (420,547) | 420,547 |
| 4- | 4- Hedged amount from euro risk (-) | - | - |
| | Net effect of the euro | (420,547) | 420,547 |
| | Total net effect | (1,326,728) | 1,326,728 |

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

### *Credit risk*

Credit risk is defined as the risk that the Company could incur a loss as a result of one of the parties of the financial instrument not fulfilling its contractual obligation. The Company seeks to mitigate credit risk by performing transactions only with creditworthy parties and, where possible, by obtaining sufficient guarantees. The credit risks to which the Company is exposed and the credit ratings of its customers are monitored continuously. The credit risk is controlled through the limits set for the customers and reviewed and approved by the Company's management.

Trade receivables include a large number of customers. Credit evaluations are made continuously based on the balances of the customers' trade receivables.

| As of March 31, 2013 | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | | |
| | Related party | Other party | Related party | Other party | Other current assets | Deposits in banks |
| **The maximum exposure to credit risk at the reporting date (A+B+C+D+E) (1)** | **159,621** | **74,101,831** | **84,495,673** | - | - | **421,772** |
| - The portion of maximum risk secured by guarantee, etc. (2) | - | **55,120,850** | - | - | - | - |
| **A. Net book value of financial assets that are neither past due nor impaired** | **159,621** | **40,028,161** | **84,495,673** | - | - | **421,772** |
| **B. Book value of financial assets that would otherwise be considered past due or impaired whose terms have been renegotiated** | - | - | - | - | - | - |
| **C. Net book value of assets that are past due but not impaired** | - | **34,073,671** | - | - | - | - |
| - The portion secured by guarantee, etc. | - | - | - | - | - | - |
| **D. Net book value of impaired assets** | | | | | | - |
| - Past due (gross book value) | - | **2,689,427** | - | - | - | - |
| - Impairment (-) | - | **(2,689,427)** | - | - | - | - |
| - The portion of net value secured by guarantee, etc. | - | - | - | - | - | - |
| - Not past due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - The portion of net value secured by guarantee, etc. | - | - | - | - | - | - |
| **E. Off-balance sheet items with credit risk** | | | | | | |

(1) In determining the amount, the guarantees received, factors that increase the credit reliability are not considered.
(2) Guarantees consist of collateral bonds, guarantee cheques and mortgages received from the customers.

**(Currency: Turkish Lira (TL))**

## 24. Financial risk management and policies (continued)

| As of December 31, 2012 | Receivables | | | | | |
|---|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | | |
| | Related party | Other party | Related party | Other party | Other Current Assets | Deposits in banks |
| The maximum exposure to credit risk at the reporting date (A+B+C+D+E) (1) | 408,529 | 54,467,137 | 78,742,029 | | | 22,015,786 |
| - The portion of maximum risk secured by guarantee, etc. (2) | - | 45,486,850 | - | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 408,529 | 53,260,504 | 78,742,029 | | | 22,015,786 |
| B. Book value of financial assets that would otherwise be considered past due or impaired whose terms have been renegotiated | - | - | - | - | - | - |
| C. Net book value of assets that are past due but not impaired | | 1,206,633 | | | | |
| - The portion secured by guarantee, etc. | - | - | - | - | - | - |
| D. Net book value of impaired assets | - | - | - | - | - | - |
| - Past due (gross book value) | - | 2,504,861 | - | - | - | - |
| - Impairment (-) | - | (2,504,861) | - | - | - | - |
| - The portion of net value secured by guarantee, etc. | - | - | - | - | - | - |
| - Not past due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - The portion of net value secured by guarantee, etc. | - | - | - | - | - | - |
| E. Off-balance sheet items with credit risk | - | - | - | - | - | - |

(1) In determining the amount, the guarantees received, factors that increase the credit reliability are not considered.
(2) Guarantees consist of collateral bonds, guarantee cheques and mortgages received from the customers.

The maturity structure of trade receivables that are past due but not impaired is as follows:

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| 1-30 days overdue | **32,275,089** | - |
| 1-3 month overdue | **1,128,882** | - |
| 3-6 months overdue | **164,371** | 34,425 |
| 6 months-5 years overdue | **505,328** | 1,172,208 |
| | **34,073,670** | 1,206,633 |

### *Liquidity risk*

Liquidity risk is the risk that the Company is not able to obtain its net funding requirements. Liquidity risk is managed through cash inflows and outflows that are balanced within credit limits that are predetermined with credit institutions.

The breakdown of financial liabilities according to their maturities is shown taking into account the period from balance sheet date to maturity date.

(Currency: Turkish Lira (TL))

## 24. Financial risk management and policies (continued)

The following statement presents the position of the Company's financial liabilities as of March 31, 2013 and December 31, 2012 according to the maturities of undiscounted contractual payments.

| **March 31, 2013** | **Book value** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Having no fixed term** | **Total** |
|---|---|---|---|---|---|---|
| **Financial payables** | **49,190,787** | **27,894,456** | **11,042,103** | **618,184** | **-** | **39,554,743** |
| **Trade payables** | **53,839,719** | **54,705,611** | **-** | **-** | **-** | **54,705,611** |
| **Payables to related parties** | **68,777** | **520,726** | **-** | **-** | **-** | **520,726** |
| **Other short-term liabilities** | **10,942,635** | **10,942,635** | **-** | **-** | **-** | **10,942,635** |
| **Total** | **114,041,918** | **94,063,428** | **11,042,103** | **618,184** | **-** | **105,723,715** |

| December 31, 2012 | Book value | Less than 3 months | 3 to 12 months | 1 to 5 years | Having no fixed term | Total |
|---|---|---|---|---|---|---|
| Financial payables | 49,190,787 | 32,596,629 | 15,840,738 | 1,797,539 | - | 50,234,906 |
| Trade payables | 53,839,719 | 54,192,811 | - | - | - | 54,192,811 |
| Payables to related parties | 68,777 | 68,777 | - | - | - | 68,777 |
| Other short-term liabilities | 10,942,635 | 10,942,635 | - | - | - | 10,942,635 |
| Total | 114,041,918 | 97,800,852 | 15,840,738 | 1,797,539 | - | 115,439,129 |

## 25. Financial instruments (Fair value disclosures and disclosures related to hedge accounting)

### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties in an arm's-length transaction, other than a forced sale or liquidation.

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

The following methods and assumptions were used to estimate the fair value of financial instruments for which fair value could be determined:

### *Financial assets*

It is accepted that the fair value of the foreign-currency-based balances translated with the year-end exchange rates approximates their carrying amounts. Cash and cash equivalents are shown at their fair values. Trade receivables and receivable from related parties are recorded at their discounted values and it is assumed that their fair values approximate their carrying amounts.

### *Financial liabilities*

Trade payables, payables to related parties, financial payables and other monetary liabilities are estimated to approximate their fair values at their discounted carrying amounts and it is accepted that the fair values of the foreign-exchange-based balances translated with the year-end exchange rates approximate their carrying amounts.

## 26. Events after the balance sheet date

None.