

**Producing for the  
world for 40 years!**



# 1970s

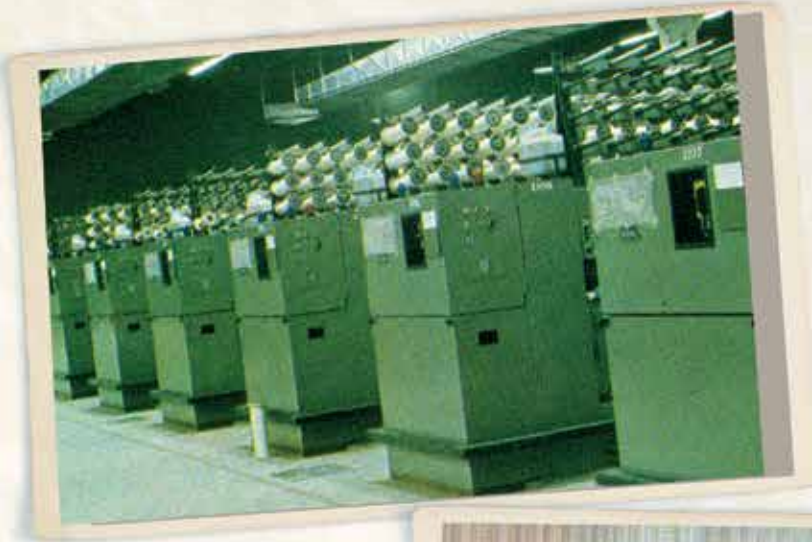


**1973**  
*Kordsa Tire Cord Fabric Plant in Izmit*



**1976**  
*First exports to Yugoslavia*

# 1980s



**1982**  
*Expanding with "Kordsa 2" line  
investment in Tire Cord Fabric*



**1984**  
*Expanding with "Kordsa 3"  
line investment in  
Tire Cord Fabric*



**1987**  
*Dusa, Sabancı - DuPont  
Nylon Yarn Plant*



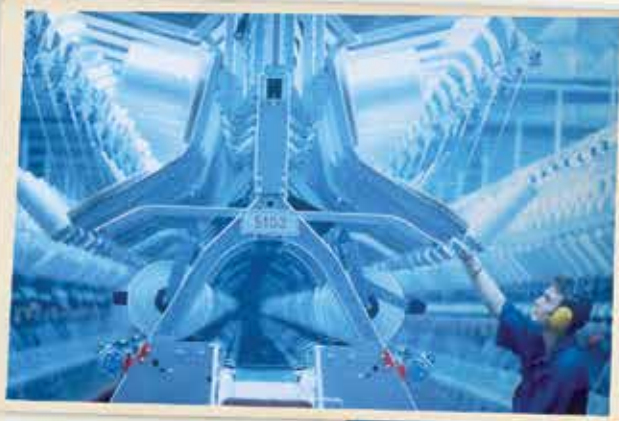
# 1990s



**1990**  
*Initiating "Quality Culture" and  
Implementing Total Quality  
Management*



**1993**  
*The World's First Textiles Company to obtain  
ISO 9001 Certificate*



**1996**  
*Tüsiad-Kalder  
Quality Award*

**1998**  
*Investing in South  
America*



**1999**  
*Merger of Dusa Yarn Plant and  
Kordsa Fabric Plant*

# 2000s

**2000**  
*Investing in North America*



**2001**  
*Dusa International LLC.*



**2005**  
*Kordsa International*  
*Merging with Sakosa and*  
*the Acquisition of Cobafi*

**2006**  
*Kordsa Global*  
*Expanding in Asia; Indonesia, Thailand, China*



**2008**  
*Opening of the Global Technology Center*

## **INTRODUCTION**

- 2 Developments in 2012
- 8 Hacı Ömer Sabancı Holding
- 10 Global Footprint of Kordsa Global
- 12 Kordsa Global's Strategy House
- 14 Manufacturing Process at Kordsa Global

## **MANAGEMENT**

- 16 Message of the Chairman
- 18 Board of Directors
- 20 Message of the President and CEO
- 22 Senior Management

## **2012 ACTIVITIES**

- 24 Financial Activities
- 26 World Market and Kordsa Global's Activities in 2012
- 30 Products
- 32 Marketing
- 36 Research and Development

## **SUSTAINABILITY**

- 38 Human Resources
- 42 Occupational Health and Safety
- 44 Environmental Practices
- 45 Code of Business Ethics

## **CORPORATE GOVERNANCE**

- 46 Corporate Governance Principles Compliance Report
- 59 Audit Committee Members and Operating Principles
- 60 Agenda of the General Meeting
- 61 Profit Distribution Proposal
- 62 Commitment Report

## **FINANCIAL STATEMENTS**

- 63 Consolidated Financial Statements and Independent Audit Report
- 158 2012 Legal Audit Report of the Audit Board

## **CONTACT INFORMATION**

10 production plants in nine countries across five continents...

4000 employees, a multicultural workforce...

Global leadership in the Nylon 6.6 industrial yarn market with 34% market share...

Its technology, present in the tires of one out of every three passenger vehicles, and in one out of every two airplane tires...

40 years filled with pride and accomplishments.

**We continue to add value to the economy and life with our global accomplishments, which are long-lasting just like our products.**





## Developments in 2012

In 2012, Kordsa Global registered a total turnover of US\$ 832 million in the regions it operates.

### A TURNOVER OF US\$ 832 MILLION IN 2012

Kordsa Global, one of the world's most important suppliers of tire reinforcement materials, registered a turnover of US\$ 832 million in 2012, from its operations in North America, South America, Europe-Middle East-Africa and Asia-Pacific regions.



### GROUNDBREAKING CEREMONY FOR THE ADDITIONAL CAPACITY BUILDING AT THE IZMIT PLANT

The groundbreaking ceremony for the additional building, which will provide a new capacity of 6 kilotons, was held at Kordsa Global Izmit plant in May.

This new building, which is significant for the Company in terms of maintaining global market leadership and meeting market demands, is expected to be commissioned in 2013.





### MEDIA LAUNCH OF CAPMAX™

Investing more and more in R&D in order to develop high-tech and eco-friendly products, Kordsa Global launched its new product Capmax™ in June 2012. Capmax™ is used in the production of passenger vehicle tires, and creates added value for both manufacturers and end users by offering maximum productivity and saving. Capmax™ also contributes economically and ecologically in the areas where it is used. Maximizing efficiency in the production of passenger vehicle tires, this product eliminates the need for coating the Nylon belts in tires with rubber, thanks to an innovative chemical process.

### MODERNIZATION INVESTMENT AT THE EGYPT PLANT

Kordsa Global opened the new dipping unit at the Egypt plant with a ceremony held in December 2012. The dipping unit, equipped with new machinery, is expected to serve as the final stage in the production of Polyester Tire Cord Fabric. Thus, the competitive advantage of Polyester Fabric as a product will increase in the European market.



# Kordsa Global was among the four finalists in the “Large Scale Company-Process” category at the 10<sup>th</sup> Technology Awards.

## **KORDSA GLOBAL WAS THE MOST AWARDED GROUP COMPANY AT THE 2011 GOLDEN COLLAR AWARDS**

The Golden Collar Awards for the year 2011 were distributed at a special ceremony held at Sabancı Center on May 16, 2012.

Being nominated in all categories, Kordsa Global competed with nine finalist projects, both corporate and individual, and teams in a total of six categories, and left the awards ceremony with 2 grand prize awards and 2 honorable mentions.



## **KORDSA GLOBAL BECAME A FINALIST IN THE 10<sup>TH</sup> TECHNOLOGY AWARDS ORGANIZED WITH THE COLLABORATION OF TÜBİTAK (THE SCIENTIFIC AND TECHNOLOGICAL RESEARCH COUNCIL OF TURKEY), TTGV (TECHNOLOGY DEVELOPMENT FOUNDATION OF TURKEY), AND TÜSİAD (TURKISH INDUSTRY AND BUSINESS ASSOCIATION)**

Competing with 64 other contestants, Kordsa Global was among the four finalists in the “Large Scale Company-Process” category at the 10<sup>th</sup> Technology Awards, announced on May 17. Competing in the Process category, the Company was selected as a finalist with its R&D project titled, “Developing a Finishing Process and Preparing Stable Nano Bath by Using Cavitation Methods to Improve Cord-Rubber Adhesion”.





**GROUNDBREAKING CEREMONY HELD IN DECEMBER FOR POLYESTER YARN AND TIRE CORD FABRIC UNITS OF INDO KORDSA.**

Customers from the Asia Pacific region, local authorities from Jakarta, Bogor and Citeureup, executive guests, and Company employees attended the groundbreaking ceremony held on December 6, for the additional production units of Polyester Yarn and Tire Cord Fabric at Indo Kordsa.



**KORDSA GLOBAL, RANKED SECOND IN TURKISH EXPORTS OF TEXTILES AND TEXTILE RAW MATERIALS.**

“2011 Export Champions Awards” were distributed at a ceremony organized by Turkish Exporters Assembly in May 2012, in Ankara.

As a result of the evaluations carried out per industry, Kordsa Global ranked second in the “Textiles and Textile Raw Materials” category, with US\$ 318 million in exports.



# Kordsa Global Won the Grand Prize in Sectoral Performance Evaluation, in the “Large Scale Enterprise” Category.

## **KORDSA GLOBAL WON THE GRAND PRIZE IN SECTORAL PERFORMANCE EVALUATION, IN THE “LARGE SCALE ENTERPRISE” CATEGORY.**

Within the scope of the “Sectoral Performance Evaluation of Industrial Enterprises” organization, which aims to reward the successful industrial enterprises in Eastern Marmara Region, and is led by Kocaeli Chamber of Industry, an awards ceremony was held in the categories of SMEs and Large Scale Enterprises, operating in various sectors. Kordsa Global won the Grand Prize in sectoral performance evaluation, in the “Large Scale Enterprise” category.



## **KORDSA GLOBAL BECAME THE LONG TERM GLOBAL SUPPLIER OF MICHELIN AIRPLANE TIRES.**

Kordsa Global signed a strategic supplier agreement with Michelin. With this agreement between these two companies, both of which are market leaders in their respective areas, Kordsa Global became the global supplier of Michelin, the global leader in aviation tires, for a period of 10 years. Hence, Kordsa Global secured the supply of raw materials in the aviation tires sector, a very crucial industry, until the year 2023. With this agreement signed with Michelin, Kordsa Global's technical expertise and reliability were once again proved on a global scale.





# With its powerful joint ventures, Sabancı Group is an important power contributing to the Turkish economy.

**Sabancı Holding is in charge of setting the vision and the strategies of the Group and increasing the value provided to its shareholders through the synergy generated within the Group. The Holding also coordinates the finance, strategy, business development, and human resources functions of the Group.**

Hacı Ömer Sabancı Holding A.Ş. is the parent company of the Sabancı Group, Turkey's leading industrial and financial conglomerate. The Sabancı Group operates in Turkey's fastest-growing sectors, including financial services, energy, cement, retail, and industry. The Sabancı Group companies are all market leaders in their respective sectors. Besides Sabancı Holding, 11 affiliates of the Holding are also listed on Istanbul Stock Exchange (ISE).

The Sabancı Group companies currently operate in 18 countries and market their products in various regions of Europe, Middle East, Asia, North Africa, and North and South America. With its extensive know-how in Turkey, strong market reputation, brand image and powerful joint ventures, Sabancı Holding has experienced remarkable growth in its core businesses, and has become an important power contributing to the growth of the Turkish economy. Sabancı Holding's multinational business partners include such prominent companies as Ageas, Aviva, Bridgestone, Carrefour, Citigroup, Dia, Heidelberg Cement, International Paper, Philip Morris, and Verbund.

Sabancı Holding is in charge of setting the vision and the strategies of the Group and increasing the value provided to its shareholders through the synergy generated within the Group. The Holding also coordinates the finance, strategy, business development, and human resources functions of the Group.

In 2012, Sabancı Group's consolidated sales amounted to TL 26.1 billion (US\$ 14.6 billion), and its operating income before amortization (EBITDA) stood at TL 5.1 billion (US\$ 2.8 billion).

The Sabancı Family is collectively Sabancı Holding's major shareholder controlling 60.6% of the share capital. Sabancı Holding shares are traded on the Istanbul Stock Exchange with a free float of 39.4%, the highest public float rate on the ISE. Depository receipts are quoted on the SEAQ International and Portal.



### CONSOLIDATED SALES

In 2012, Sabancı Group's consolidated sales amounted to TL 26.1 billion (US\$ 14.6 billion).





“The Sabancı Group companies are all market leaders in their respective sectors.”

# Global Footprint of Kordsa Global

Kordsa  
Global's global  
effectiveness  
continued with full  
force in 2012.



**NORTH AMERICA  
ANNUAL TURNOVER**



**SOUTH AMERICA  
ANNUAL TURNOVER**



326  
US\$ MILLION

EUROPE-MIDDLE EAST-AFRICA  
ANNUAL TURNOVER

171  
US\$ MILLION

ASIA-PACIFIC  
ANNUAL TURNOVER

**TURKEY**

Istanbul Headquarters,  
İzmit R&D Center, İzmit  
Plant

**Products**

**NY6.6, PET, SEC, TCF**

**CHINA**

KQNE Shanghai, China Sales  
and Marketing Office

**THAILAND**

Thai Indo Kordsa Co. Ltd.  
Ayutthaya

**Products**

**TCF**

**EGYP**

Nile-Kordsa Cairo

**Products**

**TCF**

**INDONESIA**

PT Indo-Kordsa Tbk.Jakarta

**Products**

**NY6.6, PET, TCF**



## Kordsa Global's Strategy House

Kordsa Global acts in accordance with human resources development, and adheres to its vision of sustainable growth.

### VISION

Agile Kordsa Global in high value businesses for sustainable growth

### STRATEGIC INITIATIVES

#### OPERATIONAL EXCELLENCE

Competitive cost  
Lean and agile Kordsa Global  
Agile and entrepreneur teams

#### HIGH VALUE BUSINESS AREAS

New products for "Green Performing" tires  
Product and service quality leadership

#### GROWTH

Profitable growth in tire industry  
New businesses beyond tire

### PILLARS

#### SYSTEMS

Enabling continuous improvement and business excellence

#### VALUES

SHE (Safety, Health, Environment), integrity, customer focused, open minded, global cooperation and collaboration, results driven

#### RESOURCES

Employee development aligned with global strategy

Producing the world's-cord fabric  
for the last 40 years!



As Kordsa Global, we sustain our steady  
growth with a turnover of US\$ 832 million.

# Manufacturing Process at Kordsa Global



**RAW MATERIALS**



**YARN**

**Areas of Usage**

Cord fabrics, cordage, automotive textiles, fishnets, single end cords, industrial fabrics



**TWISTING**

+

**WEAVING**

+

**DIPPING**

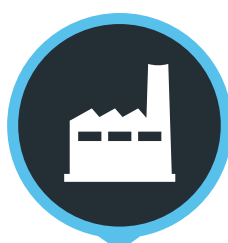


## **CORD FABRIC**

Kordsa Global offers specific cord fabric types tailored for aircraft, truck, bus and race car tire manufacturers.

### **Areas of Usage**

Air suspension systems, automotive tires



## **INDUSTRIAL FABRIC**

Kordsa Global manufactures three types of industrial fabrics: monofilament chafer, multifilament chafer and bulked chafer fabrics.

### **Areas of Usage**

Automotive tires



## **SINGLE END CORD**

A cap ply mainly used in high performance tires.

### **Areas of Usage**

Automotive tires, V belts, hoses





Kordsa Global's İzmit Plant is the Company's largest and the best integrated production facility.

## Message of the Chairman

# In 2012 Kordsa Global continued to invest in its facilities in Asia Pacific region, which has become the production center of the world.

Dear Shareholders,

Due to the recession in Europe, 2012 was a difficult year for the tire reinforcement industry, just like all other industries. As the economic growth in the world and in Turkey slowed down, it led to a fiercer competition.

In order to better manage these changing conditions, we had to challenge our business processes and teams towards functioning in a leaner and more agile manner, as a prerequisite for competition. Creating new market alternatives against this decelerated growth became the utmost priority.

Despite the recession, the instability in the markets, and increasing competition, Kordsa Global achieved significant developments.

Kordsa Global experienced a difficult year especially due to the 14% drop in tire sales in the Europe region, where the Company earns a significant portion of its revenue. On the other hand, Kordsa Global also made important progress by launching new products, by maintaining operational stability in the South American region, and also by reopening the flood-stricken Thai plant.

In 2012 Kordsa Global continued to invest in its facilities in the Asia Pacific region, which has become the

production center of the world. In addition to the two new production lines at its Indonesia plant, Kordsa Global realized the groundbreaking ceremony in December for its new cord fabric and polyester fabric production lines. With this new capacity, which will be commissioned in 2014, Kordsa Global will further increase its market share and competitive advantage in the Asia Pacific region.

Kordsa Global continues to lead its sector with new products and sustainable practices. The media launch and the commercial activities of our new product, Capmax™, a breakthrough product in its sector, were successfully carried out during the year. Additionally, our product won a first prize awarded by the Istanbul Chamber of Industry.

In 2013 we expect that global markets will be more positive, yet still cautious compared to 2012, and will continue to be instable. In today's global economy, in which instability is no longer an exception but a rule, Kordsa Global's priority is to increase its market share and profitability in new products and new markets by maintaining its existing market share.

On behalf of our Board of Directors, I would like to express my gratitude to our employees who are constantly working to increase the added

value and the competitive edge of Kordsa Global in all its operations through their selfless efforts, to our shareholders for their unwavering support, and to our customers and all stakeholders for the trust they have invested in our Company.

Respectfully yours,



**MEHMET NURETTİN PEKARUN**  
Chairman



Kordsa Global continues to lead its sector with new products and sustainable practices. The media launch and the commercial activities of our new product, Capmax™, a breakthrough product in its sector, were successfully carried out during the year. Additionally, our product won a first prize awarded by the Istanbul Chamber of Industry.



# Board of Directors

## **MEHMET NURETTİN PEKARUN** (01) Chairman

A graduate of Boğaziçi University, Industrial Engineering Department, Mehmet Nurettin Pekarun received his Master's degree in Finance and Strategy from Purdue University (USA). He began his professional career in 1993 at General Electric, and he subsequently went on to work for GE Healthcare from 1996 to 1999 as Director of Finance for various regions. Mr. Pekarun was Managing Director for GE Lighting Turkey from 1999 to 2000, and served as Director of Business Development Unit and Managing Director of Medical Accessories Unit at GE Healthcare between 2000 and 2005. From March 1, 2006 to September 30, 2010, Mr. Pekarun was the President and CEO of Kordsa Global. Mr. Pekarun has been serving as the President of Sabancı Holding Industry Group since September 2010.

## **MUSTAFA NEDİM BOZFAKIOĞLU** (02) Vice Chairman

Mustafa Nedim Bozfkioğlu is a graduate of Istanbul University, Department of Economics. After serving in various positions within the Sabancı Group of Companies, he was appointed Director of Budgeting, Accounting and Consolidation Department at Sabancı Holding. Mr. Bozfkioğlu currently holds the Secretary General position at Sabancı Holding, and is the Managing Director of Tursa, AEO and Exsa Plc.; in addition, he serves as Board Member in a range of Sabancı Group companies.

## **BÜLENT BOZDOĞAN** (03) Board Member

Bülent Bozdoğan graduated from Middle East Technical University, Department of Business Administration. During his professional career spanning 30 years, he has worked in auditing, finance, purchasing, and planning departments at PwC, Unilever, Brisa, Kordsa Global and Sabancı Holding's various domestic and international companies. For the past year, Mr. Bozdoğan has served as President of Audit at Sabancı Holding

A.Ş. He is also a Board Member and Secretary General for the Institute of Internal Auditing - Turkey.

## **SEYFETTİN ATA KÖSEOĞLU** (04) Board Member

After graduating from Boğaziçi University, Department of Mechanical Engineering, Seyfettin Ata Köseoğlu completed his post graduate degree at Lehigh University, Department of Electrical Engineering, and received an MBA degree from Boston University. Mr. Köseoğlu began his banking career at İktisat Bank, and later worked at Finansbank from the time of its founding until 1994 as Assistant General Manager. From 1994 to 1999, he worked at Bear Stearns and at Société Générale as Managing Director. Between 2000 and 2005, Mr. Köseoğlu worked in London/Istanbul for Credit Suisse First Boston Bank as Managing Director/CEO. He joined BNP Paribas/TEB Group in 2006 and later served as Chairman of the Board and CEO at TEB Investment. Mr. Köseoğlu has been a Board Member at Kordsa Global since August 16, 2011.

## **NERİMAN ÜLSEVER** (05) Board Member

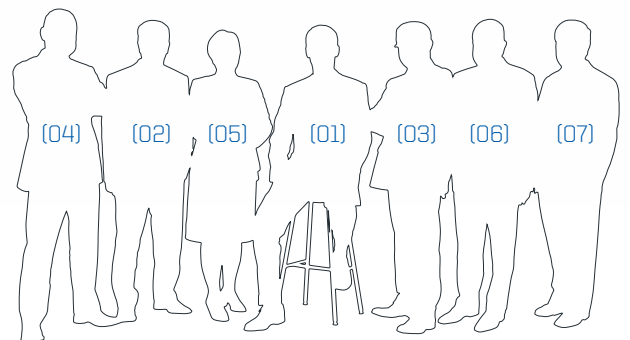
Neriman Ülsever graduated from Boğaziçi University, Department of Business Management and Operational Research. She began her professional career in 1973 at Turkish Airlines, and later assumed various roles at Anadolu Bankası A.Ş., Emlak Bankası A.Ş., Group Sanfa and Impexbank, respectively. Starting from 1995, Ms. Ülsever was the Managing Partner at her own company, IKE Ltd., and specialized in human resources consultancy and training. From 1999 to 2010, she worked as HR Director at Indesit Company. Ms. Ülsever has served as a Board Member at Indesit Turkey since 1996, and she was appointed as Indesit Turkey's Chairperson of the Board on January 1, 2011. On May 16, 2011, Ms. Ülsever was appointed as President of Human Resources Department at Sabancı Holding. She fulfills both roles simultaneously.

## **ATIL SARYAL** (06) Independent Board Member

Born in 1938 in Ankara, Atıl Saryal completed his elementary and high school education in Ankara, and later received his engineering degree from the University of Texas. On his return to Turkey, he first began working in the banking industry, and then joined Sabancı Group. He served as General Manager at Adana Sasa and Marsa, and he was the President of Adana Chamber of Industry for 8 years. He was also Board Member at Philsa, Exsa, and Plassa. Mr. Saryal was later appointed as the President of Food and Retail Group, and served as Chairman of Kraftsa, Danonesa, Diasa, Carrefoursa, Marsa, and Sapeksa. In 2002 Mr. Saryal retired from his duties as Group President, and in 2004 from his duties as Chairman and Board Member. He also quit his Board Membership at TÜSİAD (Turkish Industry and Business Association). Mr. Saryal currently serves as Independent Board Member at Kordsa Global, and also as Board Member and consultant at Akçansa, Olmuksa, and Carrefoursa.

## **HÜSNÜ ERTUĞRUL ERGÖZ** (07) Independent Board Member

Hüsnü Ertuğrul Ergöz graduated from Robert College, Department of Chemistry in 1963. He received his Master's degree from Middle East Technical University (METU) in 1965, and his PhD degree from Florida State University in 1970. Between 1972 and 1976, Mr. Ergöz was a professor at METU, Department of Chemistry. He began his professional career as Technical Studies and Projects Specialist at Kordsa, and later assumed various roles within Sabancı Holding and its companies, such as Brisa. Mr. Ergöz retired from his latest position as General Secretary of Sabancı Holding in 2003. After his retirement, Mr. Ergöz served as Board Member at Pressan A.Ş., and he currently carries out studies on "Institutionalization of Family Businesses".



## Message of the President and CEO

# In 2013 Kordsa Global continues to take steps toward becoming a more agile and entrepreneurial company.

**We are proud to have initiated Lean Production at our plant in Turkey, as an extension of our Agile Kordsa Global vision. This project is very important for us in terms of being a pilot initiative and also being implemented at our largest plant.**

Esteemed Shareholders,

In 2012, the debt crisis in Europe further deepened, leading to an increased negative impact on consumers. The tire demand in Europe decreased by 14% in 2012, and the decline in consumption specifically affected developing economies. The growth rate of all developing countries, mainly being China and India, slowed down. In this respect, the term 'soft landing' marked the year 2012.

This dramatic contraction in the automotive and tire markets in Europe, where Kordsa Global is strongest and makes more than one third of its total sales, led us to make serious changes in our initial sales plans. Despite this fact, our Company's consolidated sales totaled US\$ 832 million in 2012.

Additionally, the decline in consumer demand and spending across the world, took competition to a whole new level, and caused a strong pressure on sales prices, especially in developing markets.

Despite all these adverse developments in the market, Kordsa Global successfully managed the instability in the market, and maintained its profitability in 2012.

Our Company achieved many firsts and remarkable accomplishments in 2012.

We are proud to have initiated Lean Production at our plant in Turkey, as an extension of our Agile Kordsa Global vision. This project is very important for us in terms of being a pilot initiative and also being implemented at our largest plant.

Additionally, we started receiving the initial orders for our new product Capmax™, "the first of its kind in the sector", and which we launched in June 2012.

Thanks to our employees' dedicated efforts, our Thai Indo Kordsa plant, which was severely damaged in 2011 due to the flood disaster in Thailand, was reopened in record time after renewing the whole machine park.



### INVESTMENT IN INDONESIA

Our investment for growth, totaling US\$ 100 million, is very significant in terms of solidifying our market share in the rapidly growing Asia Pacific region, maintaining our sector leadership, and displaying our trust in the sector.





In December 2012, we also held the groundbreaking ceremony for the additional capacity at our Indonesia plant, which we have been expanding with new investments over the last 2 years. This initiative is the first stage of our growth plans for the next three years. Our investment for growth, totaling US\$ 100 million, is very significant in terms of solidifying our market share in the rapidly growing Asia Pacific region, maintaining our sector leadership, and displaying our trust in the sector.

In 2013 we observe that the uncertainty and the instability in the global economy is still continuing, and especially the crisis in the Europe region presents a high risk of further deepening. On the other hand, I would

like to mention that besides all these adverse developments, there are also positive developments in the sector, and these encourage us.

Besides, we accept the fact that uncertainty and instability have become a part of business life, therefore, at Kordsa Global we continue to take steps toward becoming a more agile and entrepreneurial company in 2013, which is a significant and an exciting year for Kordsa Global as we will be celebrating our 40<sup>th</sup> anniversary.

With its 40 years of expertise and know-how in the tire reinforcement industry, I am confident that Kordsa Global will, together with its shareholders, achieve many accomplishments in 2013 as well.

I would like to take this opportunity to express my heartfelt thanks to our shareholders for the confidence they have shown in our Company, as well as the support they have provided to us in the course of our development; to our employees for their selfless efforts and their valuable contributions; to our customers for their trust in us and for always being with us in our quest to improve ourselves and achieve the best possible results; and to our suppliers and all of our stakeholders, on behalf of Kordsa Global Executive Team.

Sincerely yours,

**HAKAN TİFTİK**  
President and CEO

# Senior Management

## **SELİM HAKAN TİFTİK (01)**

**President and CEO**

Hakan Tiftik graduated from Boğaziçi University, Department of Mechanical Engineering in 1992, and received his MBA degree from Koç University in 1997. He joined Kordsa Global in 1994 and after assuming several roles within the Company, served as Director of Logistics and Purchasing between 1999 and 2001. From 2001 to 2005, Mr. Tiftik worked as Managing Director of Interkordsa Germany and Interkordsa America as well as Global Business Director for Single End Cord. In 2005, he was appointed as Director of Trade for the Europe-Middle East-Africa Region. In 2007, Mr. Tiftik was appointed as Kordsa Global Managing Director for Turkey, where he later assumed the position of Vice President of Trade from 2009 to 2010. Mr. Tiftik has been serving as President and CEO of Kordsa Global since October 2010.

## **FİKRET CÖMERT (02)**

**CFO (Chief Financial Officer)**

Fikret Cömert received his BSc degree from Middle East Technical University, Department of Business Administration, and his MSc degree from Marmara University (English) Accounting and Finance Department in 1993 and 1999, respectively. After joining Sabancı Holding's Budgeting, Accounting and Consolidation Department in 1993, Mr. Cömert worked in various positions such as Budgeting and Financial Systems Specialist, Budgeting and Consolidation Manager, and Investor Relations Manager. He was the Institutional Investor Relations Director between 2006 and 2009, and Budgeting, Consolidation and Investor Relations Director from 2009 to 2011. Mr. Cömert has been serving as CFO of Kordsa Global since 2011.

## **CENK ALPER (03)**

**Vice President, Operations**

Cenk Alper graduated from Middle East Technical University, Department of Mechanical Engineering in 1991, and later received his MSc degree from the same department in 1994. Mr. Alper then completed his Executive MBA at Sabancı University in 2002. He began his professional career in 1996 as a Process Engineer at Beksa, and subsequently undertook various managerial positions within technology and production departments. He started to work at the Bekaert Technology Centre (Belgium) as a Project Manager in 2002, and later was appointed as Plant Manager in Tennessee/USA, overseeing the factories in North and South America. Mr. Alper later returned to Belgium as Product Development Director of the Technology Centre. He then joined Kordsa Global in 2007 as Global Technology Director, and later served as Vice President in charge of Technology and Market Development from 2009 to 2010. Mr. Alper has been serving as Vice President in charge of Operations since October 2010.

## **HAKAN ÖKER (04)**

**Vice President, Human Resources (HR) and Information Technologies (IT)**

Hakan Öker graduated from Hacettepe University, Department of Sociology in 1986. He began his professional career in 1988 as a Personnel Specialist at Beksa, Bekaert- Sabancı Çelik Kord (Steel Cord) Plc., and subsequently assumed various roles within the same company between 1988 and 1998. Mr. Öker pursued his career as Human Resources Director at Kordsa Turkey, Quality and Information Systems Joint Services Director and then Projects Director within the Tire, Tire Reinforcement Materials and Automotive Group. In January 2007, he was appointed as Global Director of Human Resources. Mr. Öker has been serving as Vice President in charge of Human Resources and Information Technologies since January 2009.

## **BÜLENT ARASLI (05)**

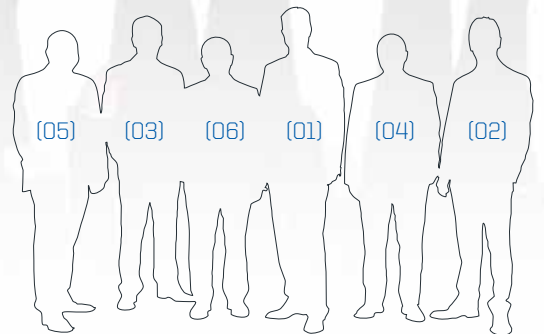
**Vice President, Sales**

Bülent Araslı graduated from Middle East Technical University, Department of Business Administration in 1982, and later completed the MBA program at Boğaziçi University. He began his professional career in 1982 as an Export Specialist at Çukurova Foreign Trade Co., and went on to work for M.A.N. Bus and Truck Co. Mr. Araslı joined Kordsa Global in 1986 as an Export Specialist. After assuming several roles in Marketing and Sales, he was appointed as Marketing and Sales Director for Europe-Middle East-Africa Region in 2000. Between 2005 and 2009, he worked as Global Business Director for Single End Cord, General Manager of Interkordsa GmbH, and General Manager of Kordsa GmbH in Germany, respectively. From 2009 to 2010, he was the Director of Global Accounts and Market Intelligence. Mr. Araslı has been serving as Vice President in charge of Sales since October 2010.

## **CEVDET ALEMDAR (06)**

**Vice President, Technology and Market Development**

Cevdet Alemdar graduated from Boğaziçi University, Department of Industrial Engineering in 1992, and received his MBA degree from Sabancı University in 2000. He began his professional career in 1991 as Director of Trade at Ender Foreign Trade Co. Mr. Alemdar then served as Product Manager, and Director of Wire Products, respectively, at Beksa between 1993 and 2002. Subsequently, he served as Director of Trade at Sakosa from 2002 to 2005. Mr. Alemdar joined Kordsa Global in 2005 as Managing Director for Kordsa Brazil, and Sales and Marketing Director for South America Region. From 2007 to 2009, he worked as Managing Director for Thai Indo Kordsa and KQNE, and also as Sales and Marketing Director for Asia-Pacific Region. Between 2009 and 2010, Mr. Alemdar served as Asia-Pacific Sales Director, Global Business Development Director, and KQNE Operations Director. Mr. Alemdar has been serving as Vice President in charge of Technology and Market Development since October 2010.





## Financial Activities

# In 2012 Kordsa Global continued to make investments in line with its long-term strategic plans.

With its high quality products, global reach, diversified product range, and superior services, Kordsa Global is one of the most preferred suppliers in the reinforcement materials market.

The Company's sales revenues totaled US\$ 832 million in 2012, down 5% compared to the previous year due to the economic recession in Europe.

Kordsa Global continued its strategies of effective capacity utilization and cost management, both of which had gained importance after the stagnation in the global economy in 2009. As a result, the Company achieved the operational success, which was expected after the restructuring in South America.

The cost advantage, achieved through the diversification of raw materials and coupled with the average devaluation of the currencies in developing countries, had a positive impact on the Company's costs. Despite the recession, Kordsa Global managed to maintain its profitability at a certain level thanks to such improvements and effective risk management.

The effects of fluctuations in foreign exchange rates are reflected in the Company's financial results. Although a lower Euro had a negative impact on profitability, the Company minimized this impact by the effective use of financial instruments in 2012.

### INVESTMENTS

Kordsa Global, continues to make investments in line with its long-term strategic plans. While the investments in the Asia-Pacific region specifically stood out, the Company's investments in 2012 totaled US\$ 75 million. New product development efforts, which endeavor to promote healthy growth of the Company, continue under the coordination of the R&D Center.

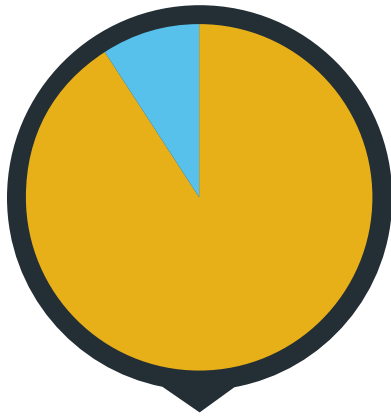
### STRONG BALANCE SHEET

Kordsa Global effectively manages the debt-to-capital ratio in its balance sheet in order to offer its shareholders the highest level of benefits, in line with current conditions. The improvement in the operating capital as well as in cash flow obtained from activities, are more obvious compared to the previous year. The Company's determination to reach its goals as well as the financial discipline implemented, resulted in a strong balance sheet.



### FLUCTUATIONS IN FOREIGN EXCHANGE RATES

Although a lower Euro had a negative impact on profitability, the Company minimized this impact by the effective use of financial instruments in 2012.



**KORDSA GLOBAL'S  
SHAREHOLDER STRUCTURE**

Hacı Ömer Sabancı Holding A.Ş.

91.1%

**Public Float**

8.9%

**FINANCIAL RATIOS**

**2012**

**2011**

**Liquidity Ratios (%)**

Current Ratio	1.68	1.86
Acid-Test Ratio	0.70	0.72
Cash Ratio	0.22	0.15
Debt-to-Capital Ratio (%)	35	34

**Profitability Ratios (%)**

Return on Equity	6.3	9.9
Gross Profit Margin	12.9	15.8
Operational Profit Margin	7.1	8.2
Net Profit Margin	4.3	6.0
EBITDA Margin	11.1	11.6

# Even though the growth in global economy slowed down in 2012, Kordsa Global continued to make new investments.

Despite the fact that 2012 was a difficult year, Kordsa Global commissioned the new production line at its Indonesia plant, and also realized the groundbreaking ceremony for additional capacity.

### MAIN DEVELOPMENTS IN THE SECTOR AND THEIR IMPACT ON KORDSA GLOBAL

While the growth in global economy slowed down in 2012, financial crisis in Europe further deepened, hence automobile sales hit 10-year low, leading to a decline in tire sales. Other than Western Europe, demand for original equipment tires was strong overall, and yet demand for renewal tires remained low. Besides, due to the crisis in Europe, low-mileage driving and the use of second-hand tires started to prevail. This deceleration in sectoral growth became once again evident when leading tire manufacturers announced that they would close down their factories, mainly in Europe, and lay off employees. On the other hand, China tried to cope with several problems related to the economy, inflation and interest rates, and its growth slowed down, but tire production grew by 8.2%. In North America, economic uncertainty continued, but tire demand somehow increased.

The expected decrease in the prices of petroleum-based raw materials did not occur, and investments in the developing special tires segment gained speed. In June 2012, European tire labeling regulation, which also covers environment and safety related issues, took effect, but this practice is not expected to affect textiles used in tires.



### INVESTMENTS IN THE SPECIAL TIRES SEGMENT

Leading tire manufacturers speeded up their investments in the developing special tires segment.



## REGIONAL DEVELOPMENTS

### Europe, Middle East and Africa

In 2012 Kordsa Global recorded a consolidated turnover of US\$ 326 million in Europe, Middle East and Africa region, from the production at its facilities in Turkey, Germany and Egypt.

2012 was a difficult year for the overall automotive industry, but specifically for Europe, Middle East and Africa region. Especially in the second half of the year, Euro Zone related concerns caused a drop in consumer trust, and slowed down the economic growth in the region. In 2012, Euro area GDP growth rate dropped 0.4%, compared to 2011, and light vehicle sales in Western Europe significantly decreased, 9% down from the previous year. Central and Eastern Europe countries displayed more stability due to their competitive nature. The countries most negatively affected by the recession were Southern Europe countries, such as Italy, France, Spain, Portugal, and Greece. Under these circumstances, Europe's leading automobile and tire manufacturers announced their restructuring plans, aiming to balance supply with market demand.

As a result of these market conditions, tire manufacturers in the Asia-Pacific region were confronted with an excess capacity problem. Due to the economic slowdown, these manufacturers began to export their excess products to other regions for extremely competitive prices, hence the sales pressure on the tire manufacturers in Europe, Middle East and Africa region, further increased.

The light vehicle market in Turkey contracted by 10%, compared to 2011; and passenger vehicles segment shrank by 6.2%, and light commercial vehicles segment shrank by 18%.

### North America

Serving the region with two facilities, one in Chattanooga - Tennessee for Nylon 6.6 yarn, and the other in Laurel Hill - North Carolina for cord fabric production, Kordsa Global registered a turnover of US\$ 218 million in North America region in 2012.

Located in one of the most important cord fabric manufacturing centers, Kordsa Global's North American production activities are shaped by the needs of both domestic and international customers. Sales to automotive tire manufacturers account for 80% of the Company's total production in the region.

Sales made to manufacturers of conveyor belts, minor mechanic rubber products such as automotive and industrial hoses and belts, and rope and cordage, account for the Company's other sales in the North American region.

During 2012, total light vehicle sales in North America exceeded 17 million units, up 12.5% over the previous year. Additionally, light vehicle production increased by 17%, compared to 2011, reaching 15 million units. A similar growth is expected in 2013 as well.

Investment plans announced by global and regional tire manufacturers in 2012 as well as their capacity expansion efforts were a confirmation of their confidence in the North American market for the coming years.



# Kordsa Global serves the Asia-Pacific region with its cord fabric plants located in Indonesia and Thailand.

## South America

Kordsa Global produces Nylon 6.6 yarn in Argentina, cord fabric and polyester HMLS yarn in Brazil, making the Company the biggest supplier in Latin America. In 2012 Kordsa Global registered a turnover of US\$ 117 million in the region. After consolidating cord fabric assets and expertise with the facilities in Brazil, the Company achieved significant progress in 2012 in terms of operational excellence and product quality.

While achieving an overall growth in their economies, South American countries displayed a varying performance individually. The cord fabric market, which serves the bus and truck tire markets was positively affected by this growth trend because radial tires have become a more preferred choice after the developments in the infrastructure. As Brazil becomes the fifth largest economy in the world, the demand for transportation is keeping pace with this economic growth projection. The country grew by a mere 0.9% in 2012, and it is expected to achieve a modest growth of 2-3% in 2013.

The Brazilian government is expected to intervene in the market in order to stabilize inflation, to protect domestic production, and to offer incentives to attract foreign investors. With the upcoming World Cup and Summer Olympics, Brazil and many other South American countries are expected to raise their GDP growth.

## Asia-Pacific Region

Kordsa Global serves the region with its cord fabric plants located in Indonesia and Thailand. The plant in Indonesia also manufactures significant volumes of Nylon 6.6 and polyester HMLS yarns. In 2012, Kordsa Global registered a turnover of US\$ 171 million in the Asia-Pacific region.

Due to the negative impact of the European debt crisis on the growth performance of Asian countries, mainly being China, Japan and Korea, 2012 wasn't a favorable year for the tire market. The slowdown especially observed in the Chinese market, led to a serious supply excess, and many domestic manufacturers of tire cord fabric diverted to exports as a result of the curb on domestic market growth.

As recent research reports on automobile tires point out, Asia-Pacific is the world's second largest regional market, and also the fastest growing. The region has achieved a compound annual growth rate of 6.2% in the recent years. CAGR rate in off road tires, the fastest growing segment, was 5.6%. Passenger vehicle tires, on the other hand, are by far the largest product segment.

Producing the  
world's single end cord.



As Kordsa Global we contribute to the  
economy and our country with a  
net profit of TL 64 million.

## Products

Operating 10 production plants in nine different countries, Kordsa Global provides global scale services to its customers.



Kordsa Global is the leading worldwide supplier of high denier Nylon 6.6, polyester (HMLS and Technical) industrial yarn, cord fabric, single end cord and industrial fabric products. The Company's primary customers include manufacturers of automotive tire and mechanical rubber goods.

Operating 10 production plants in nine different countries, Kordsa Global provides global scale services to its customers with its products that are used primarily in a variety of applications including automotive tires, air suspension systems, hoses, conveyor belts, V-belts, ropes and cordage.

### YARN

Kordsa Global is the world leader in the Nylon 6.6 yarn market and one of the leading players in the polyester yarn market. Kordsa Global's yarn portfolio includes:

- High-resistance, high denier industrial Nylon 6.6 yarn (940 dtex and above); and
- High-resistance industrial HMLS and high denier technical polyester yarn (1100 dtex and above).

Principal applications using yarn include cord fabric, industrial fabrics, chafer fabrics, single end cord, safety belts, ropes and cordage.



### **CORD FABRIC**

At its hi-tech facilities, Kordsa Global processes Nylon 6,6, polyester (HMLS and Technical), rayon and aramid yarns, used in the production of cord fabric which gives tires strength and flexibility.



### **SINGLE END CORD**

Single end cord production uses a selection of synthetic yarns, such as nylon, polyester, aramid, rayon, and yarns containing natural fibers. Pursuant to customer specifications, these yarns are spun in single ply or multi ply, and later finished to provide the required adhesion and physical properties.



### **INDUSTRIAL FABRICS**

One of the leading suppliers of first class quality conveyor belts, Kordsa Global also manufactures a wide variety of industrial fabrics, including chafer fabrics, to meet a wide range of customer requirements.

Developing its production in line with regional requirements, Kordsa Global produces three types of chafer fabrics: monofilament chafer fabrics, multifilament chafer fabrics and bulked chafer fabrics.



# In 2012 Kordsa Global continued to offer its sector products which are advantageous in terms of total costs, productivity, and environmental sustainability.

**The Capmax™ product, which offers tire manufacturers various advantages in terms of total costs, productivity, and environmental sustainability, was successfully launched in 2012.**

During 2012, Kordsa Global implemented a variety of market development initiatives in order to raise the brand awareness and market shares of its new products, and also developed new products to meet the requirements of the market, within the scope of its research and development efforts.

In order to capture the "voice of the customer", Kordsa Global conducted several successful technical workshops with the R&D units of tire manufacturers, located in the Asia-Pacific region and present a high growth potential. Subsequently, the Company conducted comprehensive technical workshops also in 2012 with the major tire manufacturers, who are the global leaders of the tire market with the highest market shares. These workshops provided significant input for shaping product development projects in line with customer needs.

Within the scope of market development efforts for Twixtra® and Monolix® products, which were launched during last year, the Company made significant progress in development, jointly carried out with the leading tire manufacturers. New cord designs were developed for various applications, and joint development efforts were initiated with selected customers.

The Capmax™ product, which offers tire manufacturers various advantages in terms of total costs, productivity, and environmental sustainability, was successfully launched in 2012. Capmax™ captured the attention of the market, and approximately twenty tire manufacturers commenced trial tests with this product. Its launch consisted of a press meeting, technical articles, and coverage in sectoral media. Another effective initiative was confirming the performance of this product in tires through tests jointly carried out by Kordsa Global in Europe.

Customer and application diversity was increased for Twixtra® branded hybrid tire cord fabrics and single end cord products. In this respect, while commercialization activities with large scale customers continued, outdoor phase was initiated in the projects carried out in developing countries. Additionally, new products were developed in other segments such as high performance speed tires, aircraft tires, and heavy duty truck tires. The Company will soon start trading with major tire manufacturers, with its Twixtra® product, of which the approval phase comprising comprehensive tests is still in progress.



### **EFFECTIVE COMMUNICATION ACTIVITIES**

Kordsa Global supports the marketing of its products in the digital media.



**With the purpose of raising brand awareness and acquiring new customers, the Company took part in important trade shows in Europe, China and America, and introduced its new products in the exhibition halls as well as at technical seminars.**

In line with its polyester differentiation strategy, Kordsa Global completed the major part of joint development activities for its new third-generation products, such as polyester yarn, heavy dtex polyester yarn, and high-resistant and adhesive polyester cord fabric, and thus commenced commercial sales.

Within the scope of new product launches, Kordsa Global carried out effective communication activities by creating individual web pages for its products on digital media as well as by placing ads in sectoral magazines published in Europe and Asia-Pacific regions.

With the purpose of raising brand awareness and acquiring new customers, the Company took part in important trade shows in Europe, China and America, and introduced its new products at the exhibition area as well as at technical seminars.

# Kordsa Global is the leader of NYLON 6.6 yarn market with a share of 34%.

In line with its polyester differentiation strategy, Kordsa Global completed the major part of joint development activities for its new third-generation products, such as polyester yarn, heavy dtex polyester yarn, and high-resistant and adhesive polyester cord fabric, and thus commenced commercial sales.



**2012 POLYESTER HMLS MARKET**

Kordsa Global

8%

Producer A

32%

Producer B

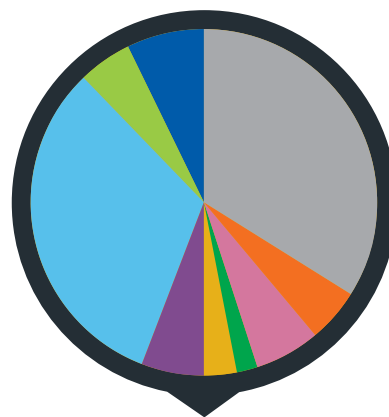
11%

Producer C

21%

Others

28%



**2012 NYLON 6.6 MARKET SHARES**

Kordsa Global

34%

Producer A

5%

Producer B

6%

Producer C

2%

Producer D

3%

Producer E

6%

Producer F

32%

Producer G

5%

Others

7%

Producing the world's  
industrial yarn.



With investments totaling US\$ 75 million in 2012,  
Kordsa Global continues to give trust to its  
customers, investors, and shareholders.



# Kordsa Global improved its technological capabilities by realizing a number of infrastructure investments.

**The concepts of “innovation” and “excellence” are key components of the corporate culture at Kordsa Global. The Company maintains global and local cooperation with the operations and technical units of its customers in order to better understand their needs and to remain capable of offering tailor-made solutions.**

With more than 40 years of sector-based experience, new products, processes and applications offered in scope of R&D activities, Kordsa Global stands out as a leading solutions partner of the tire reinforcement industry.

On April 24, 2009, Kordsa Global R&D Center obtained an “R&D Center License”, and the Company continues to focus on offering innovative reinforcement materials to the tire industry.

Kordsa Global pursues its R&D efforts with a research team consisting of 68 people, of which 10% hold Ph.D. and 30% hold MSc degrees from the most prominent universities in the world.

As one of the key solutions partners of the tire sector, Kordsa Global strives to offer better services to its customers and to increase its innovation capabilities. New infrastructure investments have helped the Company to significantly increase the technological capabilities of its R&D Center. In addition to the traditional domains of specialization including polymerization, yarn production, twisting, weaving, and dipping, the Company has added new areas of competence to its activities such as tire technologies, nanotechnology and new fiber synthesizing, finite element analysis,

dipping solutions, reinforcement analysis and equipment design.

Operating under the Technology and Market Development function, the Company’s R&D Center carries out its current activities on five different platforms:

- Technology Development Platform
- Research and Laboratories Platform
- Rubber Reinforcement Platform
- Engineering and Equipment Development Platform
- Intellectual Property and Projects Coordination Platform

### INNOVATIVE PROJECTS

The concepts of “innovation” and “excellence” are key components of the corporate culture at Kordsa Global. The Company maintains global and local cooperation with the operations and technical units of its customers in order to better understand their needs and to remain capable of offering tailor-made solutions.

In addition to its in-house research team, Kordsa Global executes R&D initiatives jointly with researchers from other countries. In support of its Open Innovation Strategy, Kordsa Global was involved in joint projects with research teams from the USA, China, the Netherlands, Japan and Germany throughout 2012;



### PATENT APPLICATIONS IN 2012

Kordsa Global filed 21 domestic and 4 international patent applications.



**The new products developed within the scope of 60 new projects in 2012, have now reached the marketing stage, and the newly developed processes and materials have been industrialized.**

the Company also partnered and collaborated with research institutes, universities and technology companies on a variety of projects. Some of these projects are funded as part of SANDEZ or Tübitak/TEYDEB projects. With its project related to cavitation process, Kordsa was selected as a finalist in the Large Scale Company-Process category at the 10<sup>th</sup> Technology Awards, organized by TÜBİTAK, TTGV and TÜSİAD.

Kordsa Global adopted a sustainable and profitable growth strategy to respond to customer needs while also creating added value for its clients. To that end, the Company completed the branding activities of its new products, Monolyx®, Twixtra® and Capmax™, developed by the Research & Development Center, and introduced them to the market. The Company has also completed the commercialization processes of its high dtex nylon and polyester products as well as high-adhesive polyester products.

To ensure the sustainability of its R&D efforts and to remain capable of offering products with high added value, Kordsa Global effectively manages all of the processes, starting from idea conception to the development of value creating products. Using this approach, the Company carried out a total of 60 projects during 2012, and the new products developed within the scope of these projects, have now reached the marketing stage. On the other hand newly developed processes and materials have been industrialized.

Additionally, Kordsa Global filed 21 domestic and 4 international patent applications in 2012, on products that originated from ongoing R&D projects. This high number of patent applications is a result of the increased protection on intellectual property rights, and marks the highest number of applications filed within a year since the establishment of Kordsa Global.

# Kordsa Global implements human resources practices in line with a global strategy.

Another important development in 2012 was when the Company became a finalist with its global practices in “Talent Management” and “Training and Development Management” categories, at the competition organized by PERYÖN, one of the most reputable institutions in Turkey.

### GLOBAL HUMAN RESOURCES

Kordsa Global sees its workforce, located in nine countries across the world, as the most vital component in achieving its strategic goals, and implements human resources practices in line with a global strategy. Global Human Resources is responsible for developing and implementing this global strategy. Global Human Resources carries out the duties related to recruitment and placement, compensation and benefits, performance management, organization and human resources reviews and succession plans, leadership and employee development, international appointments, organizational climate, and other strategic HR processes, in line with Kordsa Global's sustainability and business goals.

### GLOBAL HUMAN RESOURCES VISION

Global Human Resources' vision is to position the HR function as an important “business partner” of the Company's other functions, to provide services to internal customers at global standards, and to create a company that is an “employer of choice.”

### GLOBAL HUMAN RESOURCES MISSION

Global Human Resources' mission is to;

- to attract a talented workforce to the Company and to lead them in shaping the Company's future,
- to create a positive organizational climate,
- to foster empowerment and development of employees, and
- to develop, implement and support programs/processes that satisfy the shareholders.

### PRINCIPAL RESPONSIBILITIES OF GLOBAL HUMAN RESOURCES

Global Human Resources function is positioned as a “center of expertise.” Its principal contribution and the expectations from this function are kept at a strategic level. The implementation of human resources processes is mainly carried out by the related companies at local level.



### GLOBAL EMPLOYEE SURVEY

93% of the employees, a significant rate, participated in the “Global Employee Survey,” which aims to measure employee satisfaction and loyalty, and was conducted for the second time in 2012



Global HR is primarily responsible for:

- Developing and implementing HR policies, systems and processes, which support the Company's strategies and business needs;
- Developing and implementing plans at the global level to ensure organizational sustainability;
- Designing and managing structured development programs at different levels (e.g. young talent, mid-level management, senior management) in coordination with local and regional HR Teams to support corporate growth initiatives;
- Ensuring that high-caliber professionals are developed at all levels of the organization by creating different experience opportunities in line with the expectations of the Company and its employees.

In line with Global HR's vision, mission and strategies, Global Technical Development Program, Young Talent Development Program ("Generation Next"), Mid-Level Management Program (Leadership Fundamentals) also continued in 2012. The content of the e-learning platform, "KEEP", which can be accessed from anywhere in the world, was enriched with

training programs in English and local languages as well as with an in-class training module.

93% of the employees participated in the "Global Employee Survey," which aims to measure employee satisfaction and loyalty, and was conducted for the second time in 2012. In addition, the "Organization and Human Resources Review" process, and "Performance Management", which is administered by the Company's senior management, were conducted successfully.

As part of the employer brand management approach, the Company made improvements to recruitment-placement and orientation processes, and also began to use social media more actively and effectively. Global Recognition-Reward Program was revised under the concept of "All Stars", and as a result of the improved appraisal model, awards were distributed to employees.

In line with the "Sustainable Profitable Growth" initiative of the Industry Group, entrepreneurship was made a priority, and in order to foster the entrepreneurial capabilities of employees and managers, a new competency set was created. Additionally, the Company continued to provide qualified employees

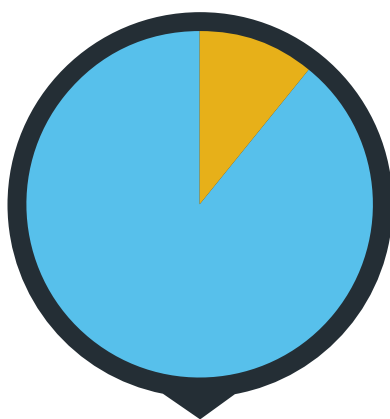
with international assignment opportunities to support their individual development as well as to improve the know-how at the Company's facilities.

Another important development in 2012 was when the Company became a finalist with its global practices in "Talent Management" and "Training and Development Management" categories, at the competition organized by PERYÖN (Human Resources Management Association of Turkey), one of the most reputable institutions in Turkey.

Global Human Resources continues its efforts to attract and retain a talented workforce to the Company. In this respect, one of the most important goals in 2013 will be to improve the organizational climate and employee loyalty by implementing various practices under the sponsorship of the Senior Management, with the supervision of operations and sales managers in all facilities, and under the coordination of local human resources teams. Another priority will be to establish the HR Information System, which will support the implementation of HR processes in an integrated manner.

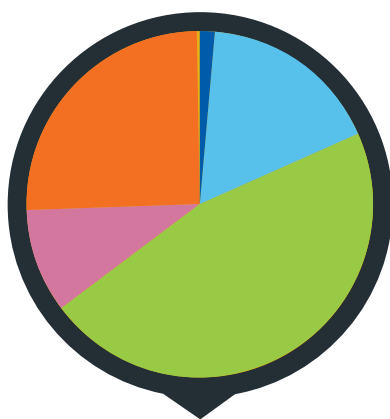


Kordsa Global continued to support employees' individual development as well as to improve the know-how at the Company's facilities.



**GENDER DISTRIBUTION OF EMPLOYEES**

Female	Male
11%	89%



**EDUCATION LEVELS OF WHITE COLLAR EMPLOYEES**

PhD	Graduate degree
1.4%	17%
Undergraduate degree	Associate degree
46.5%	9.7%
High school	Elementary school
25.2%	0.2%

Producing the world's industrial  
fabrics for the last 40 years.



We continue to be one of the world's most  
important suppliers of power transmission and  
conveyor belts, and industrial fabrics used in  
vehicle tires.

## Occupational Safety and Health

# Kordsa Global handles and manages all Occupational Safety and Health issues uniformly at all its facilities.

**Kordsa Global has developed long-term training programs to improve the technical know-how of employees as part of its OSH approach and these programs are currently underway.**

At Kordsa Global, occupational safety and health (OSH) is a way of life for all employees, and the Company gives priority to OSH practices. To this end, with the motto “all accidents are preventable” Kordsa Global aims for zero accidents on the job and the prevention of all occupational diseases.

Kordsa Global handles and manages all OSH issues uniformly at all its facilities. The Company complies with all safety and health related legal requirements and standards. In addition, Kordsa Global implements safety and health global best practices.

All occupational safety and health practices are audited by the Executive Management and updated in accordance with technological advances and new approaches; improvements are implemented across all the Company’s operations.

Kordsa Global continued to conduct Process Safety and Risk Management Audits (PSRM) in 2012. In addition, the Company issued a “Working at Heights” standard, and began to implement it at all facilities. Kordsa Global has also adopted “Permit to Work” standard and began to implement it in order to ensure that all controls and measures are carried out before undertaking risky work.

In order to spread the OSH culture across the organization, the Company organized a Prevention of Off-The-Job Accidents campaign.

Kordsa Global provides training to prevent unsafe behavior and has established a strong job safety culture across all its facilities. The Company has also launched a Behavior Focused Safety Program which includes e-learning modules to reinforce training in Process Safety and Risk Management issues.

The Company carried out “Fire Safety Assessment” and ergonomics improvement efforts within selected facilities; work is underway to identify areas in need of further improvement.

Kordsa Global has developed long-term training programs to improve the technical know-how of employees as part of its OSH approach, and these programs are currently underway.

Kordsa Global has developed its occupational safety and health culture in line with “all incidents are preventable” approach. The Company has adopted the OSH culture as a way of life.



### **BEHAVIOR FOCUSED SAFETY PROGRAM**

The Company has launched a Behavior Focused Safety Program which includes e-learning modules to reinforce training in Process Safety and Risk Management issues.



With the motto “all accidents are preventable”, Kordsa Global aims for zero accidents on the job and the prevention of all occupational diseases.

# Kordsa Global prioritizes combating emissions that pose the greatest potential risks for health or the environment.

**Kordsa Global strives to use coal, oil, natural gas, water, minerals and other natural resources efficiently, and manages Company assets in a way to protect the environment and natural habitats.**

Kordsa Global has developed its environmental policy in line with “zero environmental accidents” approach. The Company fully complies with all environmental related legal regulations and standards.

Kordsa Global conducts environmental impact studies for all its processes, and works to eliminate negative impacts through continuous improvement activities. All employees and subcontractors are required to comply with this policy which is included in their contracts.

Kordsa Global operates in line with the goal of zero waste production. To this end, the Company reuses or recycles materials to minimize the requirement for processing or disposal and to conserve natural resources. Waste is processed and disposed of in a safe and responsible manner.

Having set a goal of working toward “zero emissions”, the Company prioritizes combating those emissions that pose the greatest potential risks for health or the environment.

Kordsa Global strives to use coal, oil, natural gas, water, minerals and other natural resources efficiently, and manages Company assets in a way to protect the environment and natural habitats.

To enhance the technical know-how of employees in the area of environmental policies, the Company prepared and began to implement long-term training plans.



### **“ZERO ENVIRONMENTAL ACCIDENTS” APPROACH**

Kordsa Global has developed its environmental policy in line with “zero environmental accidents” approach.



## Code of Business Ethics

# Kordsa Global conducts all its activities and relationships both within and outside the Company as per business ethics rules.

Kordsa Global Code of Business Ethics, which have been adopted by the Company's Board of Directors, defines the way the Company conducts its business with integrity and in compliance with applicable laws and regulations. Code of Business Ethics also regulates the Company's relations with its customers, employees, shareholders, suppliers, business partners, competitors, the environment and the society. Kordsa Global conducts all its activities and relationships both within and outside the Company as per these rules.

The Company's Code of Business Ethics is a key component of its corporate identity, and demonstrates the importance the Company places on how and in what manner the strategic road map is used to achieve its goals.

Kordsa Global Code of Business Ethics is implemented in all Kordsa Global companies. In this respect, the rules are shared with the employees, shareholders and business partners through the Company's corporate website, and in the local languages of the nine countries the Company operates in. The Company organizes regular training programs to ensure that employees remain aware of the subject and are kept updated.

Kordsa Global has appointed an Ethics Compliance Officer to ensure that the Code of Business Ethics is duly implemented at all production facilities of the Company, and to further ensure and enhance the effectiveness of the Code of Business Ethics. The Company has also created specific e-mail address and phone lines for this purpose. The objective of the regular meetings organized by the Ethics Compliance Officers is to implement the Code of Business Ethics at all Kordsa Global companies in a uniform manner. In 2012 Ethics Compliance Officers met in Istanbul to review the local and global implementations of the Code of Business Ethics, and to determine areas in need of improvement for 2013.

Kordsa Global Code of Business Ethics was reviewed by the Board of Directors in 2009. The review introduced flexibility in the rules that banned second jobs and political activities.

In 2010, the Company started to share Kordsa Global Code of Business Ethics with blue collar employees; and relevant training programs continued throughout 2011 and 2012 as well. Completion of the Business Ethics training programs for all blue collar employees in the Company is scheduled for 2013.

Furthermore, during 2012 all white collar employees of the Company received refreshment training programs on Business Ethics Rules, and the employees signed the Business Ethics compliance form.

Kordsa Global is planning to launch the electronic Business Ethics training programs, which is currently being translated to local languages, for the use of all employees in 2012.

# Corporate Governance Principles Compliance Report

## 1. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE DECLARATION

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. complies with and implements the "Corporate Governance Principles" issued by the Capital Markets Board (CMB), during the fiscal year January 1-December 31, 2012.

In 2012 the Company has exercised due care for compliance with the below detailed Corporate Governance Principles, which are mandatory/ not mandatory, as included in CMB's "Communiqué on Determination and Application of Corporate Governance Principles" Serial: IV, No. 56, which was published in the Official Gazette of December 30, 2011, no. 28158; and in CMB's "Communiqué on the Amendments on the Communiqué on Determination and Application of Corporate Governance Principles" Serial: IV, No: 57, which was published in the Official Gazette dated February 11, 2012, no. 28201; and in the Appendix (Serial: IV, No: 63) of the former Communiqué (Serial: IV, No. 56), which took effect after being published in the Official Gazette on February 22, 2013, no. 28567.

Our Company adheres to the four principles of Corporate Governance: transparency, fairness, responsibility and accountability.

Accordingly and within the frame of Communiqué Serial: IV, No: 56;

- Independent Board Members were elected,
- Amendments made to the Articles of Association were approved at the Ordinary General Meeting of Shareholders, dated April 18, 2012. The information document was prepared in detail, and published on the Company's website three weeks prior to the General Meeting, for the information of shareholders and stakeholders.

The Company complied with the mandatory principles on matters such as disclosing the resumes of Board Member candidates, announcing independent board member candidates to the public, determining the remuneration policy and disclosing it to the public, disclosing information on related party transactions to the public, and the formation and structuring of Committees.

However, full compliance hasn't been achieved yet due to some difficulties experienced during the implementation of certain principles, due to ongoing debates about compliance with certain principles on the international platform as well as in Turkey, and also because of the inapplicability of some principles due to the structure of our Company and the market. Our Company is closely following all new developments, and working toward full compliance.

Our Company will take into consideration all developments and implementations in the legislation, and will carry out the necessary work for compliance with the Principles, in the coming period as well.

## SECTION I - SHAREHOLDERS

### 2. Shareholder Relations Unit

The Company has established an Investor Relations Unit, and its activities are carried out by Global Finance Manager, Volkan Özkan, under the coordination of CFO (Chief Financial Officer) Fikret Cömert. (Fikret CÖMERT left the Company on February 18, 2013)

Finance Manager Melek Küçük is in charge of this Unit. (Phone: +90 262 316 79 50, Fax: +90 262 316 79 56, e-mail: melek.kucuk@kordsaglobal.com). Mustafa Yayla works within the unit as officer in charge of shareholder relations. (Phone: +90 212 385 85 30, Extension: 28539, 28547, Direct line: +90 212 385 85 39, 385 85 47) (Fax: +90 212 282 54 00, +90 212 282 00 12, +90 212 281 00 27, e-mail: mustafa.yayla@kordsaglobal.com).

The Investor Relations Unit, is in charge of providing information to the shareholders and potential investors about the Company's operations, financial situation and strategies; however, excluding confidential information and trade secrets, and without causing any information inequality. It is also responsible for ensuring a two-way communication between the Company's managers and the shareholders.

The Investor Relations Unit is in charge of managing the relationship with the shareholders. As part of this duty, 100 phone calls were made with the intention of answering shareholder inquiries, during the 12-months in 2012. Furthermore, 25 shareholders were answered by e-mails, and 29 investors received information by visiting the Company headquarters in person.

### 3. Shareholders' Right to Information

Should any special event concerning shareholders occur, CMB (Capital Markets Board) and ISE (Istanbul Stock Exchange) are informed, and it is also announced on the Company's website, in a timely manner.

All information, excluding trade secrets, is shared with the shareholders, and shareholders are directly informed about the Company's strategies and activities.

During the 12-months in 2012, the Investors Relations Unit responded to a total of 154 inquiries via phone calls, e-mails and face-to-face meetings. Additionally, any information related to shareholders has been published on the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com), within the period as required by law.

During the 12-months in 2012, no information or explanations affecting shareholders' right to information have been published on the Company's website.

The appointment of a Special Auditor has not as yet been stipulated as an individual right in our Company's Articles of Association, and no such demand was received from the shareholders during 2012.

### 4. General Meetings

The Agenda of 2011 Ordinary General Meeting of Shareholders was determined with the Board of Directors' resolution, dated March 23, 2012, numbered 973. The agenda and General Meeting Information Document were announced to the public on [www.kap.gov.tr](http://www.kap.gov.tr) as well as on the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com), 21 days prior to the General Meeting.

The General Meeting was held on April 18, 2012, Wednesday, at 13:30, at the Company's headquarters: Sabancı Center, 4. Levent, Beşiktaş, Istanbul, at

### 2011 DONATIONS - DOMESTIC

Beneficiary	Amount TL
Sabancı University	3,905,000.00
Türk Eğitim Vakfı (Turkish Educational Foundation)	7,870.00
LÖSEV (The Foundation for Children with Leukemia)	750.00
Boğaziçi University Foundation	4,500.00
Altı Nokta Society for the Blind	1,000.00
Kocaeli University - Calorimeter device	877.54
Table Tennis Association, Kocaeli	350.00
Spastic Children's Association of Kocaeli	4,500.00
Van Earthquake Humanitarian Aid (Bank Account)	100,000.00
İzmit Scholarship (İZBURS)	12,000.00
Sustainable Development Agency	7,500.00
İTÜ (Istanbul Technical University) Alumni Association	300.00
Education Grant for Nida Küçük	150.00
ALTINYAKA	402.72
Rubber Association	200.00
<b>Total</b>	<b>4,045,400.26</b>

### 2011 DONATIONS - INTERNATIONAL

Beneficiary	Amount TL
Massachusetts Institute of Technology - MIT / USA	2,005,770.00
<b>Total amount of donations made in:</b>	<b>TL 6,051,170.26</b>

Hacı Ömer Sabancı Holding Conference Hall, and under the supervision of the Ministry Commissioner Kezban UDGU, who was assigned for this duty with a letter of Istanbul Governorship, Directorate of Science, Industry and Technology, dated April 17, 2012. No: 20689.

The meeting saw the participation of shareholders representing 91.2784% of the capital, and stakeholders. There was no media participation. The necessary quorum was reached in this meeting. Invitations to the meeting have been executed in accordance with the provisions of the Turkish Commercial Code, and the Company's Articles of Association. The resolutions

made at the General Meeting were announced to the public on [www.kap.gov.tr](http://www.kap.gov.tr).

Provided that an application was made to the Company's investor relations unit at least two days before the General Meeting, entry documentation for shareholders, whose shares are managed by financial intermediaries, got issued via investor General Meeting blockage forms, in order to ensure shareholder participation at the General Meeting.

# Corporate Governance Principles Compliance Report

The annual report, including the audited figures for 2011, was presented to shareholders at the Company's headquarters at least 15 days prior to the meeting.

Shareholders exercised their right to ask questions during the General Meeting; and the relevant answers were given.

Shareholders didn't make any agenda proposals at the General Meeting.

General Meeting proceedings have been opened to the review of shareholders at the Company's headquarters. The proceedings can also be accessed on [www.kap.gov.tr](http://www.kap.gov.tr) as well as on the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com).

Shareholders were informed in detail about the donations and aids made in 2012, and their beneficiaries, on a separate agenda item at the General Meeting.

The Company announces to the public any required documents related to the agenda items prior to the General Meeting, and complies with legal processes and legislation in all announcements. Within the scope of the General Meeting Agenda, the Annual Report, Financial Statements, Corporate Governance Compliance Report, Profit Distribution Proposal, Independent Auditor's Report, the Legal Audit Report, and the new and old versions of the amended Articles of Association, are made available for the inspection of shareholders at the Company's Headquarters and on the website, three weeks prior to the General Meeting. Additionally, a detailed explanation is included in the information document about each and every agenda item. Investors are also provided with other information regarding the General Meeting, as put forward by the Principles.

At the General Meetings, votes on the agenda items are taken by "show of hands", and open voting method is used.

Shareholders, whose shares are registered with the Central Registry Agency, will be able to attend the General Meeting in person or by proxy at the physical location of the meeting, or they may choose to attend by using the Electronic General Meeting system either themselves or by proxy.

Shareholders may authorize their representatives by either using the Electronic General Meeting System, or by a notarized proxy, or by notarized proxies coupled with their signature affidavits.

In order to attend the General Meeting, shareholders (real persons) must present their identity cards; legal entities must present authorization documents together with the identity cards of people who are entitled to represent the legal entity; representatives of real persons and legal entities must present their identity cards and certificates of representation; and representatives who are authorized via the Electronic General Meeting System must present their identity cards; and all attendants must sign the attendance list.

General Meetings are held at the Company's headquarters in accordance with the Articles of Association. However, as per the resolution of the Board of Directors, meetings can also be held at the Company's branches, agencies, or at the location of factories and industrial facilities.

Minutes of the meeting can be obtained from the website ([www.kordsaglobal.com](http://www.kordsaglobal.com)). Additionally, the minutes are made available at the Company's Headquarters, whenever demanded by shareholders.

## 5. Voting Rights and Minority Rights

The Company's Articles of Association do not grant any privileged voting rights. The Company is not affiliated with any other company involving reciprocal shareholding.

The Company respects the exercise of minority rights, pursuant to the Turkish Commercial Code and CMB regulations, and the Company did not receive any complaints or negative criticisms regarding this matter.

## 6. Dividend Distribution

There are no privileges in terms of contributing to the Company profit.

As per the Company's Board of Directors' resolution, number 816, dated March 14, 2006, the Company's dividend distribution policy has been defined as follows; and it was published on the Company's website and ISE (Istanbul Stock Exchange) KAP as a material event disclosure, on the same date. It was also included in the Company's "Corporate Governance Principles Compliance Report", and was shared with the shareholders at the 2005 Ordinary General Meeting, held on March 31, 2006, and at the 2006 Ordinary General Meeting, held on April 27, 2007.

The Company's Dividend Distribution Policy: "In accordance with Capital Markets Board legislation, other legal provisions, and the Company's Articles of Association, the Company shall annually distribute profit in cash to its shareholders equivalent to at least 50% of distributable profit".

The Board of Directors annually reviews the aforementioned policy with consideration to domestic and global financial conditions, the state of projects in the pipeline and available funds.

Dividend distribution proposal was included in the annual report as a separate section, and was presented to the shareholders prior to the General Meeting. Dividend distribution proposal and the annual report are also available on [www.kordsaglobal.com](http://www.kordsaglobal.com).

Articles 35, 36 and 41 of the Company's Articles of Association clearly define the means and timing of profit distribution. Having concluded annual dividend distribution within acceptable time limits set out by laws, the Company has not yet encountered any legal cases related to this issue.

The Company distributed a gross dividend of TL 75,935,819,23 in 2012.

## 7. Transfer of Shares

The Company's Articles of Association do not contain any provisions that restrict the transfer of shares.

Share transfer is carried out in accordance with the Turkish Commercial Code and CMB regulations.

## SECTION II - PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. Disclosure Policy

The Company adopts a disclosure policy compliant with CMB's Corporate Governance Principles.

The Company's Disclosure Policy was debated and approved at the Board of Directors' meeting, No: 897, dated May 4, 2009, in accordance with CMB's "Communiqué on Principles Regarding Public Disclosure of Material Events", Serial: VIII, No: 54, which was published in the Official Gazette on February 6, 2009. The Policy was announced to the public as a material event on the same date, on [www.kap.gov.tr](http://www.kap.gov.tr) and on the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com).

In compliance with CMB legislation and via the Istanbul Stock Exchange, the Company regularly makes timely public notifications in accordance with this policy including: independently audited previous half and end of year consolidated reports prepared in conformity with international financial reporting standards (IFRS), unaudited first and third quarter consolidated reports and special material events requiring public notifications. Public notifications are made via the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com).

Other than the mandatory notifications as required by the legislation, all other notifications concerning investors and which do not qualify as trade secrets, are announced to the real persons and legal entities in a timely, accurate, complete, and easily understandable manner, and in compliance with CMB's principles regarding the "Public Disclosure of Inside Information".

The Company's President and CEO, Mr. Selim Hakan Tiftik is in charge of the execution of the disclosure policy.

Making material event disclosures is the responsibility of the Company's Global Deputy Finance Manager. In principle, material event disclosures are made in Turkish. In 2012, Kordsa Global made 21 material event disclosures within the legal time limits, hence the Company didn't face any sanctions.

Information is announced to the public in a timely, accurate, complete, easily understandable, easily interpretable, and easily accessible manner on KAP (Public Disclosure Platform) and on the Company's website.

In order to protect confidential information, the Company has a list of "persons privy to inside information", and the employees on this list were asked to submit their statements

as to their understanding of the responsibilities about protecting and not abusing such information. The Company is meticulous about asking the same statements from the new people added to the list.

### 9. Company Website and Its Contents

The Company's corporate website address is [www.kordsaglobal.com](http://www.kordsaglobal.com).

The content of the website is prepared in Turkish and English, and contains the information required by CMB's Corporate Governance Principles, under the sections of "Company Profile, Products, Research and Development, Production Facilities, Investor Relations (Corporate, Annual Reports, Contact), Human Resources, and Press Room".

With regard to public disclosure, the Company actively uses its corporate website, [www.kordsaglobal.com](http://www.kordsaglobal.com), as recommended in CMB's Corporate Governance Principles. The information on Kordsa Global's website cannot be substituted for the notifications and material event disclosures, which are required by the provisions of CMB legislation. All public notifications made by Kordsa Global are also available on the website, which is structured and sectioned accordingly. The Company takes all the necessary measures to ensure the safety of its website. The website is prepared in Turkish and English, and its contents are created and designed in compliance with CMB's Corporate Governance Principles. Especially the announcement of the General Meetings, agenda items of the General Meetings and the related information document as well as all other information, documents and reports regarding the agenda items, and information about attending the General Meetings, are clearly included on the website. The Company continuously improves and updates its website.



# Corporate Governance Principles Compliance Report

The important information included on the website is outlined as follows:

- Detailed information on corporate identity
- Vision, mission, values and main strategies
- Members of the Board of Directors, and information about senior management
- Production facilities and product types
- Ethical values
- The Company's organization and ownership structure
- The Company's Articles of Association
- Trade registry information
- Financial information
- Annual reports
- Press releases
- Material Event Disclosures
- The date, agenda, and agenda items of the General Meeting
- Minutes and the attendance list of the General Meeting
- Sample proxy form
- Corporate Governance Practices and compliance report
- Disclosure Policy

## 10. Annual Report

The Company's annual report is prepared in such a way to include timely, complete and accurate information about the Company's activities, and in accordance with the regulations of the Ministry of Customs and Trade, CMB legislation, and CMB's Corporate Governance Principles. The annual report is then submitted to the Board of Directors for approval, and published on the Company's website ([www.kordsaglobal.com](http://www.kordsaglobal.com)) for the information of the general public.

On the monthly, quarterly and bi-annual reports of the Board of Directors as well as on the Annual Report, the Company includes all the information required by Corporate Governance Principles, and pursuant to CMB's "Communiqué on Determination and Application

of Corporate Governance Principles" Serial: IV, No. 56, which was published in the Official Gazette of December 30, 2011, no. 28158; and CMB's "Communiqué on the Amendments on the Communiqué on Determination and Application of Corporate Governance Principles" Serial: IV, No: 57, which was published in the Official Gazette dated February 11, 2012, no. 28201; and the Appendix (Serial: IV, No: 63) of the former Communiqué (Serial: IV, No. 56), which took effect after being published in the Official Gazette on February 22, 2013, no. 28567.

## SECTION III - STAKEHOLDERS

### 11. Informing the Stakeholders

Stakeholders are informed about the developments in the Company via public notifications made in accordance with applicable legislation. Public notifications are made by either press meetings or press releases. Additionally, the Company ensures that not only shareholders but also all stakeholders are informed by means of General Meetings, detailed information on the website, comprehensive annual report, press releases, and other practices carried out within the scope of the Company's disclosure policy.

Besides the information included in the financial statements and reports announced to the public in accordance with CMB legislation, the Company also provides verbal or written information (with the exception of information currently undeclared to the public) to its stakeholders, including employees, customers, distributors, syndicates, non-governmental organizations, the government, and potential investors, on issues of interest.

In 2012, Kordsa Global made 21 material event disclosures to ISE within the legal time limits, hence the Company didn't face any sanctions imposed by ISE or CMB.

Material event disclosures can be accessed on [www.kap.gov.tr](http://www.kap.gov.tr) and the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com), under the Investor Relations section.

Company employees are informed by way of meetings, seminars, training programs organized according to their areas of specialization and interest, and also via e-mails. Additionally, there is a company portal, on which employees can access all kinds of information and documents.

Employees can access all kinds of information and documents concerning themselves, and also manage various processes via the e-applications on the Company's network.

The Company constantly exchanges information with its customers and suppliers, and initiates joint projects in order to improve business processes.

The Company has established a mechanism which enables stakeholders to access the Audit Committee and/or the Corporate Governance Committee about practices which violate the law, or are ethically inappropriate.

### 12. Stakeholders' Participation in Management

Shareholders, Company employees, customers, suppliers, and the society the Company interacts with are defined as the Company's stakeholders.

Shareholders participate in the management of the Company at the General Meetings; whereas employees' participation in management is facilitated by means of annual goal setting meetings, periodic internal meetings, and performance assessment meetings.

In addition, the 360-degree feedback mechanism gives employees, customers, suppliers and distributors the opportunity to communicate feedback on their respective issues. The results are then considered at the committee meetings, and the action plans to realize the necessary changes are established. These approaches intend to guarantee employee participation and contribution in terms of effective Company management.

### 13. Human Resources Policy

The Company's current human resources policy and practices are presented below; and have also been published on [www.kordsaglobal.com](http://www.kordsaglobal.com). The Company's Vice President of Human Resources and Information Technologies, Mr. Hakan Öker is in charge of the execution of the HR policy.

#### Global Human Resources

Kordsa Global sees its workforce, located in nine countries across the world, as the most vital component in achieving its strategic goals, and implements human resources practices in line with a global strategy. Global Human Resources is responsible for developing and implementing this global strategy. Global Human Resources carries out the duties related to recruitment and placement, compensation and benefits, performance management, organization and human resources reviews and succession plans, leadership and employee development, international appointments, organizational climate, and other strategic HR processes, in line with Kordsa Global's sustainability and business goals.

#### Global Human Resources Vision

Global Human Resources' vision is to position the HR function as an important "business partner" of the Company's other functions, to provide services to internal customers at

global standards, and to create a company that is an "employer of choice."

#### Global Human Resources Mission

Global Human Resources' mission is to:

- to attract a talented workforce to the Company and to lead them in shaping the Company's future,
- to create a positive organizational climate,
- to foster empowerment and development of employees, and
- to develop, implement and support programs/processes that satisfy the shareholders.

#### Principal Responsibilities of Global Human Resources:

- Developing and implementing HR policies, systems and processes, which support the Company's strategies and business needs;
- Developing and implementing plans at the global level to ensure organizational sustainability;
- Designing and managing structured development programs at different levels (e.g. young talent, mid-level management, senior management) in coordination with local and regional HR Teams to support corporate growth initiatives;
- Ensuring that high-caliber professionals are developed at all levels of the organization by creating different experience opportunities in line with the expectations of the Company and its employees.

In connection with Global HR's vision, mission and strategies, Global Technical Development Program, Young Talent Development Program ("Generation Next"), Mid-Level Management Program (Leadership Fundamentals) continued in 2012 as well. The content of the e-learning platform, "KEEP", which can be accessed from anywhere in the world, was enriched with training programs in

English and local languages as well as with an in-class training module.

93% of the employees, a record rate, participated in the "Global Employee Survey," which aims to measure employee satisfaction and loyalty, and was conducted for the second time in 2012. In addition, the "Organization and Human Resources Review" process, and "Performance Management", which is implemented by the Company's senior management, were conducted successfully.

As part of the employer brand management approach, the Company made improvements to recruitment-placement and orientation processes, and also began to use social media more actively and effectively. Global Recognition-Reward Program was revised under the principles of "All Stars", and as a result of the improved appraisal model, employees were awarded.

In line with the "Sustainable Profitable Growth" initiative of the Industry Group, entrepreneurship was made a priority, and in order to foster the entrepreneurial capabilities of employees and managers, a new competency set was created. Additionally, The Company continued to provide qualified employees with international assignment opportunities to support their individual development as well as to improve the know-how at the Company's facilities.

Another important development in 2012 was when the Company became a finalist with its global practices in "Talent Management" and "Training and Development Management" categories, at the competition organized by PERYÖN (Human Resources Management Association of Turkey), one of the most reputable institutions in Turkey.

# Corporate Governance Principles Compliance Report

Global Human Resources continues its efforts to attract and retain a talented workforce to the Company. In this respect, one of the most important goals in 2013 will be to improve the organizational climate and employee loyalty by implementing various practices under the sponsorship of the Senior Management, with the supervision of operations and sales managers in all facilities, and under the coordination of local human resources teams. Another priority will be to establish the HR Information System, which will help implement HR processes in an integrated manner.

The Company has established effective channels to communicate with its employees. The Company didn't receive any complaints related to discrimination either in 2012 or in the past years.

## 14. Ethical Rules and Social Responsibility

The Company conducts all its activities and relationships in accordance with the rules of business ethics, which have been approved by the Board of Directors. These ethical rules are shared with the public on the Company's website, [www.kordsaglobal.com](http://www.kordsaglobal.com), and the Company organizes regular trainings to ensure that employees remain aware of the subject and are kept updated.

Priority in all the activities of Kordsa Global goes to "Occupational Health", "Occupational Safety - Environment" and "Quality," respectively.

Kordsa Global believes that all occupational accidents and job related health problems are preventable. Therefore, all personnel within the working environment are trained on occupational health, safety and environment, even for short-term tasks. The scope of safety training is broadened in accordance with potential training needs.

The Company fulfills its social responsibilities by means of donations and contributions made to Sabanci University, to natural disaster assistance committees, related public authorities and institutions as well as to several universities and secondary schools.

There are no lawsuits against the Company related to environmental issues.

## SECTION IV - BOARD OF DIRECTORS

### 15. Structure and Formation of the Board of Directors

The Company's Board of Directors is responsible for overseeing that the Company carries out its activities in compliance with the relevant legislation, Articles of Association, bylaws and predefined policies. With its strategic decisions, the Board of Directors manages and represents the Company by taking into consideration the Company's risks, growth and gains, and also by looking out for its long-term interests.

The Company's Board of Directors consists of seven members, who were elected at the 2011 Ordinary General Meeting held on April 18, 2012, and in accordance with the provisions of the Turkish Commercial Code and Articles of Association. The Board will continue to execute its duties until the 2014 Ordinary General Meeting, which will be held in 2015.

Pursuant to Article 25 of the Code on Effectiveness and Enforcement of Turkish Commercial Code Law No. 6103, (the provision about the resignation of real persons who were elected to the boards of incorporated companies as representatives of the legal entity, and the requirement for a re-election), the Company complied with Article 25 of the Turkish Commercial Code with the Board of Directors' resolutions No. 983, dated September 17, 2012; No. 984, dated September 18, 2012; No. 985, dated September 19, 2012; No. 986, dated September 20, 2012; and No. 987 and 988, dated September 21, 2012.

The Company's Board of Directors has been structured in accordance with CMB's principles, and executive, non-executive, and independent members of the Board are as follows:

Mehmet Nurettin PEKARUN	Chairman (executive)
Mustafa Nedim BOZFAKIOĞLU	Vice Chairman (executive)
Seyfettin Ata KÖSEOĞLU	Member (non-executive)
Bülent BOZDOĞAN	Member (non-executive)
Neriman ÜLSEVER	Member (non-executive), Member of Corporate Governance Committee
Hüsnü Ertuğrul ERGÖZ	Independent Member (non-executive), elected on April 18, 2012. Chairman of the Audit Committee
Atıl SARYAL	Independent Member (non-executive), elected on April 18, 2012. Chairman of the Corporate Governance Committee, Member of the Audit Committee

The qualifications and the conditions for election of the Board Members are specified in Articles 19 and 22 of the Company's Articles of Association. The required qualifications are in compliance with CMB's Corporate Governance Principles.

Board of Directors' rights to manage and authority to represent the Company have been defined in Articles 14, 16, 17, 18, 19, 20, 21 and 22 of the Articles of Association, and announced to the public on [www.kordsaglobal.com](http://www.kordsaglobal.com).

The authorities and responsibilities of the Company's managers, on the other hand, have not been resolved by the Articles of Association. However, the Company's Board of Directors determines these authorities and responsibilities.

During the year 2012, The Company's Board Members neither made any transactions with the Company, nor engaged in businesses which would be competitive with the Company's areas of activity.

## **BOARD OF DIRECTORS**

### **MEHMET NURETTİN PEKARUN**

(CHAIRMAN OF THE BOARD OF DIRECTORS) (September 30, 2010 - April 2015)

A graduate of Boğaziçi University, Industrial Engineering Department, Mehmet Nurettin Pekarun received his Master's degree in Finance and Strategy from Purdue University (USA). He began his professional career in 1993 at Transportation Systems Department of General Electric USA, and he subsequently went on to work for GE Healthcare Europe from 1996 to 1999, first as Director of Finance for Turkey and Greece, and later as Director of Finance for Eastern Europe. Mr. Pekarun was Managing Director for GE Lighting Turkey from 1999 to 2000, and served as Director of Business Development Unit and Managing

Director of Medical Accessories Unit at GE Healthcare (EMEA region) between 2000 and 2005. From March 1, 2006 to September 30, 2010, Mr. Pekarun was the President and CEO of Kordsa Global. On September 29, 2012, Mr. Pekarun was appointed as the President of Tires, Reinforcement Materials and Automotive Group at Hacı Ömer Sabancı Holding A.Ş., and he has been serving as the President of Hacı Ömer Sabancı Holding A.Ş. Industry Group since March 1, 2011.

### **MUSTAFA NEDİM BOZFAKIOĞLU**

(VICE CHAIRMAN) (August 3, 2010 - April 2015)

Mustafa Nedim Bozfakioğlu is a graduate of Istanbul University, Department of Economics. After serving in various positions within the Sabancı Group of Companies, he was appointed Director of Budgeting, Accounting and Consolidation Department at Sabancı Holding. Mr. Bozfakioğlu currently holds the Secretary General position at Sabancı Holding, and is the Managing Director of Tursa, AEO and Exsa Plc.; in addition, he serves as Board Member in various Sabancı Group companies. Mr. Bozfakioğlu speaks English, is married and has two children.

### **SEYFETTİN ATA KÖSEOĞLU**

(BOARD MEMBER) (August 16, 2011 - April 2015)

After graduating from Boğaziçi University, Department of Mechanical Engineering, Seyfettin Ata Köseoğlu completed his post graduate degree at Lehigh University, Department of Electrical Engineering, and received an MBA degree from Boston University. Mr. Köseoğlu began his banking career at İktisat Bank, and later worked at Finansbank from the time of its founding until 1994 as Assistant General Manager in charge of Investment Banking, Treasury and Capital Markets, Asset Management and International Relations. From

1994 to 1999, he worked at Bear Stearns (New York), one of the world's largest investment banks, as Managing Director in charge of Investment Banking activities in Turkey, Greece and Egypt. He then relocated to Paris and worked at the Investment Banking Department of Société Générale as Managing Director in charge of Turkey and Middle East. Within the scope of his duties at this position, Mr. Köseoğlu was in charge of managing and improving the relationships between Société Générale and the important customers in the region. He also helped develop the Banks' local finance strategy. Between 2000 and 2005, Mr. Köseoğlu worked in London/Istanbul for Credit Suisse First Boston Bank as Managing Director/CEO in charge of corporate financing, project financing, capital markets, fixed income and derivative products. He joined BNP Paribas/TEB Group in 2006, and later served as Chairman of the Board and CEO at TEB Investment. At this position, he participated in various mergers and acquisitions, and made TEB Investment one of the five largest intermediary institutions in terms of transaction volume and profitability.

### **BÜLENT BOZDOĞAN**

(BOARD MEMBER) (August 3, 2010 - April 2015)

Bülent Bozdoğan graduated from Middle East Technical University, Department of Business Administration. During his professional career spanning 30 years, he has worked in auditing, finance, purchasing and planning at PwC, Unilever, Brisa, Kordsa Global and Sabancı Holding's various domestic and international companies. Mr. Bozdoğan has been serving as President of Audit at Sabancı Holding A.Ş. since December 1, 2011. He is also a Board Member and Secretary General for the Institute of Internal Auditing - Turkey. Mr. Bozdoğan is married and has two children.

## **NERİMAN ÜLSEVER**

(BOARD MEMBER – MEMBER OF CORPORATE GOVERNANCE COMMITTEE) (August 16, 2011 - April 2015)

Neriman Ülsever graduated from Boğaziçi University, Department of Business Management and Operational Research in 1975. She began her professional career in 1973 at Turkish Airlines, and later assumed various roles at Anadolu Bankası A.Ş., Emlak Bankası A.Ş., Group Sanfa and Impexbank, respectively. Starting from 1995, Ms. Ülsever was the Managing Partner at her own company, IKE Ltd., and specialized in human resources consultancy and training. In 1995, she joined Indesit Company, and assumed several roles within the group as well as international positions. From 1999 to 2002, she worked in Switzerland as HR Director in charge of Eastern Europe and International Markets. Between 2001 and 2004, she also worked in France as HR Director in charge of Western Europe region. Ms. Ülsever was the HR Director in charge of world trade organization in Italy between 2004 and 2006. From 2006 to 2010, she served as Global HR Director and Executive Board Member at Indesit Company Group in Italy. Ms. Ülsever has served as Board Member at Indesit Turkey since 1996, and she was appointed as Indesit Turkey's Chairperson of the Board on January 1, 2011. On May 16, 2011, she was appointed as President of Human Resources Department at Sabancı Holding, and she fulfills both roles simultaneously.

## **HÜSNÜ ERTUĞRUL ERGÖZ**

(INDEPENDENT BOARD MEMBER - CHAIRMAN OF THE AUDIT COMMITTEE) (April 18, 2012 - April 2015)

Hüsnü Ertuğrul Ergöz graduated from Robert College, Department of Chemistry in 1963. He received his Master's degree from Middle East Technical University (METU) in 1965, and his PhD degree from Florida State University in 1970. Between 1972 and 1976, Mr. Ergöz was a professor at METU, Department of Chemistry. He began his professional career as Technical Studies and Projects Specialist at Kordsa, and later assumed various roles within Sabancı Holding and its companies, such as Brisa. Mr. Ergöz retired from his latest position as General Secretary of Sabancı Holding in 2003. After his retirement, Mr. Ergöz served as Board Member at Pressan A.Ş., and he currently carries out studies on "Institutionalization of Family Businesses".

## **ATIL SARYAL**

(INDEPENDENT BOARD MEMBER - CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE – MEMBER OF THE AUDIT COMMITTEE) (April 18, 2012 - April 2015)

Born in 1938 in Ankara, Atıl Saryal completed his elementary and high school education in Ankara, and later received his engineering degree from the University of Texas. On his return to Turkey, he first began working in the banking industry, and then joined Sabancı Group. He served as General Manager at Adana Sasa and Marsa. He also undertook several Board Member duties, and was later appointed as the President of Food and Retail Group. In 2002 Mr. Saryal retired from his duties as Group President, and in 2004 from his duties as Board Member.

## **SENIOR MANAGEMENT (CHAIRMAN OF THE EXECUTIVE BOARD)**

### **SELİM HAKAN TİFTİK**

(PRESIDENT and CEO )

Hakan Tiftik graduated from Boğaziçi University, Department of Mechanical Engineering in 1992, and received his MBA degree from Koç University in 1997. He joined Kordsa Global in 1994, and after assuming several roles within the Company, served as Director of Logistics and Purchasing between 1999 and 2001. From 2001 to 2005, Mr. Tiftik worked as Managing Director of Interkordsa Germany and Interkordsa America as well as Global Business Director for Single End Cord. In 2005, he was appointed as Director of Trade for the Europe-Middle East-Africa Region. In 2007, Mr. Tiftik was appointed as Kordsa Global Managing Director for Turkey, where he later assumed the position of Vice President of Trade from 2009 to 2010. Mr. Tiftik has been serving as President and CEO of Kordsa Global since October 2010.

## **BOARD MEMBER AND INDEPENDENT BOARD MEMBER CANDIDATES PRESENTED TO THE 2011 ORDINARY GENERAL MEETING OF SHAREHOLDERS.**

With the Company's Board of Directors' resolution, No. 974, dated March 23, 2012;

1. Mehmet Nurettin PEKARUN
  2. Seyfettin Ata KÖSEOĞLU
  3. Mustafa Nedim BOZFAKIOĞLU
  4. Neriman ÜLSEVER
  5. Bülent BOZDOĞAN
  6. Hüsnü Ertuğrul ERGÖZ (Independent Board Member candidate)
  7. Atıl SARYAL (Independent Board Member candidate)
- were presented as Board Member candidates and thus were elected at the 2011 Ordinary General Meeting, held on April 18, 2012.



Corporate Governance Committee has also assumed the duties of Nomination Committee, Risk Initiative Steering Committee, and Remuneration Committee.

### **THE DECLARATIONS OF INDEPENDENCE OF INDEPENDENT BOARD MEMBERS ELECTED AT 2011 ORDINARY GENERAL MEETING OF SHAREHOLDERS.**

#### **Dr. Hüsnü Ertuğrul ERGÖZ**

According to CMB's Corporate Governance Principles, Dr. Ergöz qualifies as independent board member.

#### **DECLARATION OF INDEPENDENCE**

I hereby declare my candidacy to serve as "independent board member" at the Board of Directors of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş (the Company), in accordance with the criteria set by the legislation, Articles of Association, and CMB's Corporate Governance Principles. In this respect, I declare that;

a) Over the past five years, neither myself, nor my spouse, in-laws, or blood relatives up to third kin, have been directly or indirectly involved in any employment or capital related or other important commercial activities with the Company, its related parties or with legal entities connected to the Company's shareholders, who directly or indirectly hold 5% or higher shares of the Company's capital;

b) Over the past five years, I haven't worked or served as Board Member at such companies, which undertake the auditing, rating or consulting activities for the Company, and also at other companies, which carry out wholly or partially the activities or the organization of the Company within the frame of relevant agreements;

c) Over the past five years, I haven't been a partner, employee or Board Member at such companies, which provide major services or products to the Company;

d) I hold less than 1% of the Company's shares, and these shares aren't preferred stocks/share capital;

e) As explained in the my attached resume, I have the sufficient education, knowledge and experience to fully carry out the duties of an independent Board member;

f) I currently do not work full-time at any public corporations and institutions;

g) I am considered a permanent resident of Turkey according to the Turkish Income Tax Code;

h) I am able to positively contribute to the Company's activities, I will maintain my impartiality during any conflicts of interest that may arise between the shareholders of the Company, I will always take into consideration the rights of stakeholders and make my decisions freely;

i) I will spare adequate time to supervise the execution of the Company's activities, and to fulfill the requirements of my duties.

March 13, 2012

#### **Atıl SARYAL**

According to CMB's Corporate Governance Principles, Mr. Saryal qualifies as independent board member.

#### **DECLARATION OF INDEPENDENCE**

I hereby declare my candidacy to serve as "independent board member" at the Board of Directors of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş (the Company), in accordance with the criteria set by the legislation, Articles of Association, and CMB's Corporate Governance Principles. In this respect, I declare that;

a) Over the past five years, neither myself, nor my spouse, in-laws, or blood relatives up to third kin, have been directly or indirectly involved in

any employment or capital related or other important commercial activities with the Company, its related parties or with legal entities connected to the Company's shareholders, who directly or indirectly hold 5% or higher shares of the Company's capital;

b) Over the past five years, I haven't worked or served as Board Member at such companies, which undertake the auditing, rating or consulting activities for the Company, and also at other companies, which carry out wholly or partially the activities or the organization of the Company within the frame of relevant agreements;

c) Over the past five years, I haven't been a partner, employee or Board Member at such companies, which provide major services or products to the Company;

d) I hold less than 1% of the Company's shares, and these shares aren't preferred stocks/share capital;

e) As explained in the my attached resume, I have the sufficient education, knowledge and experience to fully carry out the duties of an independent Board member;

f) I currently do not work full-time at any public corporations and institutions;

g) I am considered a permanent resident of Turkey according to the Turkish Income Tax Code;

h) I am able to positively contribute to the Company's activities, I will maintain my impartiality during any conflicts of interest that may arise between the shareholders of the Company, I will always take into consideration the rights of stakeholders and make my decisions freely;

i) I will spare adequate time to supervise the execution of the Company's activities, and to fulfill the requirements of my duties.

March 23, 2012

# Corporate Governance Principles Compliance Report

## 16. Operating Principles of the Board of Directors

The Board of Directors convenes as frequently as required in order to effectively fulfill its duties; operates in a transparent, accountable, fair, and responsible manner and at the same time looks out for the Company's long-term interests.

During the 12-month period in 2012, the Company's Board of Directors made 30 resolutions, out of which 27 were reached via mail and circulated

Operating principles of the Board of Directors, quorums for meetings and resolutions are defined in the Company's Articles of Association.

Each board member has one vote at the Board of Directors' meetings.

The agenda of the Board of Directors' meetings are determined by the Chairman after consulting with Board members.

The contents and the items on the agenda are shared with Board Members in writing.

No opposing views were expressed at the Board meetings held in 2012.

## 17. The Number, Structure and the Independence of the Committees Formed by the Board of Directors

The Board of Directors forms several committees in order to effectively fulfill its duties and responsibilities, and these committees reach certain decisions after conducting some studies. Then, they present these in the form of proposals to the Board's consideration, and the Board makes the final decision.

Up to now, the Board of Directors has formed only two committees: Audit Committee and Corporate Governance Committee (formed in accordance with Board of Directors' resolution No. 979, dated April 24, 2012.)

Corporate Governance Committee oversees the Company's compliance with Corporate Governance Principles,

makes improvement suggestions to the Board, and supervises the operations of shareholder relations unit. Additionally, Corporate Governance Committee also functions as "Nomination Committee", "Risk Initiative Steering Committee", and "Remuneration Committee".

The Company has initiated the formation of a separate Risk Initiative Steering Committee, in accordance with CMB's "Communiqué on the Amendments on the Communiqué on Determination and Application of Corporate Governance Principles (Serial: IV, No: 56)", Serial: IV, No: 63, which took effect after being published in the Official Gazette on February 22, 2013, no. 28567.

The Audit Committee carries out the duties defined in CMB regulation regarding audit committees. Additionally, the Committee is also in charge of overseeing the Company's accounting system, public disclosure of financial statements, independent auditing, the functioning and effectiveness of the internal control system.

### **AUDIT COMMITTEE, COMMITTEE MEMBERS AND OPERATING PRINCIPLES**

#### **Audit Committee**

The duty of the Audit Committee, which was established in accordance with the Board of Directors' resolution No: 743, dated March 17, 2003, is to inform the Board of Directors about the Company's accounting and financial reporting systems, publically announced financial statements, the activities of the internal audit department, and the progress and the effectiveness of independent auditing and internal control. The Committee convenes at least four times a year. The Committee also supports and supervises the Company's efforts to comply with CMB regulations, applicable laws and regulations, Corporate Governance Principles, and ethical rules.

#### **Structure and Responsibilities of the Audit Committee**

The Audit Committee consists of two people; Independent Board Member, Mr. Hüsnü Ertuğrul ERGÖZ as Chairman, Independent Board Member Mr. Atıl SARYAL as member. (Both were elected on April 18, 2012.)

Committee members do not undertake direct executive function, are Independent Members of the Board of Directors, and have sufficient knowledge and experience on financial matters. The Chairman and the Member of the Audit Committee are appointed by the Board of Directors. The Company's internal control department carries out the reporting function for the Audit Committee, and the reporter is appointed by the Chairman of the Audit Committee. The Board of Directors provides the resources and support necessary for the functioning of the Audit Committee.

The Audit Committee is in charge of overseeing the Company's accounting system, public sharing of financial statements, independent auditing, the functioning and effectiveness of the internal control system. In other words, it supervises the Company's financial and operational activities; ensures that internal and external audits are carried out properly; gives its opinion on the authenticity of financial statements; makes suggestions to the Board on the selection of the independent audit firm; oversees the Company's compliance with corporate governance policies through the internal audit department, and also the Company's policies regarding the investigations on fraudulent transactions, poor management, conflicts of interest, and legal and ethical integrity; and consults with the internal audit department to assess the adequacy of the internal control system. The Audit Committee convenes regularly and serves as a communication bridge between the Board of Directors, finance managers, independent auditors and internal control department.

The Audit Committee reports to the Chairman of the Board of Directors about its activities, findings and recommendations concerning duties and responsibilities.

### **Committee Meetings**

The Audit Committee convenes on at least a quarterly basis, either at the Company's headquarters or at another location upon the invitation of the Chairman.

The Audit Committee can convene for an extraordinary meeting upon the invitation of the Chairman of the Board of Directors or Chairman of the Committee.

The Audit Committee can also hold meetings with the auditors and the Company's managers on a special agenda.

In 2012, The Audit Committee convened for 4 meetings on March 26, May 16, August 14, and November 14, and reviewed the internal audit reports, approved the audit calendar, and presented a report to the Board of Directors on the authenticity and accuracy of consolidated financial statements to be shared with the public.

### **Internal Audit Department**

The Company's Internal Audit Department reports directly to the Audit Committee as per the principle of independence. The management of the internal control mechanism at the Company is the responsibility of the executive committee and the Company's affiliated partners; and it is coordinated and supervised by the Company's internal audit department.

The duty of the internal audit department is to check the reliability and accuracy of financial statements of the Company and its affiliated partners; to ensure that all activities are carried out in compliance with the laws and the Company's accepted ethical rules; to identify current and potential risks by analyzing processes

in order to improve operational efficiency and productivity; to assist in finding solutions which can minimize or eliminate such risks. The internal audit department is responsible for reporting periodically to The Audit Committee.

In 2012 the internal audit department convened for 4 meetings on March 19, June 14, September 25, and December 14.

## **CORPORATE GOVERNANCE COMMITTEE, COMMITTEE MEMBERS AND OPERATING PRINCIPLES**

### **Corporate Governance Committee**

The Corporate Governance Committee was established in accordance with CMB's Corporate Governance Principles, and with the Company's Board of Directors' resolution No: 979, dated April 24, 2012.

### **Structure and Responsibilities of the Corporate Governance Committee**

The Corporate Governance Committee consists of two people; the Chairman of the Committee is Independent Board Member, Mr. Atıl SARYAL as Chairman (elected on April 18, 2012), and Independent Board Member, Ms. Neriman ÜLSEVER as member.

The Corporate Governance Committee also functions as Nomination Committee, Risk Initiative Steering Committee, and Remuneration Committee.

Committee members do not undertake direct executive function, are Independent Members of the Board of Directors, and have sufficient knowledge and experience on Corporate Governance.

The duty of the Corporate Governance Committee is to oversee whether Corporate Governance Principles are implemented within the Company, and if not, to determine the reasons for non-compliance and any conflict

of interest stemming from such non-compliance, and to make improvement suggestions to the Board of Directors.

### **Committee Meetings**

The agenda of the meetings is determined by the Chairman of the Committee.

Members and shareholders convey any issues, which they wish to be included in the agenda, to the Chairman of the Corporate Governance Committee through reporters.

Committee meetings are held on at least a quarterly basis, and at a location determined by the Chairman. The Chairman of the Committee determines the meeting calendar at the beginning of each year, and informs the members.

The Corporate Governance Committee records all its work in writing; and presents the report including all of its work and the meeting results to the Board of Directors.

Other people as deemed appropriate by the Chairman can attend the meetings.

In 2012 the Corporate Governance Committee convened for 2 meetings on September 26 and December 12.

## **18. Risk Management and Internal Control Mechanism**

### **Kordsa Global Corporate Risk Management**

Kordsa Global has established the Risk Management Standard (CFN.007), and issued it internally on July 1, 2012. The Company's Risk Management Standard defines and secures the below mentioned Company practices:

- Kordsa Global Risk Management approach
- Establishing responsibilities and compliance
- Identifying risks
- Assessing risks
- Forming risk monitoring reports
- Prioritizing risks

# Corporate Governance Principles Compliance Report

- Risk action plans
- Risk monitoring and reporting
- Risk inspection

In 2012 Kordsa Global initiated a Sustainability Management project to serve as the cornerstone of Corporate Risk Management. The purpose of this project is to inspect all subsidiaries of Kordsa Global across the world on a country and facility basis; to identify current and potential risks; and then to implement the practices defined in the Company's Risk Management Standard [CFN.007].

Kordsa's Executive Board has put Corporate Risk Management issues on its monthly agenda as a permanent item, and closely followed the Sustainability Management project.

Kordsa's Executive Board has prioritized the risks, Kordsa Global is exposed to, and completed the necessary work to monitor the important risks via Critical Risk Indicators.

The Corporate Governance Committee, formed by Kordsa's Board of Directors, assesses the developments in the risk management process, in accordance with the Turkish Commercial Code. To ensure the effective management of risks, the Corporate Governance Committee reviews the risk reports under the coordination of the Company's CFO, and presents them to the Board of Directors on a bimonthly basis.

Risk management reports have been included in the audit plan, in coordination with the Audit Department, in order to monitor and inspect the risks, identified by Kordsa Global's Corporate Risk Management System.

Kordsa Global has also initiated a global insurance management program for its global assets in order to support and complement corporate risk management practices.

## 19. The Company's Strategic Goals

Besides its "Agile Kordsa Global in high value businesses for sustainable growth" vision, Kordsa Global has strategic initiatives under the following topics.

Strategic Initiatives are shared with the public in the annual report as well as on [www.kordsaglobal.com](http://www.kordsaglobal.com).

### Operational Excellence

As per this strategic initiative, Kordsa Global's approach to operations management can be described as competitive cost, lean and agile Kordsa Global, agile and entrepreneurial teams.

### High Value Business Areas

As per this strategic initiative, Kordsa Global strives to develop new products for "eco-friendly" tires, and to become the leading company of its sector in terms of product and service quality.

### Growth

As per this strategic initiative, Kordsa Global focuses on evaluating the opportunities in new business areas beyond tire, and on profitable growth in the tire industry.

Kordsa Global and its employees adopt and act according to the following values while carrying out strategic business plans.

- Occupational health, safety, and the environment
- Commitment to laws and ethical values,
- Customer focus,
- Open-mindedness,
- Collaboration and cooperation,
- Results orientation.

While realizing these strategic goals, the Company also develops various systems, which might create opportunities for constant growth and business excellence, and implements human resources development plans aligned with global strategy.

## 20. Remuneration

Any remuneration and attendance fees paid to the Chairman and the Board Members are determined at the General Meeting.

Remuneration paid to senior managers is shared with the public under the notes to the financial statements.

Remuneration of Independent Board Members does not include stock options or performance-based pay.

Pursuant to CMB's mandatory Corporate Governance principle, No: 4.6.2., remuneration of the Company's Board Members and senior managers has been established in writing.

This subject was shared with the shareholders on a separate agenda item at the 2011 Ordinary General Meeting, held on April 18, 2012, and the shareholders were allowed to offer their opinions on this subject.

The Company's Remuneration Policy for Board of Directors and Senior Managers, defines the remuneration system and practices for Board Members and senior managers who have administrative duties, in accordance with CMB regulations. The Remuneration Policy has been announced to the public on [www.kordsaglobal.com](http://www.kordsaglobal.com) since March 27, 2012.

In 2012, the Company did not lend any money or give out any loans to Board Members; did not extend the due date or improve the terms and conditions of existing debts or loans; did not grant any individual loans via third persons, or did not offer any guarantees in favor of Board Members.

## Audit Committee Members and Operating Principles

The duty of the Audit Committee is to inform the Board of Directors about the Company's accounting and financial reporting systems, publically announced financial statements, the activities of the internal audit department, and the progress and the effectiveness of independent auditing and internal control. The Committee convenes at least four times a year. The Committee also supports and supervises the Company's efforts to comply with CMB regulations, applicable laws and regulations, Corporate Governance Principles, and ethical rules.

### Structure and Responsibilities of the Audit Committee

The Audit Committee consists of two people; Independent Board Member, Mr. Hüsnü Ertuğrul ERGÖZ as Chairman (Mr. Ergöz has been appointed on April 24, 2012 to replace Mr. Bülent Bozdoğan, and Independent Board Member Mr. Atıl SARYAL as member. (Mr. Saryal was appointed on April 24, 2012 to replace Mr. Cezmi Kurtuluş who resigned on March 6, 2012.)

Committee members do not undertake direct executive function, are Independent Members of the Board of Directors, and have sufficient knowledge and experience on financial matters. The Chairman and the Member of the Audit Committee are appointed by the Board of Directors. The Company's internal control department carries out the reporting function for the Audit Committee, and the reporter is appointed by the Chairman of the Audit Committee. The Board of Directors provides the resources and support necessary for the functioning of the Audit Committee.

The Audit Committee is in charge of overseeing the Company's accounting system, public sharing of financial statements, independent auditing, the functioning and effectiveness of the internal control system. In other words, it supervises the Company's financial and operational activities; ensures that internal and external audits are carried out properly; gives its opinion on the authenticity of financial statements; makes suggestions to the Board on the selection of the independent audit firm; oversees the Company's compliance with corporate governance policies through the internal audit department, and also the Company's policies regarding the investigations on fraudulent transactions, poor management, conflicts of interest, and legal and ethical integrity; and consults with the internal audit department to assess the adequacy of the internal control system. The Audit Committee convenes regularly and serves as a communication bridge between the Board of Directors, finance managers, independent auditors and internal control department.

The Audit Committee reports to the Chairman of the Board of Directors about its activities, findings and recommendations concerning duties and responsibilities.

### Committee Meetings

The Audit Committee convenes on at least a quarterly basis, either at the Company's headquarters or at another location upon the invitation of the Chairman. The Audit Committee can convene for an extraordinary meeting upon the invitation of the Chairman of the Board of Directors or Chairman of the Committee. The Audit Committee can also hold meetings with the auditors and the Company's managers on a special agenda.

In 2012, The Audit Committee convened for 4 meetings, and inquired about the Company's activities and internal control systems from the managers; obtained information about the audit findings from the independent auditors; reviewed the internal audit reports; approved the audit calendar; and presented a report to the Board of Directors on the authenticity and accuracy of consolidated financial statements to be shared with the public.

### Internal Audit Department

The Company's Internal Audit Department reports directly to the Audit Committee as per the principle of independence. The management of the internal control mechanism at the Company is the responsibility of the executive committee and the Company's affiliated partners; and it is coordinated and supervised by the Company's internal audit department. The duty of the internal audit department is to check the reliability and accuracy of financial statements of the Company and its affiliated partners; to ensure that all activities are carried out in compliance with the laws and the Company's accepted ethical rules; to identify current and potential risks by analyzing processes in order to improve operational efficiency and productivity; to assist in finding solutions which can minimize or eliminate such risks. The internal audit department is responsible for reporting periodically to the Audit Committee.



# Agenda of the General Meeting

## KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET ANONİM ŞİRKETİ THE AGENDA OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON MARCH 28, 2013.

### AGENDA

1. Opening and the organization of the Executive Board,
2. Empowering the Executive Board to sign the General Meeting proceedings,
3. The reading and discussion of the Board of Directors' activity report, and the summary of the Audit Board's and Independent Audit Reports concerning the year 2012,
4. Informing the General Meeting about the donations and aids made in 2012,
5. Informing the General Meeting about the related party transactions in 2012,
6. Informing the General Meeting about the guarantees, pledges, mortgages given in favor of third parties in 2012, and the revenues and interests obtained,
7. Informing the General Meeting about the transactions detailed in Article 1.3.7. of Corporate Governance Principles of Capital Markets Board,
8. Reading the Balance Sheet and the Profit/Loss accounts of 2012, the debate and the approvals thereof,
9. Reaching a resolution about the Board of Directors' proposal, upon discussion, with regards to the use of 2012 profit, distributable profit, and earnings per share,
10. Determining the salaries and other benefits such as attendance fees, bonuses, premiums to be paid to the Board Members,
11. Determining the donation limits for the year 2013,
12. Presenting for the approval of the General Meeting the Board Members selected to serve for the remaining terms in 2013, pursuant to Article 25 of the Law No: 6103,
13. Acquitting the Members of the Board of Directors and the Audit Board pursuant to the activities of 2012,
14. Selecting the auditing firm/auditors with regards to the auditing of the Company's financial statements and reports for the year 2013, pursuant to Capital Market Law No. 6362 of the Turkish Commercial Code No. 6102,
15. Approval of the Internal Directive on Operating Principles and Procedures of the General Meeting, prepared by the Board of Directors,
16. Pursuant to the permit obtained from the Capital Markets Board, and the Turkish Republic Ministry of Customs and Trade, the approval of the amendments made to Articles 3, 4, 5, 6, 7, 9, 10, 11, 13, 14, 15, 16, 17, 18, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 39, and 40, and the cancellation of Articles 8 and 20 of the Company's Articles of Association; in order to comply with the Turkish Commercial Code Law No. 6102, Capital Market Law No. 6362, and secondary legislation,
17. Granting permission to the Chairman and the Members of the Board to make the transactions specified in Articles 395 and 396 of the Turkish Commercial Code.

**Meeting Date** : March 28, 2013 Thursday

**Time** : 10:30

**Location** : Sabancı Center, Hacı Ömer Sabancı Holding Conference Hall  
34330 4. Levent, Beşiktaş - ISTANBUL

# Profit Distribution Proposal

## KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SAN. VE TİC. A.Ş.

According to the Board of Directors' resolution, No: 2013 / 5, dated March 7, 2013, it was unanimously agreed;

Starting from March 29, 2013, the shareholders who represent TL 194,529,076.00 of the capital will be paid dividends out of the net distributable profit of TL 37,405,830.02, which remains after making the deductions specified in Article 35 of the Company's Articles of Association and in CMB Communiqués, from the net consolidated profit of TL 50,188,401.54 gained in 2012. Dividend distribution will be made as follows: Shareholders of Series 14, 15, 17 and 18 shares will be distributed dividend coupons for the year 2012, and 15% income tax withholding will be applied, depending on the legal status of partners, in exchange for one share with a nominal value of 1 TL; to pay our partners with full liability a gross=net 17.80% (TL 0.1780) dividend, and other partners gross 17.80% (TL 0.1780) and net 15.13% (TL 0.1513) dividend.

And, it was agreed to present this proposal to the 2012 Ordinary General Meeting.

First Dividend	: 9,726,453.80 TL
Second Dividend	: 24,899,721.73 TL
Total Distributable Dividend	: 34,626,175.53 TL
Second Legal Reserves	: 2,489,972.17 TL

### INFORMATION ON THE RATE OF PROFIT SHARE DISTRIBUTED

#### DIVIDEND INFORMATION PER SHARE

	TOTAL DIVIDEND AMOUNT (TL)	DIVIDEND CORRESPONDING TO A SHARE WITH A NOMINAL VALUE OF 1 TL	
		AMOUNT (TL)	PERCENTAGE (%)
GROSS	34,626,175.53	0.1780	17.80
NET	29,432,249.20	0.1513	15.13

THE PERCENTAGE OF THE PROFIT SHARES DISTRIBUTED TO THE  
NET DISTRIBUTABLE TERM PROFIT TO WHICH DONATIONS HAVE BEEN ADDED

AMOUNT OF THE PROFIT SHARES DISTRIBUTED TO THE PARTNERS (TL)	THE PERCENTAGE OF THE PROFIT SHARES DISTRIBUTED TO THE PARTNERS, TO THE NET DISTRIBUTABLE TERM PROFIT TO WHICH DONATIONS HAVE BEEN ADDED (%)
34,626,175.53	83.02

# **Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. Report on Relations with Parent Companies and Subsidiaries for the Period January 1-December 31, 2012, Pursuant to Article 199 of the Turkish Commercial Code Law**

## **THE CONCLUSION OF THE REPORT ON RELATIONS WITH PARENT COMPANIES AND SUBSIDIARIES, PURSUANT TO ARTICLE 199 OF THE TURKISH COMMERCIAL CODE LAW NO. 5**

In its report dated March 5, 2013, the Board of Directors of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. concludes that, in all transactions made in 2012 between Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its parent company, as well as with the other subsidiaries of the parent company, either the transactions were completed or the required measures were taken, and, in cases where the Company refrained from taking the required measures, due consideration was provided based on all facts and conditions known to the Company's Board at the time, and, in this context, that there are no measures taken, or refrained from, that can harm the Company, and, accordingly, there are no transactions or measures that require balancing.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK  
VE KORD BEZİ SANAYİ VE TİCARET A.Ş.  
CONVENIENCE TRANSLATION INTO ENGLISH OF  
CONSOLIDATED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2012 TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**





**CONVENIENCE TRANSLATION INTO ENGLISH OF  
INDEPENDENT AUDITOR'S REPORT  
ORIGINALLY ISSUED IN TURKISH**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

We have audited the accompanying consolidated financial statements of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its subsidiaries (hereafter together referred to as "the Group") which comprise the consolidated balance sheet as of 31 December 2012, consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards published by Capital Market Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi Ticaret A.Ş. and its subsidiaries as of 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with financial reporting standards published by Capital Market Board.

*Additional paragraph for convenience translation into English*

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

Istanbul, 5 March 2013

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.  
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Ömer Tanrıöver  
Partner

<b>CONTENTS</b>	<b>PAGE</b>
<b>CONSOLIDATED BALANCE SHEETS</b>	<b>68-69</b>
<b>CONSOLIDATED STATEMENTS OF INCOME</b>	<b>70</b>
<b>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</b>	<b>71</b>
<b>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</b>	<b>72</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>73</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>74-157</b>
NOTE 1 ORGANISATION AND NATURE OF OPERATIONS	74-75
NOTE 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS	76-104
NOTE 3 SEGMENT REPORTING	105-108
NOTE 4 CASH AND CASH EQUIVALENTS	109
NOTE 5 MARKETABLE SECURITIES	109
NOTE 6 BORROWINGS	110-111
NOTE 7 TRADE RECEIVABLES AND PAYABLES	111-112
NOTE 8 OTHER RECEIVABLES AND PAYABLES	113
NOTE 9 INVENTORIES	114
NOTE 10 PROPERTY, PLANT AND EQUIPMENT	115-117
NOTE 11 INTANGIBLE ASSETS	117-118
NOTE 12 ASSETS HELD FOR SALE	118
NOTE 13 INVESTMENT PROPERTY	119
NOTE 14 GOODWILL	119
NOTE 15 GOVERNMENT GRANTS	119
NOTE 16 PROVISIONS, COMMITMENTS AND CONTINGENT ASSETS/LIABILITIES	120-122
NOTE 17 EMPLOYEE BENEFITS	123-125
NOTE 18 OTHER ASSETS AND LIABILITIES	125-126
NOTE 19 EQUITY	126-129
NOTE 20 SALES AND COST OF GOODS SOLD	130
NOTE 21 EXPENSES BY NATURE	130
NOTE 22 OTHER INCOME/EXPENSES	131
NOTE 23 FINANCIAL INCOME	132
NOTE 24 FINANCIAL EXPENSE	132
NOTE 25 TAXES ON INCOME	132-136
NOTE 26 EARNINGS PER SHARE	136
NOTE 27 TRANSACTIONS AND BALANCES WITH RELATED PARTIES	137-140
NOTE 28 FINANCIAL RISK MANAGEMENT.	141-154
NOTE 29 FINANCIAL INSTRUMENTS	155-157
NOTE 30 EVENTS AFTER THE BALANCE SHEET DATE	157

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2012 AND 2011

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2012 USD <sup>(1)</sup>	2011 USD <sup>(1)</sup>	2012	2011
<b>ASSETS</b>					
Cash and Cash Equivalents	4	49.505.286	34.077.974	88.248.123	64.369.885
Trade Receivables (net)	7	108.615.409	134.298.525	193.617.828	253.676.483
Other Receivables	8	10.930.826	10.874.222	19.485.291	20.540.318
Inventories (net)	9	185.416.291	217.364.930	330.523.081	410.580.616
Other Current Assets	18	25.065.983	39.638.362	44.682.621	74.872.902
Assets Classified as Held for Sale	12	-	246.658	-	465.913
<b>Total Current Assets</b>		<b>379.533.795</b>	<b>436.500.671</b>	<b>676.556.944</b>	<b>824.506.117</b>
Other Receivables	8	3.728.904	2.832.223	6.647.144	5.349.786
Financial Assets	5	109.933	108.804	195.967	205.520
Property, Plant and Equipment (net)	10	441.586.778	399.505.593	787.172.590	754.626.114
Intangible Assets (net)	11	12.015.347	11.566.083	21.418.558	21.847.175
Investment Property	13	9.043.133	6.972.961	16.120.288	13.171.226
Goodwill	14	25.577.901	24.138.476	45.595.167	45.595.167
Deferred Tax Assets	25	9.361.865	8.262.307	16.688.460	15.606.672
Other Non-Current Assets	18	2.009.454	858.938	3.582.052	1.622.449
<b>Total Non-Current Assets</b>		<b>503.433.315</b>	<b>454.245.385</b>	<b>897.420.226</b>	<b>858.024.109</b>
<b>Total Assets</b>		<b>882.967.110</b>	<b>890.746.056</b>	<b>1.573.977.170</b>	<b>1.682.530.226</b>

<sup>(1)</sup> US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2012 and 31 December 2011, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED BALANCE SHEETS**  
**AT 31 DECEMBER 2012 AND 2011**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

LIABILITIES	Notes	2012 USD <sup>(1)</sup>	2011 USD <sup>(1)</sup>	2012	2011
Borrowings	6	141.965.306	135.503.450	253.067.354	255.952.466
Trade Payables	7	57.443.141	63.520.720	102.398.144	119.984.288
Other Payables	8	10.023.907	10.724.211	17.868.616	20.256.963
Income Tax Payable	25	-	3.418.619	-	6.457.430
Provision for Employee Benefits	17	6.531.029	8.508.036	11.642.212	16.070.830
Other Current Liabilities	18	11.168.618	12.692.261	19.909.179	23.974.410
<b>Total Current Liabilities</b>		<b>227.132.001</b>	<b>234.367.297</b>	<b>404.885.505</b>	<b>442.696.387</b>
Borrowings	6	54.808.567	55.288.624	97.701.752	104.434.682
Other Liabilities		233.733	-	416.653	-
Government Grants	15	1.325.600	1.376.337	2.363.015	2.599.763
Provision for Employee Benefits	17	15.281.466	11.445.891	27.240.741	21.620.143
Deferred Tax Liabilities	25	28.708.026	29.385.409	51.174.926	55.506.098
<b>Total - Non-Current Liabilities</b>		<b>100.357.392</b>	<b>97.496.260</b>	<b>178.897.087</b>	<b>184.160.686</b>
<b>Total Liabilities</b>		<b>327.489.393</b>	<b>331.863.557</b>	<b>583.782.592</b>	<b>626.857.073</b>
<b>EQUITY</b>					
<b>Equity attributable to owners of the parent</b>	<b>19</b>	<b>472.231.410</b>	<b>486.263.681</b>	<b>841.799.712</b>	<b>918.503.467</b>
Share Capital	19	109.126.599	102.985.376	194.529.076	194.529.076
Share Premium	19	34.810.241	32.851.255	62.052.736	62.052.736
Shareholders' Contribution	19	249.448.534	260.269.904	444.666.957	491.623.822
Financial Assets Fair Value Reserve	19	(151.549)	(143.020)	(270.151)	(270.151)
Currency Translation Differences	19	41.602.860	34.217.765	74.161.258	64.633.936
Hedging Reserves	19	(774.251)	854.233	(1.380.180)	1.613.561
Restricted Reserves	19	15.923.184	8.801.977	28.384.668	16.626.055
Net Income for the Period	19	22.245.792	46.426.191	39.655.348	87.694.432
<b>Non-Controlling Interests</b>		<b>83.246.307</b>	<b>72.618.818</b>	<b>148.394.866</b>	<b>137.169.686</b>
<b>Total Equity</b>		<b>555.477.717</b>	<b>558.882.499</b>	<b>990.194.578</b>	<b>1.055.673.153</b>
<b>Total Liabilities and Equity</b>		<b>882.967.110</b>	<b>890.746.056</b>	<b>1.573.977.170</b>	<b>1.682.530.226</b>
Commitments, Contingent Assets and Liabilities	16				

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



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2012 USD <sup>(1)</sup>	2011 USD <sup>(1)</sup>	2012	2011
<b>OPERATING INCOME</b>					
Sales (net)	20	836.932.371	861.444.057	1.491.915.645	1.627.181.679
Cost of Sales (-)	20	(729.087.425)	(725.211.003)	(1.299.671.243)	(1.369.851.063)
<b>GROSS PROFIT</b>		<b>107.844.946</b>	<b>136.233.054</b>	<b>192.244.402</b>	<b>257.330.616</b>
Marketing, Selling and Distribution Expenses (-)	21	(33.123.673)	(30.297.306)	(59.046.259)	(57.228.581)
General and Administrative Expenses (-)	21	(42.167.731)	(34.767.483)	(75.168.198)	(65.672.298)
Research and Development Expenses (-)	21	(4.270.130)	(2.616.459)	(7.611.934)	(4.942.230)
Other Operating Income	22	41.257.531	25.687.753	73.545.675	48.521.596
Other Operating Expenses (-)	22	(10.257.080)	(23.619.055)	(18.284.270)	(44.614.033)
<b>OPERATING PROFIT</b>		<b>48.562.093</b>	<b>65.612.550</b>	<b>105.679.416</b>	<b>133.395.070</b>
Financial Income	23	36.383.171	52.654.257	64.856.640	99.458.626
Financial Expenses (-)	24	(50.110.306)	(54.082.454)	(89.326.631)	(102.156.347)
<b>INCOME BEFORE TAX</b>		<b>34.834.948</b>	<b>64.184.353</b>	<b>81.209.425</b>	<b>130.697.349</b>
Tax Expense:					
- Current Tax Expense	25	(10.645.958)	(20.483.863)	(18.977.485)	(38.691.968)
- Deferred Tax Income/(Expense)	25	1.084.955	2.805.375	1.934.041	5.299.073
<b>NET INCOME FOR THE PERIOD</b>		<b>25.273.945</b>	<b>46.505.865</b>	<b>64.165.981</b>	<b>97.304.454</b>
<b>ATTRIBUTABLE TO:</b>					
- Owners of the parent		22.245.792	46.426.191	39.655.348	87.694.432
- Non-controlling interests		13.749.934	5.087.629	24.510.633	9.610.022
Earnings per 1.000 ordinary shares	26	1,14	2,39	2,04	4,51

<sup>(1)</sup> US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2012 and 31 December 2011, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	2012 USD <sup>(*)</sup>	2011 USD <sup>(*)</sup>	2012	2011
<b>NET INCOME FOR THE PERIOD</b>	<b>35.995.726</b>	<b>51.513.820</b>	<b>64.165.981</b>	<b>97.304.454</b>
<b>Other Comprehensive Income:</b>				
Currency translation differences	(23.025.689)	45.837.115	(41.045.593)	86.581.726
Changes in hedging reserves	(1.913.174)	1.705.539	(3.410.424)	3.221.593
Tax income/(expense) related to other comprehensive income accounts <sup>(1)</sup>	233.750	(208.376)	416.683	(393.602)
<b>OTHER COMPREHENSIVE INCOME (AFTER TAX)</b>	<b>(24.705.113)</b>	<b>47.334.278</b>	<b>(44.039.334)</b>	<b>89.409.717</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>11.290.613</b>	<b>98.848.098</b>	<b>20.126.647</b>	<b>186.714.171</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
- Owners of the parent	(430.795)	83.030.539	(767.936)	156.836.386
- Non-controlling interests	11.721.409	15.817.559	20.894.583	29.877.785

<sup>(1)</sup> Tax income/(expense) related to other comprehensive income/(loss) accounts consists of the deferred taxes of hedging reserves.

<sup>(\*)</sup> US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2012 and 31 December 2011, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Share capital	Share premium	Shareholders' contribution value reserve	Financial assets fair value reserve	Hedging reserves	Currency translation differences	Restricted reserves	Accumulated income/(loss)	Net income for the period	Total	Total non-controlling interest	Total Equity
<b>Balances at 1 January 2011</b>	194.529.076	62.052.736	491.623.822	(270.151)	(1.214.430)	(1.680.027)	12.115.679	(3.154.564)	39.443.893	793.446.034	113.819.014	907.265.048
Transfers	-	-	-	-	-	-	4.510.376	34.933.517	(39.443.893)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(31.778.953)	-	(31.778.953)	(6.527.113)	(38.306.066)
Total comprehensive income	-	-	-	-	2.827.991	66.313.963	-	-	87.694.432	156.836.386	29.877.785	186.714.171
<b>Balances at 31 December 2011</b>	194.529.076	62.052.736	491.623.822	(270.151)	1.613.561	64.633.936	16.626.055	-	87.694.432	918.503.467	137.169.686	1.055.673.153
<b>Balances at 1 January 2012</b>	194.529.076	62.052.736	491.623.822	(270.151)	1.613.561	64.633.936	16.626.055	-	87.694.432	918.503.467	137.169.686	1.055.673.153
Transfers	-	-	-	-	-	-	11.758.613	75.935.819	(87.694.432)	-	-	-
Liquidation of subsidiary (*)	-	-	(46.956.865)	-	-	46.956.865	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(31.778.953)	-	(75.935.819)	(9.669.403)	(85.605.222)
Total comprehensive income/(loss)	-	-	-	-	(2.993.741)	(37.429.543)	-	-	39.655.348	(767.936)	20.894.583	20.125.647
<b>Balances at 31 December 2012</b>	194.529.076	62.052.736	444.666.957	(270.151)	(1.380.180)	74.161.258	28.384.668	-	39.655.348	841.799.712	148.394.866	990.194.578

(\*) One of the Group's subsidiaries, Sabancı Industrial Yarn and Tire Cord Fabric B.V. ("Sabancı B.V."), operating in Holland has been liquidated.

It was resolved at Ordinary General Assembly Meeting of the Group held on 18 April 2012 to reserve TL 5,137,677 of first legal reserve and TL 6,620,937 second legal reserve and in total TL 75,935,819 dividend to distribute from the distributable net profit of 2011. In accordance with the resolution, the dividend payments commenced on 19 April 2012. As a result of this transaction, dividend distributed per share is TL 0.37.

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

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2012 USD <sup>(1)</sup>	2011 USD <sup>(1)</sup>	2012	2011
<b>Cash provided by operating activities</b>					
Net income for the period		35.995.726	51.513.820	64.165.981	97.304.454
<b>Adjustments to reconcile net income before taxation and minority interest to net cash provided by operating activities:</b>					
Depreciation and amortization	10,11,21	33.744.757	29.015.302	60.153.403	54.807.004
Provision for impairment on fixed assets	10,21,22	1.278.324	8.966.803	2.278.740	16.937.394
Provision for impairment on investment properties	13	(2.057.838)	443.416	(3.668.302)	837.568
Employee termination benefit	17	4.145.667	1.977.379	7.390.066	3.735.072
Deferred tax	25	(1.084.955)	(2.805.375)	(1.934.041)	(5.299.073)
Interest income	23	(2.008.025)	(2.093.660)	(3.579.505)	(3.954.715)
Interest expense	24	13.205.891	6.693.290	23.540.821	12.642.956
(Gain)/loss on sale of property, plant and equipment - net	22	235.480	(55.884)	419.767	(105.559)
Redemption of government grants		(76.285)	(72.600)	(135.985)	(137.135)
Inventory obsolescence loss - net	9	279.674	2.070.670	498.547	3.911.288
Personnel bonus accrual	17	2.013.252	2.528.896	3.588.823	4.776.832
Personnel vacation accrual	17	2.178.771	1.918.348	3.883.878	3.623.567
Employee retirement benefit provision	17	522.849	341.529	932.030	645.114
Provision for doubtful receivables	7	145.119	92.827	258.690	175.341
Insurance income accrual	18	(10.514.125)	(13.854.985)	(18.742.480)	(26.170.681)
Tax expense	25	10.645.958	20.483.863	18.977.485	38.691.968
Unrealized credit finance expense	24	578.415	653.527	1.031.082	1.234.447
Unearned credit finance income	23	(2.218.814)	(1.730.632)	(3.955.257)	(3.268.991)
Unrealized foreign exchange (gains)/losses		1.875.508	2.580.262	3.343.280	4.873.856
Fair value of derivative financial instruments		(378.391)	(209.808)	(674.520)	(396.307)
<b>Net cash provided by operating activities before changes in operating assets and liabilities:</b>		<b>88.506.958</b>	<b>108.456.986</b>	<b>157.772.503</b>	<b>204.864.400</b>
<b>Changes in working capital</b>					
Trade receivables		32.763.892	(29.627.102)	58.404.913	(55.962.633)
Inventories		44.221.316	(83.316.502)	78.828.918	(157.376.541)
Other current receivables		18.928.358	(9.360.346)	33.741.691	(17.680.757)
Other non-current receivables		8.687.041	(1.987.108)	15.485.519	(3.753.448)
Trade payables		(7.383.637)	7.340.790	(13.162.072)	13.866.019
Other non-current trade payables		234.562	-	418.131	-
Other short term payables		(5.557.849)	2.069.156	(9.907.422)	3.908.429
Other non-current liabilities and payables		(2.484.359)	1.040.217	(4.428.618)	1.964.865
Short term benefits to employees		(470.894)	1.393.106	(839.415)	2.631.437
Doubtful receivables collected	7	111.196	167.225	198.218	315.871
Employee termination benefits and retirement benefits paid	17	(1.319.572)	(1.064.254)	(2.352.269)	(2.010.270)
Employee vacation provision paid	17	(2.321.489)	(1.577.945)	(4.138.286)	(2.980.581)
Employee bonuses paid	17	(1.300.767)	(2.460.215)	(2.318.748)	(4.647.100)
Taxes paid		(15.403.525)	(19.541.141)	(27.458.323)	(36.911.262)
<b>Net cash provided by/(used in) operating activities</b>		<b>157.491.720</b>	<b>(28.467.135)</b>	<b>280.744.740</b>	<b>(53.771.571)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant, equipment and intangible assets	10, 11	(76.369.660)	(54.016.053)	(136.136.556)	(102.030.922)
Development cost paid	11	-	(3.222.990)	-	(6.087.905)
Proceeds from sale of property, plant and equipment		882.546	9.341.347	1.573.226	17.644.871
Interest received	23	2.008.025	2.093.660	3.579.505	3.954.715
<b>Net cash used in investing activities</b>		<b>(73.479.090)</b>	<b>(45.804.035)</b>	<b>(130.983.825)</b>	<b>(86.519.241)</b>
<b>Cash flows from financing activities:</b>					
Dividends paid		(42.598.350)	(16.824.054)	(75.935.819)	(31.778.956)
Dividends paid to non-controlling interests		(5.424.326)	(3.455.510)	(9.669.403)	(6.527.113)
Proceeds from borrowings - net		9.568.338	90.461.061	17.056.520	170.871.899
Changes in factoring payables		(16.839.359)	9.453.563	(30.017.842)	17.856.836
Interest paid	24	(13.205.891)	(6.046.923)	(23.540.821)	(11.422.033)
<b>Net cash provided by financing activities</b>		<b>(68.499.588)</b>	<b>73.588.138</b>	<b>(122.107.365)</b>	<b>139.000.633</b>
Foreign currency translation differences		(2.117.868)	7.225.238	(3.775.312)	13.647.752
Net increase in cash and cash equivalents		13.395.174	6.542.206	23.878.238	12.357.573
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4</b>	<b>36.110.112</b>	<b>27.535.768</b>	<b>64.369.885</b>	<b>52.012.312</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>49.505.286</b>	<b>34.077.974</b>	<b>88.248.123</b>	<b>64.369.885</b>

<sup>(1)</sup> US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2012 and 31 December 2011, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

#### NOTE 1-ORGANIZATION AND NATURE OF OPERATIONS

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret Anonim Şirketi ("Kordsa Global" or the "Company") was established on 9 February 2006 as a subsidiary of Hacı Ömer Sabancı Sabancı Holding A.Ş. ("Sabancı Holding") and is registered in İstanbul, Turkey. The Company operates under Turkish Commercial Code.

The Company is mainly engaged in production of carcass and industrial fabrics included in the structure of vehicle tires, manufacture of industrial fabrics included in the structure of rubber and plastic materials such as transmission belts, V belts, rubber hoses etc., production of heavy denier fibre and connection fabrics, conversion of any type of yarn into cord fabric, fabric for mechanical rubber goods and other rubber reinforcement materials and the marketing thereof, production of Nylon 6, Nylon 6.6 and PET (Polyethylene-terephthalate) HMLS (High Modulus Low Shrinkage) polyester, and rayon heavy decitex yarn for use in tires and mechanical rubber goods.

Kordsa Global is registered with the Capital Markets Board of Turkey ("CMB") and its shares have been traded in the İstanbul Stock Exchange ("ISE") since 1991. As of 31 December 2012, 9% of the Group's shares is listed on the ISE. As of the same date, the shareholders owning the Group's shares and the percentage of the shares are as follows (Note 19):

	%
Hacı Ömer Sabancı Holding A.Ş.	91,11
Tursa Sabancı Turizm ve Yatırım	
İşletmeleri A.Ş.	<1
Teknosa İç ve Dış Tic. A.Ş.	<1
Exsa Export Sanayi Mamülleri	
Satış ve Araştırma A.Ş.	<1
Temsa Global Sanayi ve Ticaret A.Ş.	<1
Public shares and Central Registry Agency (CRA)	8,89
	<b>100,00</b>

Average number of employees within the Group is 4.207 (31 December 2011: 4.033).

The address of the registered office is as follows:

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.  
Sabancı Center Kule 2  
Kat:17  
34330 4. Levent  
İstanbul



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 1-ORGANIZATION AND NATURE OF OPERATIONS (Cont'd)**

**Subsidiaries**

The country of the Subsidiaries consolidated in these consolidated financial statements as of 31 December 2012 and 2011 and, for the purposes of these consolidated financial statements, their respective geographical segments are as follows:

<b>Subsidiaries</b>	<b>Country</b>	<b>Geographical segment</b>
InterKordsa GmbH	Germany	Europe, Middle East and Africa
InterKordsa GbRmH	Germany	Europe, Middle East and Africa
Kordsa GmbH	Germany	Europe, Middle East and Africa
Nile Kordsa Company	Egypt	Europe, Middle East and Africa
Kordsa, Inc.	United States of America	North America
Kordsa Argentina	Argentina	South America
Kordsa Brazil	Brazil	South America
PT Indo Kordsa Tbk	Indonesia	Asia
PT Indo Kordsa Polyester	Indonesia	Asia
Thai Indo Kordsa Co., Ltd.	Thailand	Asia
Kordsa Qingdao Nylon Enterprise ("KQNE")	China	Asia

For the purposes of segment information in these consolidated financial statements, information related to corporate administrative operations of Kordsa Global have been included in the "Other" segment (Note 3).

These financial statements have been approved to be issued during the meeting of the Board of Directors held on 5 March 2013, and have been signed by the President and CEO Hakan Tiftik and Global Finance Manager Volkan Özkan on behalf of the Board of Directors. The shareholders of the Group have the right to make changes in the consolidated financial statements after the aforementioned financial statements are issued, and they are subject to approval of the shareholders at the general assembly meeting of the Group.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

**2.1 Basis of preparation**

**A) Financial Reporting Standards Applied**

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code ("TCC") and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

The Capital Markets Board of Turkey ("CMB") sets out principles and procedures on the preparation, presentation and disclosure of financial statements prepared by companies in accordance with the Communiqué No: XI-29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). This Communiqué is effective for the annual periods beginning from 1 January 2008 and supersedes the Communiqué No: XI-25 "The Financial Reporting Standards of the Capital Markets". The Communiqué requires companies to prepare their financial statements in accordance with International Financial Reporting Standards ("IASs/IFRSs") adopted by the European Union. However companies will apply IASs/IFRSs issued by the IASB until the differences of the IAS/IFRS adopted by the European Union from those issued by the International Accounting Standards Board ("IASB") are announced by the Turkish Accounting Standards Board ("TASB"). Therefore, TASB's, Turkish Accounting Standards/Turkish Financial Reporting Standards ("TASs/TFRSs") that are in line with the aforementioned standards will be adopted in reporting.

As of the date of this report, since the differences of the IAS/IFRS adopted by the European Union from those issued by the International Accounting Standards Board ("IASB") have not been announced by the Turkish Accounting Standards Board ("TASB"), financial statements are prepared in accordance with IAS/IFRS based on the CMB Communiqué No: XI-29..The financial statements and explanatory notes are presented using the compulsory standard formats as published by the Communiqué Serial XI, No: 29 declared by the CMB on 17 April 2008 and 9 January 2009.

In accordance with the CMB's resolution issued on 17 March 2005, companies operating in Turkey and preparing their financial statements in accordance with the CMB Accounting Standards (including the application of IFRSs) are not subject to inflation accounting effective from 1 January 2005. Therefore, starting from 1 January 2005, IAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied in the accompanying consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the derivative financial instruments and investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Statutory Decree No: 660, which has been become effective and published in the Official Gazette on 2 November 2011, and the Additional Clause 1 of the Law No: 2499 were nullified and accordingly, Public Oversight, Accounting and Audit Standards Institution (the "Institution") was established. As per Additional Article 1 of the Statutory Decree, applicable laws and standards will apply until new standards and regulations be issued by the Institution and will become effective. In this respect, the respective matter has no effect over the "Basis of The Preparation of Financial Statements" Note disclosed in the accompanying financial statements as of the reporting date.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.1 Basis of preparation (cont'd)**

**A) Financial Reporting Standards Applied (cont'd)**

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

**New and Revised International Financial Reporting Standards**

**(a) Amendments to IFRSs affecting amounts reported in the financial statements**

**New and Revised IFRSs affecting the reported financial performance and/or financial position**

None.

**New and Revised IFRSs affecting presentation and disclosure only**

None.

**(b) New and Revised IFRSs applied with no material effect on the consolidated financial statements**

**Amendments to IFRS 7 Disclosures-Transfers of Financial Assets**

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.1 Basis of preparation (cont'd)**

**A) Financial Reporting Standards Applied (cont'd)**

**New and Revised International Financial Reporting Standards (cont'd)**

**(b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

**Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group's investment properties are accounted for according to the fair value method, however the recovery is not expected to be through sale; therefore the amendment did not have any effect on the consolidated financial statements.

**(c) New and revised IFRSs in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 1	Clarification of the Requirements for Comparative Information
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.1 Basis of preparation (cont'd)**

A) Financial Reporting Standards Applied (cont'd)

##### **New and Revised International Financial Reporting Standards (cont'd)**

##### **(c) New and revised IFRSs in issue but not yet effective (cont'd)**

##### **Amendments to IAS 1 Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis-the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

##### **Amendments to IAS 1 Presentation of Financial Statements (As part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)**

The amendments to IAS 1 issued in May 2012 as part of the Annual Improvements to IFRSs 2009-2011 Cycle are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.1 Basis of preparation (cont'd)**

A) Financial Reporting Standards Applied (cont'd)

##### **New and Revised International Financial Reporting Standards (cont'd)**

##### **(c) New and revised IFRSs in issue but not yet effective (cont'd)**

##### **IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

##### **New and revised Standards on consolidation, joint arrangements, associates and disclosures**

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (2012) and IAS 28 (2012).



# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.1 Basis of preparation (cont'd)**

A) Financial Reporting Standards Applied (cont'd)

##### **New and Revised International Financial Reporting Standards (cont'd)**

##### **(c) New and revised IFRSs in issue but not yet effective (cont'd)**

Key requirements of these five Standards are described below:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation-Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities-Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management does not anticipate the application of these five standards to have a significant impact on amounts reported in the consolidated financial statements. A detailed review will be performed by the Group management to quantify the impact on the application of IFRS 10.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.1 Basis of preparation (cont'd)**

**A) Financial Reporting Standards Applied (cont'd)**

**New and Revised International Financial Reporting Standards (cont'd)**

**(c) New and revised IFRSs in issue but not yet effective (cont'd)**

**IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

**Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures**

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may not result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.1 Basis of preparation (cont'd)**

**A) Financial Reporting Standards Applied (cont'd)**

**New and Revised International Financial Reporting Standards (cont'd)**

**(c) New and revised IFRSs in issue but not yet effective (cont'd)**

**IAS 19 Employee Benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. However, it is not possible to estimate the impact to a reasonable extent until the detailed analyses are completed.

**Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012**

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 Property, Plant and Equipment; and
- Amendments to IAS 32 Financial Instruments: Presentation.

**Amendments to IAS 16**

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

**Amendments to IAS 32**

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.1 Basis of preparation (cont'd)**

###### **A) Financial Reporting Standards Applied (cont'd)**

###### **New and Revised International Financial Reporting Standards (cont'd)**

###### **(c) New and revised IFRSs in issue but not yet effective (cont'd)**

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

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognized as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The Group management anticipates that IFRIC 20 will have no effect to the Group's financial statements as the Group does not engage in such activities.

###### **B) Basis of Consolidation**

- a) The consolidated financial statements include the accounts of the parent company Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its Subsidiaries (the "Group") on the basis set out in sections (b), (c) and (d) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements, and are prepared taking into account the uniform chart of accounts principles and applications and in accordance with the CMB Financial Reporting Standards. The results of operations of Subsidiaries are included or excluded in these consolidated financial statements subsequent to the date of acquisition or date of sale, respectively.
- b) Subsidiaries are companies in which the Group has the power to control the financial and operating policies for the benefit of the Group, either (a) through the power to exercise more than 50% voting rights relating to shares in the companies or (b) although not having the power to exercise more than 50% of the voting rights, through the exercise of actual dominant influence over the financial and operating policies.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**

**2.1 Basis of preparation (cont’d)**

**B) Basis of Consolidation (cont’d)**

The table below sets out all consolidated Subsidiaries and shows their shareholding rates at 31 December 2012:

<b>Subsidiaries</b>	<b>Direct and indirect ownership interest by the Company and its Subsidiaries (%)</b>	<b>Proportion of effective interest (%)</b>
InterKordsa GmbH	100,00	100,00
InterKordsa GbRmH	100,00	100,00
Kordsa GmbH	100,00	100,00
Nile Kordsa Company	51,00	51,00
Kordsa, Inc.	100,00	100,00
Kordsa Arjantin	100,00	100,00
Kordsa Brezilya	97,19	97,19
PT Indo Kordsa Tbk	60,21	60,21
PT Indo Kordsa Polyester	99,97	60,20
Thai Indo Kordsa	64,19	38,65
KQNE	99,50	99,50

The table below sets out all consolidated Subsidiaries and shows their shareholding rates at 31 December 2011:

<b>Subsidiaries</b>	<b>Direct and indirect ownership interest by the Company and its Subsidiaries (%)</b>	<b>Proportion of effective interest (%)</b>
InterKordsa GmbH	100,00	100,00
InterKordsa GbRmH	100,00	100,00
Kordsa GmbH	100,00	100,00
Nile Kordsa Company	51,00	51,00
Kordsa, Inc.	100,00	100,00
Kordsa Arjantin	100,00	100,00
Kordsa Brezilya	94,01	94,49
PT Indo Kordsa Tbk	60,21	60,21
PT Indo Kordsa Polyester	99,97	60,20
Thai Indo Kordsa	64,19	38,65
KQNE	99,50	99,50
Sabancı B.V. <sup>(1)</sup>	100,00	100,00
Kordsa Mauritius <sup>(1)</sup>	100,00	100,00

<sup>(1)</sup> The Company maintained its legal existence as of 31 December 2011 and has been liquidated in 2012.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.1 Basis of preparation (cont'd)**

##### **B) Basis of Consolidation (cont'd)**

The balance sheets and income statements of the Subsidiaries were consolidated by using the full consolidation method and the book value of the shares held by the Group and its Subsidiaries are net off from the related equity. The transactions and balances among the Group and the Subsidiaries are mutually net off within the scope of the consolidation. The cost of the subsidiary shares held by the Group and the Subsidiaries and the dividend incurring from these shares were deducted from the capital and the period profit.

- c) Investments, in which the Group has interests below 20%, or over which the Group does not exercise a significant influence, or which are considered not having a significant impact on the consolidated financial statements are classified as available for sale. Available for sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for impairment (Note 5).
- d) The results of Subsidiaries are included or excluded from consolidation regarding to their effective dates of acquisition and disposal, respectively.
- e) The non-controlling interests' share in the net assets and results for the period for Subsidiaries is separately classified in the consolidated balance sheets and income statements as non-controlling interests.
- f) Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

##### **2.2 Changes in the Accounting Policies**

Significant changes in the accounting principles and significant accounting errors should be applied retrospectively and prior period financial statements should be restated. The Group started to account for its investment properties according to the fair value method in 2012 which were accounted for cost after impairment losses in 2011. Since the effect of the change is not material, the change has not been applied retrospectively. Other than the aforementioned change, there are no changes in the accounting principles for the period between 1 January-31 December 2012.

##### **2.3 Changes in or Corrections of the Accounting Estimations**

Changes in the accounting estimates should be accounted in financial statements prospectively; if the change is related to only one period, it should be accounted at the current year that the change is performed, but if it is related to more than one period it should be accounted at both the current and future periods. There are no significant changes in the accounting estimates for the current period.



# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

##### 2.4 Summary of Significant Relevant Accounting Policies

###### a) Revenue recognition

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commission, and exclude sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the effective yield on the asset.

Other revenues earned by the Group are recognised on the following bases:

Royalty and rental income-on an accrual basis.

Interest income-on an effective yield basis.

Dividend income-when the Group's right to receive payment is established.

###### b) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis (Note 9). Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

###### c) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 10). Depreciation is provided on property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Years
Land improvements	15
Buildings	20-40
Machinery and equipment	2-30
Motor vehicles	3-5
Furniture and fixtures	3-7

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are included in the related income and expense accounts, as appropriate.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

c) Property, plant and equipment (cont'd)

Expenses for the repair of property, plant and equipment are normally charged against income. They are, however, capitalised in exceptional cases if they result in an enlargement or substantial improvement of the respective assets. Spare parts changes and labour costs, included in the large comprehensive maintenance and repair expenses are capitalised. And the average useful lives between the next-largest comprehensive maintenance are depreciated.

d) Intangible assets

Intangible assets include rights, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortization. Amortisation is calculated using the straight-line method over a period not exceeding 20 years (Note 11). The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally generated intangible assets - research and development expenses

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

###### **e) Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives such as goodwill are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

###### **f) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are classified on income statement in the period generated.

###### **g) Business combinations**

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**g) Business combinations (cont'd)**

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**g) Business combinations (cont'd)**

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**h) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**i) Cash and cash equivalents**

Cash and cash equivalents are carried at cost in the balance sheet. Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is less than three months (Note 4).

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**i) Trade receivables and provision for impairment**

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Short-term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant. A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

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

**j) Due date income/(charges)**

Due date income/(charges) represents the income/(charges) that are resulting from credit purchase or sales. These kind of income/(charges) are accepted as financial income and expenses which result from credit purchase or sales come true during the accounting period and included in the financial income and expense within the maturity period.

**k) Provisions, contingent assets and liabilities**

Provisions are recognised when the Group has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are treated as contingent assets or liabilities and not included in financial statements (Note 16).

*Restructuring*

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

**l) Financial Leasing**

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Principal payments are disclosed as liabilities and decreased according to payments made (Note 6). The interest element of the finance cost is charged to the income statement over the lease period. Obligations under finance leases are stated in the consolidated financial statements at the acquisition values of the related property, plant and equipment and depreciated over the useful life.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**m) Provision for employment termination benefits**

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. (Note 17)

**n) Provision for post-employment benefits**

Provision for post-employment benefits is the present value of the defined benefit obligations arising from current and past services of the employees, net of the fair value of plan assets at the balance sheet date. Independent actuarial assumptions and 'projected unit credit method' are used to determine the present value of defined benefit obligations and the related current service cost and, where applicable, past service cost.

In determining the present value of defined benefit obligations and the related current service cost and, where applicable, past service cost, the Group attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the Group attributes benefit on a straight-line basis from the date when service by the employee first leads to benefits under the plan until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases (Note 17).

**o) Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**ö) Available-for-sale financial instruments**

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

All financial assets are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, financial assets that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for impairment. Available for sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

In accordance with the revised IAS 39 "Financial Instruments", unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available for sale financial assets are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the income statement.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

p) Equity items

Ordinary shares are classified as equity. Dividends payable are recognised in the financial statements as a result of profit distribution in the period in which they are declared.

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

Where any group company purchases the Group's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

In the restatement of shareholders' equity items, the addition of funds formed due to hyperinflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders.

In the restatement of shareholders' equity items added to share capital the capital increase registry dates or the payment dates are considered. In the restatement of share premiums, the payment dates are considered (Note 19).

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**r) Taxes on income**

Taxes on income for the period comprise of current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the balance sheet date and adjustments provided for the previous years' income tax liabilities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets or liability are reflected to the consolidated financial statements to the extent that they will decrease or increase the tax payable amount when the temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities (Note 25).

**s) Foreign currency transactions and the effect of changes in foreign exchange rates**

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the statement of income.

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**

**2.4 Summary of Significant Relevant Accounting Policies (cont’d)**

s) Foreign currency transactions and the effect of changes in foreign exchange rates

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified in other comprehensive income and transferred to the Group's translation reserve.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**ş) Borrowings and borrowing costs**

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement as financial expense over the period of the borrowings.

International Accounting Standard No 23 "Borrowing Costs" was revised on 29 March 2007 by the IASB. The revised IAS 23 is effective from 1 January 2009, yet voluntary early transition to the application right is reserved. The Company opted for early adoption and changed its accounting policy, choosing the policy envisaged in IAS 23 related to borrowing costs at 1 January 2007. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are charged to the income statement when they are incurred (Note 6).

**t) Derivative financial instruments and embedded derivatives**

The derivative financial instruments of the Group are comprised of foreign currency and interest rate swap and forward transactions.

Foreign currency and interest rate swap transactions:

Although the stated derivative financial instruments provide an effective hedge against the economic risks, they are treated as held for trading financial instruments since they not match the requirements of IAS 39 "Financial instruments: Recognition and measurement".

Held for trading derivative financial instruments are recognized in the financial statement at cost and carried at fair value after the period of recognition. Profit and loss arising from a change in the fair value of these financial instruments is recognized as income and expense in the consolidated income statement.

The positive fair valued derivative financial instruments are recognized in the asset side of the consolidated balance sheet where the negative fair valued derivative financial instruments are recognized in the liability side of the consolidated balance sheet.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

##### **t) Derivative financial instruments and embedded derivatives (cont'd)**

###### Forward transactions:

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

The Group does not use hedging for speculative reasons.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

##### **u) Deferred financing costs**

Deferred financing costs (primarily comprising legal and other costs incurred in relation to obtaining long-term bank borrowings from financial institutions) are amortised, using the effective interest method, over the remaining life of the long-term bank borrowings (Note 18).

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

**ü) Related parties**

For the purpose of these consolidated financial statements, shareholders of Hacı Ömer Sabancı Holding A.Ş. Group Companies, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties. The Group assigned its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries (Note 27).

**v) Earnings per share**

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retrospective effect to the issuances of the shares without consideration (Note 26).

**y) Reporting of cash flows**

Consolidated statements of cash flows are reported by presenting cash flows from operating, investing and financing activities separately.

Cash flows from operating activities are the cash flows from Group's principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Group's acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from financing activities are the cash flows from Group's changes in the size and composition of the contributed equity and borrowings.

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 3 months (Note 4).

**z) Share premium**

Share premium represents the difference between the nominal value of the Group's shares and the net proceeds from the offering of the Group's share to the public (Note 19).



# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

###### **aa) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation and are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made when there is a change in the use of the investment properties. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, Plant and Equipment" up to the date of change in use (Note 13).

###### **ab) Segment reporting**

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on three operating segments. These operating segments are affected by different economical conditions and geographical positions in terms of risks and rewards. The Company management has determined the Operating Profit as the most appropriate method for the evaluation of the performance of the operating segments (Note 3).

###### **ac) Offsetting**

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

###### **ad) Comparatives and restatement of prior period financial statements**

The consolidated financial statements of the Group include comparative financial information to enable the determination of the trends in financial position and performance. The Group prepared the consolidated balance sheet at 31 December 2012 in comparison with its consolidated balance sheet at 31 December 2011, the Group also prepared the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period 1 January-31 December 2012 in comparison with the accounting period 1 January-31 December 2011.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

**[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]**

#### **NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

##### **2.4 Summary of Significant Relevant Accounting Policies (cont'd)**

###### **ad) Comparatives and restatement of prior period financial statements (cont'd)**

In 2011, the Group netted off the social contributions and other liabilities of Korda Brasil presented in "Other Non-Current Liabilities" amounting to TL 14.208.876 with the social contributions and other assets of Kordsa Brasil presented in "Other Non-Current Assets". In the current year, the Group netted off the related liabilities with "Other Non-Current Assets". The reclassification provides a more appropriate comparison between the two financial years. The result of this reclassification is a decrease of TL 14.208.876 in "Other Non-Current Liabilities" and an equivalent decrease in "Other Non-Current Assets".

In 2011, the Group netted off the deferred tax asset provision of carried forward tax losses presented in "Deferred Tax Liabilities" amounting to TL 4.652.443 with "Deferred Tax Assets". In the current year, the Group netted off the related provision with "Deferred Tax Assets". The reclassification provides a more appropriate comparison between the two financial years. The result of this reclassification is a decrease of TL 4.652.443 in "Deferred Tax Liabilities" and an equivalent decrease in "Deferred Tax Assets".

##### **2.5 Significant Accounting Estimations and Assumptions**

Preparation of the consolidated financial statements in accordance with CMB Financial Reporting Standards necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of balance sheet date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgment of the Group management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk of leading to corrections in the registered value of the assets and liabilities in the next financial period are given below:

###### ***(a) Estimated impairment of goodwill***

The Group tests annually whether goodwill has been impaired, in accordance with the accounting policy stated in note 2.4. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, and these projections are based on USD financial budgets approved by Kordsa Global Management covering a three-year period. Cash flows beyond three years are extrapolated by taking into consideration the shut-down periods recurring once a year. The USD fair value is converted into TL by using the related foreign exchange rate on the date of the balance sheet. Therefore, the value in use calculations are affected by the fluctuations in the foreign exchange market. The discount rate used in the value in use calculations is 9,52% , the risk premium is 2% and the growth rate is 17%. The discount rates used are after tax and reflect specific risks relating to the company. As of 31 December 2012, the Group did not determine any impairment in the amount of the goodwill as a result of the impairment test performed by using the aforementioned assumptions.

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

##### 2.5 Significant Accounting Estimations and Decisions (cont'd)

###### *(b) Net realisable value*

Inventories are valued at the lower of cost or net realisable value as described the accounting policy in Note 2.4. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

###### *(c) Useful lives of tangible and intangible assets*

In accordance with the accounting policy given in the Note 2.4, tangible and intangible assets are stated at historical cost less depreciation and net of any impairment. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Useful lives depend on best estimates of management, are reviewed in each financial period and necessary corrections are made.

###### *(d) Provision for doubtful receivables*

In accordance with the accounting policy given in the Note 2.4, the Group calculates the provision for impairment of trade receivables to cover the estimated losses resulting from the inability of its customers' to make required payments. The estimates used in evaluating the adequacy of the provision for impairment of trade receivables are based on the aging of the trade receivable balances and the trend of collection performance. The provision for doubtful trade receivables is a critical accounting estimate that is formed by past payment performance and financial position of customers.

###### *(e) Provisions*

In accordance with the accounting policy given in the Note 2.4, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

###### *(f) Deferred Tax*

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences at Kordsa Brazil, a subsidiary of Kordsa Global, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized. The Group has not recognized deferred tax assets for Kordsa Brazil's operating loss carry-forwards because it is not apparent that taxable profit will be available sufficient to recognize deferred tax assets. According to Brazilian tax legislation, there is not time limit for carrying forward of operating losses. However, maximum deductible balance is limited to 30% of total taxable income for the related year. If future results of operations exceed the Group's current expectations, the existing unrecognized deferred tax assets may be recognized, resulting in future tax benefits.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 2-BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)**

**2.5 Significant Accounting Estimations and Decisions (cont'd)**

*(g) Internally-generated intangible assets*

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated. The technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete the intangible asset and use or sell it, the ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

In the current year, the Group management re-examined the probable economic benefits of the internally generated intangible assets. The Group management expects the projects to continue as expected and relying on the analysis performed, expects them to create similar economic benefits. The management is sure about being able to recover the book values of the assets even though their economic benefits decrease. The aforementioned situation is followed up closely by the Group management who will make the necessary adjustments if required by the future market transactions.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 3-SEGMENT REPORTING**

The reportable geographical segments for segment reporting are as follows:

<b>a) External revenues</b>	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	584.776.153	637.564.529
North America	392.452.023	407.090.541
South America	207.619.681	216.904.052
Asia	307.067.788	365.622.557
	<b>1.491.915.645</b>	<b>1.627.181.679</b>
<b>b) Segment assets</b>	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	661.839.579	730.412.489
North America	196.951.049	240.296.420
South America	280.335.184	362.370.248
Asia	387.860.637	381.532.524
Other	-	415.598
<b>Segment assets <sup>(*)</sup></b>	<b>1.526.986.449</b>	<b>1.715.027.279</b>
Unallocated assets	79.373.758	22.883.395
Less: Intersegment eliminations and reclassifications	(32.383.037)	(55.380.448)
<b>Total assets per consolidated financial statements</b>	<b>1.573.977.170</b>	<b>1.682.530.226</b>

<sup>(\*)</sup> Segment assets comprise mainly operating assets and exclude deferred income tax assets, time deposits and available for sale financial assets.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 3-SEGMENT REPORTING (Cont'd)**

c) Segment liabilities	2012	2011
Europe, Middle East and Africa	281.882.911	231.496.172
North America	32.772.100	69.393.654
South America	184.131.587	260.273.830
Asia	90.959.056	91.412.283
<b>Segment liabilities <sup>(1)</sup></b>	<b>589.745.654</b>	<b>652.575.939</b>
Unallocated liabilities	39.295.572	55.506.098
Less: Intersegment eliminations and reclassifications	(45.258.634)	(81.224.964)
<b>Total liabilities per consolidated financial statements</b>	<b>583.782.592</b>	<b>626.857.073</b>

<sup>(1)</sup> Segment liabilities comprise mainly operating liabilities and exclude taxation, other financial liabilities and financial liabilities.

**d) Segmental analysis for the period 1 January-31 December 2012**

	Europe, Middle East and Africa	North America	South America	Asia	Inter-segment elimination	Total
External revenues	584.776.152	392.452.023	207.619.681	307.067.789	-	1.491.915.645
Inter-segment revenues	53.633.277	14.660.285	2.824.977	12.501.583	(83.620.122)	-
Revenues	638.409.429	407.112.308	210.444.658	319.569.372	(83.620.122)	1.491.915.645
Segment operating expenses	(583.431.454)	(387.338.477)	(221.324.550)	(265.455.312)	84.540.366	(1.373.009.427)
Total segment operating result	54.977.975	19.773.831	(10.879.892)	54.114.060	920.244	118.906.218
Unallocated expenses						(13.226.802)
						<b>105.679.416</b>

**e) Segmental analysis for the period 1 January-31 December 2011**

	Europe, Middle East and Africa	North America	South America	Asia	Inter-segment elimination	Total
External revenues	637.564.529	407.090.541	216.904.052	365.622.557	-	1.627.181.679
Inter-segment revenues	41.337.373	16.362.377	19.824.971	7.328.751	(84.853.472)	-
Revenues	678.901.902	423.452.918	236.729.023	372.951.308	(84.853.472)	1.627.181.679
Segment operating expenses	(572.461.782)	(399.725.364)	(252.664.659)	(339.622.315)	78.845.021	(1.485.629.099)
Total segment operating result	106.440.120	23.727.554	(15.935.636)	33.328.993	(6.008.451)	141.552.580
Unallocated expenses						(8.157.510)
						<b>133.395.070</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 3-SEGMENT REPORTING (Cont'd)**

**f) Capital expenditure**

	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	43.004.974	44.967.491
North America	8.755.366	6.370.648
South America	8.938.392	13.996.645
Asia	75.437.824	42.784.043
	<b>136.136.556</b>	<b>108.118.827</b>

**g) Depreciation and amortisation**

	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	25.101.024	21.126.476
North America	6.927.993	9.722.866
South America	10.707.284	10.319.668
Asia	17.417.102	13.637.994
	<b>60.153.403</b>	<b>54.807.004</b>

**h) Provision for doubtful receivables**

	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	105.507	23.982
North America	26.888	64.853
South America	124.325	-
Asia	1.970	86.506
	<b>258.690</b>	<b>175.341</b>

**i) Provision for inventory obsolescence:**

	<b>2012</b>	<b>2011</b>
Europe, Middle East and Africa	(80.139)	(208.316)
North America	51.624	73.545
South America	7.704.732	11.263.292
Asia	421.118	407.203
	<b>8.097.335</b>	<b>11.535.724</b>



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

**NOTE 3-SEGMENT REPORTING (Cont'd)**

**j) Provision for employment termination benefits**

Provision for employment termination benefits amounting to TL 7.390.066 as of 31 December 2012 (2011: TL 3.735.072) comprise the provisions of Europe, Middle East and Africa.

The segment reporting in the basis of industry groups of reportable segments is as follows:

<b>a) External revenues</b>	<b>2012</b>	<b>2011</b>
Nylon yarn	390.760.721	422.779.593
Polyester yarn	1.976.810	11.304.719
Fabric	1.024.018.943	1.121.927.660
Other	75.159.171	71.169.707
	<b>1.491.915.645</b>	<b>1.627.181.679</b>
<b>b) Segment assets</b>	<b>2012</b>	<b>2011</b>
Nylon yarn	482.729.458	534.910.581
Polyester yarn	111.302.198	165.097.737
Fabric	593.504.420	671.401.302
Other	94.653.076	84.148.894
	<b>1.282.189.152</b>	<b>1.455.558.514</b>
Unallocated assets	297.816.380	262.302.189
Less: Intersegment eliminations and reclassifications	(6.028.362)	(35.330.477)
<b>Total assets per consolidated financial statements</b>	<b>1.573.977.170</b>	<b>1.682.530.226</b>
<b>c) Capital expenditure</b>	<b>2012</b>	<b>2011</b>
Nylon yarn	30.775.566	28.850.777
Polyester yarn	10.902.777	23.280.584
Fabric	77.918.587	43.806.852
Other	16.539.626	12.180.614
	<b>136.136.556</b>	<b>108.118.827</b>

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 4-CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as of 31 December 2012 and 2011 are as follows:

	2012	2011
Cash	37.660	37.260
Demand Deposits	33.102.055	62.090.747
Time Deposits	55.108.408	2.241.878
	<b>88.248.123</b>	<b>64.369.885</b>

Time deposits have less than 3-months maturity. Average annual interest rate for time deposits in US Dollar is 0,43% (2011: none), 0,42% for Euro (2011: none), 11,8% for Argentinian Peso (2011: none) and 2,65% for Chinese Renminbi (2011: none).

#### NOTE 5-MARKETABLE SECURITIES

	2012	2011
Common stocks	195.967	205.520
	<b>195.967</b>	<b>205.520</b>

Details of the common stocks are as follows:

	2012		2011	
	Percentage of shareholding %	Amount	Percentage of shareholding %	Amount
Investimentos Lei 8200	<0,01	95.378	<0,01	109.337
Desenbanco	<0,01	67.471	<0,01	77.346
Incentivos Fiscais Finor	<0,01	6.174	<0,01	7.078
Other	-	26.944	-	11.759
		<b>195.967</b>		<b>205.520</b>

Movement schedule of marketable securities for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Balances at 1 January	205.520	186.554
Translation loss	(9.553)	18.966
<b>Balances at 31 December</b>	<b>195.967</b>	<b>205.520</b>

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

#### NOTE 6-BORROWINGS

	2012	2011
Short term borrowings	253.067.354	225.934.624
Factoring liabilities	-	30.017.842
<b>Total short term financial liabilities</b>	<b>253.067.354</b>	<b>255.952.466</b>
Long term bank borrowings	97.701.752	104.434.682
<b>Total long term financial liabilities</b>	<b>97.701.752</b>	<b>104.434.682</b>
<b>Total financial liabilities</b>	<b>350.769.106</b>	<b>360.387.148</b>

#### Bank Borrowings

	2012		2011	
	Weighted average effective interest rate %	TL	Weighted average effective interest rate %	TL
<b>Short-term bank borrowings:</b>				
Euro borrowings	2,68	119.744.938	4,37	80.658.748
USD borrowings	3,93	71.285.649	3,17	89.702.131
TL borrowings	7,58	37.293.275	12,36	13.146.153
Other borrowings	23,00	7.954.430	-	674.976
		<b>236.278.292</b>		<b>184.182.008</b>

#### Short-term portion of long-term bank borrowings:

USD borrowings	3,69	16.789.062	3,86	41.752.616
		<b>16.789.062</b>		<b>41.752.616</b>
<b>Total short-term bank borrowings</b>		<b>253.067.354</b>		<b>225.934.624</b>

#### Long-term bank borrowings:

USD borrowings	3,69	97.005.140	3,86	103.033.578
Euro borrowings	3,76	696.612	3,76	1.401.104
<b>Total long-term bank borrowings</b>		<b>97.701.752</b>		<b>104.434.682</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 6-BORROWINGS (Cont'd)**

	2012		2011	
	Fair value	Book value	Fair value	Book value
US Dollar borrowings	185.079.851	185.079.851	234.488.325	234.488.325
Euro borrowings	120.441.550	120.441.550	82.059.852	82.059.852
TL borrowings	37.293.275	37.293.275	674.976	674.976
Other borrowings	7.954.430	7.954.430	13.146.153	13.146.153
	<b>350.769.106</b>	<b>350.769.106</b>	<b>330.369.306</b>	<b>330.369.306</b>

Redemption schedules of long-term borrowings are summarised below:

	2012	2011
1 to 2 years	25.437.530	17.547.726
2 to 3 years	24.761.127	20.188.010
3 to 4 years	21.378.746	33.074.460
4 to 5 years	24.341.728	13.566.300
Over 5 years	1.782.621	20.058.186
	<b>97.701.752</b>	<b>104.434.682</b>

**NOTE 7-TRADE RECEIVABLES AND TRADE PAYABLES**

Trade receivables	2012	2011
Trade receivables	179.220.599	242.378.691
Checks received	7.007.255	4.537.972
Due from related parties (Note 27)	9.409.266	8.839.332
	<b>195.637.120</b>	<b>255.755.995</b>
Less: Provision for doubtful receivables	(1.711.325)	(1.538.876)
Less: Unearned credit finance income	(307.967)	(540.636)
	<b>193.617.828</b>	<b>253.676.483</b>

As of 31 December 2012, annual interest rates for discount of TL, USD and Euro trade receivables and payables are %6,32, %4,25 and %4,09 respectively (2011: %10,96, %4,42 and %5,24). The average maturities of the trade receivables and payables as of 31 December 2012 and 2011 are up to 3 months.

As of 31 December 2012, trade receivables amounting to TL 25,568,655 (2011: TL 26,176,565) were past due but not impaired. The aging of these receivables as of 31 December 2012 and 2011 is as follows:

	2012	2011
Up to 1 month	20.876.739	23.100.236
1 to 3 months	3.700.690	2.169.618
3 to 12 months	991.226	906.711
	<b>25.568.655</b>	<b>26.176.565</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 7-TRADE RECEIVABLES AND TRADE PAYABLES (Cont’d)**

As of 31 December 2012, trade receivables amounting to TL 1.711.325 (2011: TL 1.538.876) were impaired and provided for. The aging of these receivables as of 31 December 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
0 to 1 months	632.603	259.026
1 to 3 months	276.731	165.837
3 to 12 months	258.178	467.587
1 to 5 years	543.813	646.426
	<b>1.711.325</b>	<b>1.538.876</b>

Movement schedules of provision for doubtful receivables as of 31 December 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Balances at 1 January	1.538.876	1.633.788
Additions	258.690	175.341
Collections	(198.218)	(315.871)
Currency translation differences	111.977	45.618
<b>Balances at 31 December</b>	<b>1.711.325</b>	<b>1.538.876</b>

<b>Trade payables</b>	<b>2012</b>	<b>2011</b>
Trade payables	98.159.690	114.922.219
Due to related parties (Note 27)	4.292.869	5.257.746
	102.452.559	120.179.965
Less: Unrealised finance expense on purchases with credit terms	(54.415)	(195.677)
	<b>102.398.144</b>	<b>119.984.288</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 8-OTHER RECEIVABLES AND PAYABLES**

<b>Other short term receivables</b>	<b>2012</b>	<b>2011</b>
Advances given	8.779.766	5.160.105
Taxes and other dues (*)	5.289.297	8.177.168
Prepaid taxes	2.023.408	-
Deposits and guarantees given	1.025.459	555.005
Tax receivables	-	1.815.593
Other	2.367.361	4.832.447
	<b>19.485.291</b>	<b>20.540.318</b>

**Other long term receivables**

Taxes and other dues (*)	5.477.122	4.394.554
Other	1.170.022	955.232
	<b>6.647.144</b>	<b>5.349.786</b>

(\*) Prepaid taxes and other withholding taxes mainly comprise the social security premiums and other tax receivables of Kordsa Brazil which are over paid in excess in previous periods and the Company has the right to recollect from the Federal Bureau of Taxation.

<b>Other short term payables</b>	<b>2012</b>	<b>2011</b>
Taxes and dues payable	8.052.373	9.389.261
Payable to personnel	2.492.448	2.507.951
Advances received	1.761.864	578.115
Other	5.561.931	7.781.636
	<b>17.868.616</b>	<b>20.256.963</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 9-INVENTORIES**

	2012	2011
Raw materials and supplies	105.410.073	156.440.979
Finished goods	135.715.839	146.134.904
Semi-finished goods	42.747.316	48.910.229
Spare parts	32.004.562	27.745.861
Intermediate goods	9.478.101	21.364.635
Other inventories	14.524.009	20.054.789
	<b>339.879.900</b>	<b>420.651.397</b>
Less: Provision for obsolescence	(9.356.819)	(10.070.781)
	<b>330.523.081</b>	<b>410.580.616</b>

The allocation of the provisions for obsolescence for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
Finished goods	6.233.908	5.932.775
Spare parts	2.863.021	3.829.412
Raw materials and supplies	259.890	308.594
<b>Balances at 31 December</b>	<b>9.356.819</b>	<b>10.070.781</b>

Movement schedules for provision for obsolescence for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
Balances at 1 January	10.070.781	5.241.820
Additions	8.097.335	11.535.724
Reversals	(8.595.882)	(7.624.436)
Currency translation differences	(215.415)	917.673
<b>Balances at 31 December</b>	<b>9.356.819</b>	<b>10.070.781</b>

The amount of provision for inventory obsolescence classified to cost of goods sold for the year 2012 is TL (498.547) (2011: TL 3.911.288).

The cost of inventories recognised as expense and included in cost of sales amounted to TL 802.050.604 for the period 1 January-31 December 2012 (2011: TL 883.872.919).



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 10-PROPERTY, PLANT AND EQUIPMENT**

The movement of property, plant and equipment as of 31 December 2012 is as follows:

	1 January 2012	Additions	Disposals	Provision for impairment <sup>(1)</sup>	Transfers from assets classified as held for sale	Transfers	Currency translation differences	31 December 2012
<b>Cost:</b>								
Land and land improvements	65.822.675	11.578	(12.453)	-	-	33.080	(1.267.534)	64.587.346
Buildings	275.554.957	1.595.654	(335.647)	-	-	3.640.455	(7.860.250)	272.595.169
Machinery and equipment	1.289.472.519	25.863.164	(48.809.859)	-	465.913	56.966.269	(69.876.476)	1.254.081.530
Motor vehicles	4.026.434	501.441	(463.609)	-	-	58.900	(268.091)	3.855.075
Furniture and fixtures	49.682.053	1.664.919	(359.668)	-	-	533.394	(2.986.682)	48.534.016
Construction in progress	64.592.754	102.323.468	(116.825)	(2.278.740)	-	(62.761.937)	(4.709.705)	97.049.015
	<b>1.749.151.392</b>	<b>131.960.224</b>	<b>(50.098.061)</b>	<b>(2.278.740)</b>	<b>465.913</b>	<b>(1.529.839)</b>	<b>(86.968.738)</b>	<b>1.740.702.151</b>
<b>Accumulated depreciation:</b>								
Land improvements	17.947.758	1.906.906	(2.145)	-	-	-	(330.635)	19.521.884
Buildings	142.490.356	10.521.550	(2.658)	-	-	-	(3.597.072)	149.412.176
Machinery and equipment	793.624.068	42.233.137	(47.417.008)	-	-	-	(44.064.930)	744.375.267
Motor vehicles	2.718.168	337.289	(365.752)	-	-	-	415.696	3.105.401
Furniture and fixtures	37.744.928	2.408.342	(325.864)	-	-	-	(2.712.573)	37.114.833
	<b>994.525.278</b>	<b>57,407,224</b>	<b>(48,113,427)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(50,289,514)</b>	<b>953,529,561</b>
<b>Net book value</b>	<b>754,626,114</b>							<b>787,172,590</b>

<sup>(1)</sup> Total impairment is related to the South America Region.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 10-PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

The movement of property, plant and equipment as of 31 December 2011 is as follows:

	1 January 2011	Additions	Disposals	Provision for impairment <sup>(1)</sup>	Transfers to assets classified as held for sale	Transfers to investment property	Transfers	Currency translation differences	31 December 2011
<b>Cost:</b>									
Land and land improvements	83.512.350	15.955	-	-	-	(24.441.858)	27.572	6.708.656	65.822.675
Buildings	250.786.384	1.351.597	(56.150)	-	-	-	4.057.674	19.415.452	275.554.957
Machinery and equipment	1.166.679.015	17.878.342	(45.214.553)	-	(4.493.907)	-	65.493.319	89.130.303	1.289.472.519
Motor vehicles	3.802.790	347.126	(806.182)	-	-	-	202.045	480.655	4.026.434
Furniture and fixtures	42.100.515	1.354.728	(1.575.629)	-	-	-	3.602.517	4.199.922	49.682.053
Construction in progress	55.020.071	86.096.407	(4.083)	-	-	-	(86.120.880)	9.601.239	64.592.754
	<b>1.601.901.125</b>	<b>107.044.155</b>	<b>(47.656.597)</b>	<b>-</b>	<b>(4.493.907)</b>	<b>(24.441.858)</b>	<b>(12.737.753)</b>	<b>129.536.227</b>	<b>1.749.151.392</b>
<b>Accumulated depreciation:</b>									
Land improvements	25.676.625	1.638.735	-	-	-	(10.483.064)	-	1.070.462	17.947.758
Buildings	118.045.020	10.381.749	(43.632)	6.740.632	-	-	-	7.366.587	142.490.356
Machinery and equipment	737.278.300	38.720.854	(29.727.480)	10.182.655	(4.027.994)	-	-	41.197.733	793.624.068
Motor vehicles	2.743.317	373.718	(721.491)	-	-	-	-	322.624	2.718.168
Furniture and fixtures	33.697.303	2.123.193	(1.523.607)	14.107	-	-	-	3.433.932	37.744.928
	<b>917.440.565</b>	<b>53.233.249</b>	<b>(32.016.210)</b>	<b>16.937.394</b>	<b>(4.027.994)</b>	<b>(10.483.064)</b>	<b>-</b>	<b>53.391.338</b>	<b>994.525.278</b>
<b>Net book value</b>	<b>684.460.560</b>								<b>754.626.114</b>

<sup>(1)</sup> Impairment on buildings amounting to TL 6.685.900 is related to the South America Region. Total impairment on machinery and equipment and furniture and fixtures are related to Asia Pacific Region.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 10-PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

TL 53.827.415 of current period depreciation and amortisation expenses are included in cost of sales (2011: TL 49.816.841), TL 2.344.367 is included in research and development expenses (2011: TL 1.160.761) and TL 3.981.621 is included in general administrative expenses (2011: TL 3.829.402).

There are no mortgages on property, plant and equipment (2011: TL 22.852.777).

<b>Leased assets included in property, plant and equipment</b>	<b>2012</b>	<b>2011</b>
Cost	165.091	189.711
Accumulated depreciation	(161.516)	(163.909)
<b>Net book value</b>	<b>3.575</b>	<b>25.802</b>

**NOTE 11-INTANGIBLE ASSETS**

	<b>1 January 2012</b>	<b>Additions</b>	<b>Disposal</b>	<b>Transfers</b>	<b>Currency translation differences</b>	<b>31 December 2012</b>
<b>Cost:</b>						
Rights	50.335	-	-	(151.182)	16.860.458	16.759.611
Technology licences	22.517.930	326.214	-	16.709.277	(18.100.742)	21.452.679
Capitalized development expenses	12.737.753	-	-	-	-	12.737.753
Computer software	17.169.281	3.839.052	(47.949)	(15.041.861)	(2.762.067)	3.156.456
Customer relationships	659.479	-	-	-	-	659.479
Other	1.106.132	11.066	-	13.605	(11.066)	1.119.737
	<b>54.240.910</b>	<b>4.176.332</b>	<b>(47.949)</b>	<b>1.529.839</b>	<b>(4.013.417)</b>	<b>55.885.715</b>
<b>Accumulated Amortization:</b>						
Rights	50.535	-	-	-	2.975.816	3.026.151
Technology licences	17.776.073	326.214	-	-	(749.579)	17.352.708
Capitalized development expenses	-	2.022.031	-	-	-	2.022.031
Computer software	13.504.998	386.869	(39.590)	-	(2.863.729)	10.988.548
Other	1.062.329	11.065	-	-	4.325	1.077.719
	<b>32.393.735</b>	<b>2.746.179</b>	<b>(39.590)</b>	<b>-</b>	<b>(633.167)</b>	<b>34.467.157</b>
<b>Net book value</b>	<b>21.847.175</b>					<b>21.418.558</b>

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

#### NOTE 11-INTANGIBLE ASSETS (Cont'd)

	1 January 2011	Additions	Transfers	Currency translation differences	31 December 2011
<b>Cost:</b>					
Rights	50.335	-	-	-	50.335
Technology licences	22.302.273	-	-	215.657	22.517.930
Capitalized development expenses <sup>(1)</sup>	-	-	12.737.753	-	12.737.753
Computer software	15.259.398	1.074.672	-	835.211	17.169.281
Customer relationships	659.479	-	-	-	659.479
Other	1.106.132	-	-	-	1.106.132
	<b>39.377.617</b>	<b>1.074.672</b>	<b>12.737.753</b>	<b>1.050.868</b>	<b>54.240.910</b>
<b>Accumulated Amortization:</b>					
Rights	50.335	-	-	-	50.335
Technology licences	18.421.199	325.680	-	(970.806)	17.776.073
Computer software	11.640.358	1.241.456	-	623.184	13.504.998
Other	1.055.710	6.619	-	-	1.062.329
	<b>31.167.602</b>	<b>1.573.755</b>	<b>-</b>	<b>(347.622)</b>	<b>32.393.735</b>
<b>Net book value</b>	<b>8.210.015</b>				<b>21.847.175</b>

<sup>(1)</sup> Capitalized development expenses is comprised of the capitalized projects of the R&D center in İzmit. As of 31 December 2012, the average useful life has been determined as 5-20 years.

#### NOTE 12 - ASSETS CLASSIFIED AS HELD FOR SALE

The company decided to consolidate its South America Cord Fabric Facilities in Brazil. After this process, the fixed assets which are idle and expected to be sold in twelve months are classified as assets classified as held for sale and presented separately on the balance sheet as of 31 December 2011.

However, since the sales of the related assets have not been realized as of 31 December 2012, they have been reclassified to property, plant and equipment on the balance sheet. The detailed information of the assets classified as held for sale is provided below:

Cost	2012	2011
Machinery and equipment	-	4.493.907
<b>Accumulated amortization</b>		
Machinery and equipment	-	(4.027.994)
	<b>-</b>	<b>465.913</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 13 - INVESTMENT PROPERTY**

	31 December 2012	31 December 2011
<b>Balance at the beginning of the year</b>	<b>13.171.226</b>	-
Gain/(loss) from fair value adjustments	3.668.302	(837.568)
Currency translation differences	(719.240)	-
Transfers	-	14.008.794
<b>Closing balance</b>	<b>16.120.288</b>	<b>13.171.226</b>

<sup>(1)</sup> Investment property is owned by PT Indo Kordsa Company in Asia Pasific Region.

The fair value of the Group's investment property has been determined by independent valuers who are not related with the Group and have appropriate qualifications and recent experience in the valuation of peoperties and TL 3.668.302 (USD 2.057.838) of fari value increase as a result of this valuation has been reflected to the financial statements. The valuation in accordance with the International Valuation Standards has been performed by taking reference of the market transaction prices of similar properties.

**NOTE 14 - GOODWILL**

The goodwill with an amount of TL 45.595.167 (2011: TL 45.595.167) net book value as of 31 December 2012 consisted of TL 42.570.007 (2011: TL 42.570.007), which accrued in consequence of the merger with Dusa Endüstriyel İplik ve Sanayi ve Ticaret A.Ş on 30 September 1999, and TL 3.025.160 (2011: TL 3.025.160), which accrued in consequence of the acquisition of the PT Indo Kordsa Group on 22 December 2006.

In Note 2.5 details of assessment for the impairment of goodwill is defined. There is no change in the book value of the goodwill, which is TL 45.595.167 for the period ended as of 31 December 2012 and 2011.

**NOTE 15-GOVERNMENT GRANTS**

	2012	2011
Government grants	2.363.015	2.599.763

Government grants comprise the incentives related to the fixed asset purchase of Interkordsa GmbH.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 16- PROVISIONS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES**

Commitments and contingencies, from which the management does not anticipate any significant losses or liabilities are summarized below:

	<b>2012</b>	<b>2011</b>
<b>a) Guarantees given:</b>		
Pledges given to banks	143.437.990	144.171.535
Letter of guarantees	18.287.232	9.115.689
Letter of credits	9.461.149	23.272.154
Pledges given for machinery and equipment	5.879.250	6.109.500
Pledges	673.176	108.818
Other guarantees	821.824	429.325
Mortgages given	-	22.852.777
	<b>178.560.621</b>	<b>206.059.798</b>
<b>b) Guarantees received:</b>		
Letter of guarantees	6.070.990	3.070.250
Cheques and notes received as collateral	1.109.457	1.214.820
Mortgages received	-	5.000.000
	<b>7.180.447</b>	<b>9.285.070</b>

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 16-PROVISIONS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES (Cont'd)

c) Guarantees, Pledges and Mortgages given by the Company ("GPM"):

31 December 2012	TL Equivalent	TL	USD	EUR	Thai Baht	Indonesian Rupiah (000)	Brazilian Real	Argentina Peso	Other TL Equivalent
A. Given on behalf of its own legal entity	178,560,621	12,346,061	86,901,840	5,078,597	12,767,625	90	-	-	60,888
B. Given in favor of partnership within full scope of consolidation	117,930,928	-	66,156,697	-	-	-	-	-	-
C. Given for the third parties that are in the context of commercial activities	-	-	-	-	-	-	-	-	-
D. Other	-	-	-	-	-	-	-	-	-
i. In favor of the parent company	-	-	-	-	-	-	-	-	-
ii. Given in favor of group companies that are not in the scope of clauses B and C	-	-	-	-	-	-	-	-	-
iii. Given in favor of the third parties that are not in the scope of clause C	-	-	-	-	-	-	-	-	-
	296,491,549	12,346,061	152,248,537	5,078,597	12,767,625	90	-	-	60,888

31 December 2011	TL Equivalent	TL	USD	EUR	Thai Baht	Indonesian Rupiah (000)	Brazilian Real	Argentina Peso	Other TL Equivalent
A. Given on behalf of its own legal entity	206,059,798	7,836,245	29,591,561	3,023,547	386,440,356	533,696,485	-	1,599,481	52,602
B. Given in favor of partnership within full scope of consolidation	118,712,945	-	62,847,660	-	-	-	-	-	-
C. Given for the third parties that are in the context of commercial activities	-	-	-	-	-	-	-	-	-
D. Other	-	-	-	-	-	-	-	-	-
i. In favor of the parent company	-	-	-	-	-	-	-	-	-
ii. Given in favor of group companies that are not in the scope of clauses B and C	-	-	-	-	-	-	-	-	-
iii. Given in favor of the third parties that are not in the scope of clause C	-	-	-	-	-	-	-	-	-
	324,772,743	7,836,245	92,439,221	3,023,547	386,440,356	533,696,485	-	1,599,481	52,602

The percentage of the Group's other GPMs to the Group's equity as of 31 December 2012 is 0% (31 December 2011: 0%)

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 16- PROVISIONS, COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES (Cont'd)**

- i) During the preparation of the consolidated financial statements for the fiscal period 01 January to 31 December 2008, the Group found that a person employed in the accounting department of Kordsa Global İzmit had caused the Group to suffer loss through misappropriation of the Company's assets, and in an attempt to recover the money embezzled by the employee the Group initiated legal proceedings with a claim of TL 4.774.030 without limiting its right to litigation and to claim any excess.
- ii) In 2008 PT Indo Kordsa Polyester, a subsidiary of the Group, underwent an inspection by the tax authorities and received a tax loss penalty amounting to US Dollar 2.9 million. The Group has objected to the stated amount, but decided to pay this amount by the end of 31 December 2009. This payment has been accounted in prepaid taxes under other current assets. The lawsuit has been finalized in favor of the Company. The tax authority resolved to pay US Dollar 2.7 Million principal and US Dollar 1.1 Million legal interest to the Company. As of the date of the preparation of the consolidated financial statements, the Company received US Dollar 437 thousand principal and US Dollar 208 thousand interest. In addition, the Company received US Dollar 146 thousand tax payment and US Dollar 540 thousand tax penalty.
- iii) In 2003, Kordsa Argentina, which is a subsidiary of the Group, entered into a collective labour agreement with the Textile Workers' Association of Argentina, but this agreement was terminated by the Textile Workers' Association of Argentina subsequently. Kordsa Argentina filed a lawsuit challenging the termination of this agreement, but the case was rejected in 2008. Following the rejection of this lawsuit, 30 workers subject to the stated agreement demanded salary differences to be paid by Kordsa Argentina. The total liability of Kordsa Argentina was calculated as US Dollar 817 thousand, (including the principal amount and interest).

As of second half of 2012, Kordsa Argentina has seeked a settlement for 23 of 30 workers as mentioned above. As of 30 June 2012, US Dollar 540 thousand has been paid and other 7 lawsuits are expected to result in favor of the Company.

Total provision booked as of 31 December 2012 related to this probability is US Dollar 216 thousand.

- iv) Two lawsuits have been filed against the Group's subsidiary, Kordsa Argentina with a total risk of US Dollar 440 thousand in 2009, comprising occupational accidents, terminations and claims. Based on the Group's legal counsel, the outcomes of the cases are uncertain and the Group has not reserved provision for these amounts in the consolidated financial statements.



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 17 - EMPLOYEE BENEFITS**

**Current Employee Benefits**

	2012	2011
Provision for unused vacation	5.612.458	6.284.997
Provision for bonus accrual	3.588.823	4.776.832
Provision for salary accrual	751.027	1.321.037
Provision for capital contribution plan <sup>(1)</sup>	1.689.904	3.687.964
	<b>11.642.212</b>	<b>16.070.830</b>

<sup>(1)</sup> The Group applies a contribution-based (premium pay) profit-sharing programme called “Capital Contribution Plan” for North America region workers, where 5% of the total premiums earned is paid annually to employees’ account, which is reimbursible after fulfilling three years of work experience within the Group.

In addition to this benefit, another plan called 401(k) is applied to the employees that work in North America. According to this plan, employees can contribute up to 5% of their salaries to the plan and the Group contributes the same amount as the employees’ contribution.

Movements in the provision for unused vacation during the year are as follows:

	2012	2011
1 January	6.284.997	4.903.731
Increase during the year	3.883.878	3.623.567
Decrease during the year	(4.138.286)	(2.980.581)
Currency translation differences	(418.131)	738.280
<b>31 December</b>	<b>5.612.458</b>	<b>6.284.997</b>

**Non-Current Employee Benefits**

	2012	2011
Provision for employment termination benefits	22.727.624	17.689.827
Accruals for employee retirement benefit plans	4.513.117	3.930.316
	<b>27.240.741</b>	<b>21.620.143</b>

Provision for employment termination benefits

Provision for employment termination is allocated in accordance with the disclosures given below:

Under Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age 58 for women (60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. At 31 December 2012 the amount payable consists of one month’s salary limited to a maximum of TL 3.033,98 (2011: TL 2.731,85) for each year of service.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 17-RETIREMENT PLANS (Cont’d)**

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

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

IAS 19 “Employee Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	<b>2012</b>	<b>2011</b>
Discount rate (%)	3,73	4,66
Turnover rate to estimate the probability of retirement (%)	98,46	97,82

The principal assumption is that maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 3.129 (1 January 2011: TL 2.805), which is effective from 1 January 2013, has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	<b>2012</b>	<b>2011</b>
1 January	17.689.827	15.965.025
Increase during the year	5.804.196	3.735.072
Paid during the year	(2.352.269)	(2.010.270)
Actuarial loss/(gain)	1.585.870	-
<b>31 December</b>	<b>22.727.624</b>	<b>17.689.827</b>

Provision for employment retirement benefits plans:

Provision for post-employment benefits is the present value of the defined benefit obligations of the Subsidiaries in Indonesia and Thailand, arising from current and past services of the employees, net of the fair value of plan assets at the balance sheet date. Independent actuarial assumptions and ‘projected unit credit method’ are used to determine the present value of defined benefit obligations.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 17-RETIREMENT PLANS (Cont'd)**

Provision for employment retirement benefit plans are to be calculated in accordance with the laws in the country the subsidiaries operate in and in proportion to work hours of the employees. Work hours and salary provisions those should be paid are listed in the table below:

<b>Duration of Employment/Service</b>	<b>Payable salary provision</b>
Within 120 days- 1 year	30 days
Within 1 year- 3 year	90 days
Within 3 year- 6 year	180 days
Within 6 year- 10 year	240 days
Over 10 year	300 days

Provision of employee termination benefit is calculated by an independent firm with considering the variables such as employee ages, working period, retirement age, turnover rate, salary increase rate and inflation rate. The calculation is renewed every year and the provision amount is adjusted in income statement as income or expenses with considering the expected working period of employees.

Movement schedule of provision for employment retirement benefit plans is as follows:

	<b>2012</b>	<b>2011</b>
Balances at 1 January	3.930.316	2.593.771
Additions	932.030	645.114
Payments	(839.415)	-
Currency translation differences	490.186	691.431
<b>Balances at 31 December</b>	<b>4.513.117</b>	<b>3.930.316</b>

**NOTE 18-OTHER ASSETS AND LIABILITIES**

<b>Other current assets</b>	<b>2012</b>	<b>2011</b>
Insurance claim income <sup>(1)</sup>	18.742.480	28.489.955
Deductible VAT	13.858.872	15.453.322
Prepaid taxes	4.173.935	9.885.648
Deferred VAT	3.523.894	10.493.421
Prepaid expenses	2.921.938	5.561.274
Derivative financial instruments (Note 28)	1.232.514	2.641.573
Advances given to personnel	228.988	481.485
Other	-	1.866.224
	<b>44.682.621</b>	<b>74.872.902</b>

<sup>(1)</sup> Thai Indo Kordsa, a subsidiary of the Group, accrued income for the receivables from the insurance company as a result of the flood disaster in Thailand and accounted for the insurance receivables amounting to US Dollar 10.514.125 (TL 18.742.480) in other current assets.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 18-OTHER ASSETS AND LIABILITIES (Cont'd)**

<b>Other non-current assets</b>	<b>2012</b>	<b>2011</b>
Deferred financing cost	2.155.156	538.337
Other	1.426.896	1.084.112
	<b>3.582.052</b>	<b>1.622.449</b>
<b>Other short-term liabilities</b>	<b>2012</b>	<b>2011</b>
Sales discounts and commission accruals <sup>(*)</sup>	2.161.815	8.274.474
Other tax accruals <sup>(*)</sup>	5.038.498	6.289.395
Insurance expense accrual	2.086.663	-
Derivative financial instruments (Note 2B)	1.938.175	631.705
Cost accruals	5.464.476	4.312.846
Other personnel expense	1.055.110	-
Provision for legal claims	622.937	2.140.441
Advisory expenses	296.460	-
Other	1.245.045	2.325.549
	<b>10.909.179</b>	<b>23.974.410</b>

<sup>(\*)</sup> Other tax accruals mainly comprise foreign Subsidiaries' export, hygiene, security and other tax liabilities.

<sup>(\*)</sup> Sales discount and commission accruals consist of the accrued intermediary commissions as of the balance sheet date.

**NOTE 19-EQUITY**

**Paid-in share capital**

The Company's authorized and issued capital consists of 19,452,907,600 shares at 1 shares of Kr1 nominal value (2011: 19,452,907,600 shares). All shares are paid and there is no preferred stock. The Company's shareholders and their shareholdings at 31 December 2012 and 2011 are as follows:

	<b>2012</b>	<b>Share (%)</b>	<b>2011</b>	<b>Share (%)</b>
Hacı Ömer Sabancı Holding. A.Ş.	177.233.427	91,11	177.233.427	91,11
Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş.	1.516	<1	1.516	<1
Teknosa İç ve Dış Tic.A.Ş.	1.357	<1	1.357	<1
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	327	<1	327	<1
Temsa Global Sanayi ve Ticaret A.Ş.	52	<1	52	<1
Other (Public and Central RegistryAgency (CRA))	17.292.397	8,89	17.292.397	8,89
<b>Total paid-in share capital</b>	<b>194.529.076</b>	<b>100,00</b>	<b>194.529.076</b>	<b>100,00</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 19-EQUITY (Cont'd)**

**Revaluation Reserves**

	2012	2011
Financial assets fair value reserve	(270.151)	(270.151)
Hedging reserve	(1.380.180)	1.613.561
	<b>(1.650.331)</b>	<b>1.343.410</b>

**Financial Assets Fair Value Reserve:**

The Financial Assets Fair Value Reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

**Hedging Reserve:**

The Hedging Reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss.

**Movements of Hedging Reserve:**

	2012	2011
<b>Balances at 1 January</b>	<b>1.613.561</b>	<b>(1.214.430)</b>
Increases/(decreases)	(21.678.292)	(14.718.103)
Income tax related to gains/losses recognized in other comprehensive income	416.683	(393.602)
Reclassified to profit or loss	18.501.305	17.980.215
Foreign currency translation differences	233.437	(40.519)
<b>Balances at 31 December</b>	<b>(1.380.180)</b>	<b>1.613.561</b>

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

#### NOTE 19-EQUITY (Cont'd)

##### Share Premiums

Share premiums presented in the consolidated financial statements represent the proceeds obtained by issuing shares above the nominal values in the amount of TL 102.684.000 and TL 4.551.000 during the capital increases in May 2006 and June 2006, respectively following the establishment of the Company.

After the decision of Kordsa Global and Kordsa Turkey's merger through acquisition of Kordsa Global by Kordsa Turkey as a whole with its assets and liabilities as of 30 June 2006 in the Extraordinary General Assembly Meeting of Kordsa Turkey on 29 November 2006, the share premium of TL 57.736 was accounted as addition to share premium.

As of 23 January 2007, founding partners' redeemed shares are acquired in return for TL 45.240.000 and this amount is accounted for as a deduction from additional paid-in capital.

##### Restricted Reserves

As of 31 December 2012 restricted reserves comprise the legal reserves amounting to TL 28.384.668 (2011: TL 16.626.055).

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

In accordance with the CMB regulations effective until 1 January 2008, the inflation adjustment differences arising at the initial application of inflation accounting which are recorded under "accumulated losses" could be netted off from the profit to be distributed based on CMB profit distribution regulations. In addition, the aforementioned amount recorded under "accumulated losses" could be netted off with net income for the period, if any, undistributed prior period profits, and inflation adjustment differences of extraordinary reserves, legal reserves and capital, respectively.

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

In accordance with the Communiqué No:XI-29 and related announcements of the CMB, effective from 1 January 2008, "Share capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amounts. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising due to the inflation adjustment of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment To Share Capital";
- if the difference is due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilized in dividend distribution or capital increase yet, it shall be classified under "Retained Earnings".

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 19-EQUITY (Cont'd)**

**Restricted Reserves (Cont'd)**

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

Capital adjustment differences have no other use other than being transferred to share capital.

**Profit Distribution:**

In accordance with the Capital Markets Board's (the “Board”) Decree issued as of 27 January 2011, in relation to the profit distribution of earnings derived from the operations in 2009, minimum profit distribution is not required for listed companies, and accordingly, profit distribution should be made based on the requirements set out in the Board's Communiqué Serial:IV, No: 27 “Principles of Dividend Advance Distribution of Companies That Are Subject To The Capital Markets Board Regulations”, terms of articles of corporations and profit distribution policies publicly disclosed by the companies.

Furthermore, based on the afore-mentioned decree, companies that are required to prepare consolidated financial statements should calculate their net distributable profits, to the extent that they can be recovered from equity in their statutory records, by considering the net profit for the period in the consolidated financial statements which are prepared and disclosed in accordance with the Communiqué Serial: XI, No: 29.

Inflation adjustment to equity can only be netted-off against losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' loss and used in the distribution of bonus shares and dividends to shareholders.

In accordance with the above explanation, the composition of Group's equity, which is considered as the basis for profit distribution, in accordance with Communiqué No. XI/29, is as follows:

	<b>2012</b>	<b>2011</b>
Share premium	62.052.736	62.052.736
Net income for the period	39.655.348	87.694.432

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 20-SALES AND COST OF SALES**

	2012	2011
Sales income (gross)	1.510.051.193	1.646.429.911
Sales returns (-)	(1.028.428)	(3.031.132)
Sales discounts (-)	(5.824.374)	(6.683.852)
Other sales discounts (-)	(11.282.746)	(9.533.248)
<b>Sales income (Net)</b>	<b>1.491.915.645</b>	<b>1.627.181.679</b>
Cost of sales (-)	(1.299.671.243)	(1.369.851.063)
<b>Gross profit</b>	<b>192.244.402</b>	<b>257.330.616</b>

**NOTE 21-EXPENSES BY NATURE**

	2012	2011
Raw materials and consumables used	802.050.604	883.872.919
Personnel expenses	218.044.137	196.641.385
Energy expenses	120.092.938	115.966.352
Depreciation and amortization expenses	60.153.403	54.807.004
Distribution expenses	37.867.406	38.155.715
Packaging expenses	31.147.599	32.021.135
Consultancy expenses	11.211.254	8.067.366
Idle mill expenses	9.618.052	5.014.986
Fixed assets impairment loss <sup>(1)</sup>	2.278.740	9.496.040
Other	149.033.501	153.651.270
	<b>1.441.497.634</b>	<b>1.497.694.172</b>

<sup>(1)</sup> Provision of impairment is related to the machinery and equipment in South America Region.



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 22-OTHER INCOME/EXPENSES**

<b>Other income</b>	<b>2012</b>	<b>2011</b>
Income from insurance claims <sup>(**)</sup>	42.472.428	26.170.681
Domestic production incentive income <sup>(*)</sup>	19.438.867	18.984.105
Gain from fair value of investment properties (Note 13)	3.668.302	-
Export incentive income	2.556.081	671.969
Gain on sale of property, plant and equipment	505.030	286.141
Rent income	105.236	105.528
Other	4.799.731	2.303.172
	<b>73.545.675</b>	<b>48.521.596</b>
<b>Other expenses</b>	<b>2012</b>	<b>2011</b>
Donations	4.341.832	6.046.170
Taxes and duties	6.400.616	5.058.951
Loss on sale of property, plant and equipment	924.797	180.582
Expenses of the customer damages	1.381.095	1.299.784
Amortization loss of non-operating assets <sup>(**)</sup>	-	7.441.354
Provision for impairment of investment property (Note 13)	-	837.568
Inventory impairment loss <sup>(**)</sup>	-	18.496.758
Other	5.235.930	5.252.866
	<b>18.284.270</b>	<b>44.614.033</b>

<sup>(\*)</sup> Domestic production incentive income refers to the Brazilian Subsidiary's sales tax return income on finished goods produced and sold in its own country.

<sup>(\*\*)</sup> As of 31 December 2012, Thai Indo Kordsa, a subsidiary of the Group, accrued income for its receivables from the insurance company due to the flood disaster in Thailand amounting to TL 18.742.480 and together with the cash received amounting to TL 23.729.948, TL 42.464.566 of income from insurance claims is accounted for in other income.

As of 31 December 2011, Thai Indo Kordsa, a subsidiary of the Group, accrued income for its receivables from the insurance company due to the flood disaster in Thailand and accounted for TL 25.906.484 of insurance damages income in other income. Inventory impairment of TL 18.496.758 and amortization loss of non-operating fixed assets of TL 7.358.746 have been accounted for in other expenses. The remaining TL 264.917 of recognized insurance income accrual includes TL 138.857 from Kordsa Turkey, TL 95.621 from Kordsa Brazil and TL 29.720 from Kordsa Argentina. TL 82.608 of amortization loss of non-operating assets is comprised of losses from Kordsa Inc. (Laurel Hill).

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

**NOTE 23-FINANCIAL INCOME**

	2012	2011
Foreign exchange gain	56.702.951	90.831.632
Credit finance income	3.955.257	3.268.991
Interest income	3.579.505	3.954.715
Derivative financial instruments	-	1.403.288
Other	618.927	-
	<b>64.856.640</b>	<b>99.458.626</b>

**NOTE 24-FINANCIAL EXPENSE**

	2012	2011
Foreign exchange loss	63.476.381	84.876.999
Interest expense	23.540.821	12.642.956
Credit finance expense	1.031.082	1.234.447
Derivative financial instruments	1.587	2.180.910
Other	1.276.760	1.221.035
	<b>89.326.631</b>	<b>102.156.347</b>

**NOTE 25-TAXES ON INCOME**

**Corporate Tax**

	2012	2011
Corporate tax currently payable	18.977.485	38.691.968
Less: Prepaid taxes	(18.977.485)	(32.234.538)
	-	<b>6.457.430</b>

Corporate Income Tax Law has been changed with the law numbered 5520 which was published at 13 June 2006. Most of the rules of the new Corporate Income Tax Law are applicable from 1 January 2006. According to this, corporate tax rate applicable in Turkey is % 20 (2011: %20). Corporate tax rate is applied to the taxable profit which is calculated by adding non-taxable expenses and deducting some exemptions taken place in tax laws (exemptions for participation revenues, exemptions for investment incentives) from accounting profit of the Company. No additional taxes are paid unless profit is distributed (except %19.8 withholding tax paid over used investment incentives).

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

# **KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2012**

**(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)**

#### **NOTE 25-TAXES ON INCOME (Cont'd)**

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

##### Investment Incentive

According to the regulation, published in the Official Gazette on August 1, 2010 based on as per article 5 of Law No. 6009, the inscription "only dependant to 2006, 2007 and 2008 years" which is in article 69 of 193 numbered income tax law and which was invalidated by Constitutional Court's decision that was published at official gazette on 8 January 2010 and that is numbered 2009/144 is readjusted. By the readjustment, investment incentive exemption that is assigned to following periods and that cannot be reduced because of insufficiency of profit, the investment allowance amount can be used without a year limitation but the amount, which will be used in the determination of the tax assessment, will not exceed 25% profit of the concerned period. In addition to this, 20% corporate tax rate will be applied on the income after the deduction of the allowance.

The additional paragraph to Provisional Article 69 included in accordance with Law No:6009, which is related to the 25% threshold and also requires the incentive amount that will be subject to investment incentive exemption in determining tax base cannot exceed 25% of the respective income has been revoked based on the ground that it is contrary to the Constitution upon the Constitutional Court's resolution No: E. 2010/93 K. 2012/09 issued on 9th February 2012 and published in the Official Gazette No: 28208 on 18th February 2012.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. As of 1 January 2005, forementioned conditions are not valid thus, there are no inflation adjustments.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 25-TAXES ON INCOME (Cont’d)**

There are numerous exemptions in the Corporate Tax Law concerning the corporations. Those related to the Company are as follows:

Real property, investment equity, preferential rights, usufruct shares, founding shares, sales exemption:

A 75% portion of the gains derived from the sale of preferential rights, usufruct shares and founding shares from investment equity and real property which has remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of 5 years. The sales consideration has to be collected up until the end of the second calendar year following the year the sale was realized.

Brokerage houses and real estate companies who are dealing with the trading and the leasing of the real estate cannot benefit from this exemption.

Apart from the abovementioned exemptions considered in the determination corporate income tax base, allowances stated in Corporate Income Tax Law Articles 8, 9 and 10 and Income Tax Law Article 40 are also taken into consideration.

The taxes on income reflected to consolidated income statements for the years ended 31 December 2012 and 2011 are summarized as follows:

	<b>2012</b>	<b>2011</b>
Current period corporate tax expense	(18.977.485)	(38.691.968)
Deferred tax income/(expense)	1.934.041	5.299.073
	<b>(17.043.444)</b>	<b>(33.392.895)</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 25-TAXES ON INCOME (Cont’d)**

The reconciliation of tax for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Profit before tax in the consolidated financial statements	81.209.425	130.697.349
Tax charge according to parent company's tax rates 20%	16.241.885	26.139.470
Tax rate differences of subsidiaries	7.492.292	11.396.374
<b>Expected tax charge of the Group</b>	<b>24.184.177</b>	<b>37.535.844</b>
Disallowable expenses	1.807.247	1.074.640
Other exempt income	(250.273)	(2.185.661)
Dividend income	(2.432.204)	(1.607.524)
Lump-sum expense provision	(434.949)	(516.855)
Research and development incentive allowance	(2.739.560)	(2.304.979)
Consolidation eliminations without deferred tax effect	(3.090.994)	1.397.430
<b>Tax expense of the Group</b>	<b>17.043.444</b>	<b>33.392.895</b>
<b>Deferred income taxes</b>		
	2012	2011
<b>Balances at 1 January</b>	<b>(39.899.426)</b>	<b>(40.864.954)</b>
Current year deferred tax income/(expense)-net	1.934.041	5.299.073
Accounted for under equity	416.683	(393.602)
Currency translation differences	3.062.236	(3.939.943)
<b>Balances at 31 December</b>	<b>(34.486.466)</b>	<b>(39.899.426)</b>

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported under CMB Financial Reporting Standards and their statutory tax financial statements.

Tax rate used for deferred tax assets and liabilities calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method is 20% in Turkey (2011: 20%).

At 31 December 2012 and 2011, tax rates used for companies operating in Egypt and Germany are %20% and 30%, respectively.

At 31 December 2012 and 2011, tax rate used for companies operating in the United States of America is 35%, Argentina is 35% and Brazil is 21,5%.

At 31 December 2012 and 2012, tax rate used for companies operating in Indonesia is 25% and China is 24%.

Tax rate to be used in Thailand starting from 1 January 2012 has been declared as 23% (31 December 2011: 30%). This rate will be 20% starting from 1 January 2013.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 25-TAXES ON INCOME (Cont'd)**

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided at 31 December 2012 and 2011 using the enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2012	2011	2012	2011
Carried forward tax losses	11.586.930	13.436.573	4.049.191	4.586.462
Provision for employment termination benefits	25.843.838	18.808.480	5.327.195	4.223.825
Inventories	4.860.513	8.159.002	1.523.061	2.163.625
Adjustment for consignment sales	643.914	2.685.547	128.783	537.109
Unearned credit finance income	253.552	706.473	61.593	149.586
Doubtful receivables provision	573.137	439.938	196.127	165.843
Other	16.127.606	8.778.027	5.402.510	3.780.222
<b>Deferred tax assets</b>			<b>16.688.460</b>	<b>15.606.672</b>
Property, plant and equipment and intangibles	204.412.904	218.543.354	(51.174.926)	(55.826.721)
Other	-	(784.345)	-	320.623
<b>Deferred tax liabilities</b>			<b>(51.174.926)</b>	<b>(55.506.098)</b>
<b>Deferred tax liabilities-net</b>			<b>(34.386.466)</b>	<b>(39.899.426)</b>

Since it is not anticipated to be able to offset the financial losses of the Group's subsidiary Kordsa Brazil, which amounted to TL 50.764.035 as of 31 December 2012 (2011: TL 77.866.716), no deferred tax asset has been calculated and included in the above table. According to the Brazilian tax system, there is no time limitation for the carry forward of the financial losses. However, the maximum amount which can be offset within any given year is limited to the 30% of the total profit, which is subject to tax, of the related year.

**NOTE 26-EARNINGS PER SHARE**

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

	2012	2011
Net income attributable to equity holders of the parent	39.655.348	87.694.432
Weighted average number of ordinary shares	19.452.907.600	19.452.907.600
Per 1.000 units of common stocks	2,04	4,51

Nominal values of ordinary shares for the years ended 31 December 2012 and 2011 are assumed to be Kr 1 each.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 27-TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

<b>Bank balances:</b>	<b>2012</b>	<b>2011</b>
Akbank T.A.Ş. - time deposits	40.014.885	70.718.055
Akbank T.A.Ş.-demand deposits	4.055.171	21.199.830
	<b>44.070.056</b>	<b>91.917.885</b>

	<b>2012</b>	<b>2011</b>
Akbank T.A.Ş. - bank borrowings	<b>2.505.634</b>	-

<b>Due from related parties:</b>	<b>2012</b>	<b>2011</b>
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş. ("Brisa")	9.351.066	8.612.692
Enerjisa Enerji Üretim A.Ş. ("Enerjisa")	36.809	76.236
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş. ("Bimsa")	12.113	14.540
Akbank A.G. <sup>(1)</sup>	1.343	1.386
Other	7.935	134.478
	<b>9.409.266</b>	<b>8.839.332</b>

<sup>(1)</sup> Balance consists of the receivables from factoring transactions of Interkordsa.

<b>Due to related parties:</b>	<b>2012</b>	<b>2011</b>
Enerjisa Enerji Üretim A.Ş. ("Enerjisa")	2.912.294	3.516.982
Enerjisa Doğalgaz Toptan Satış A.Ş. ("Gasco")	1.069.951	-
Bimsa	183.603	143.953
Hacı Ömer Sabancı Holding A.Ş. ("Sabancı Holding")	31.444	5.968
Aksigorta A.Ş.	21.342	436.906
Olmuksa International Paper Sabancı Ambalaj San. Tic. A.Ş. ("Olmuksa")	21.140	124.197
Sabancı Üniversitesi	16.276	9.440
Brisa	666	45.960
Temsa Global Sanayi ve Ticaret A.Ş. ("Temsa")	393	6.308
Sasa Polyester Sanayi A.Ş. ("SASA")	-	907.036
Teknosa İç ve Dış Ticaret A.Ş. ("Teknosa")	-	37.378
Other	35.760	23.61
	<b>4.292.869</b>	<b>5.257.746</b>

<b>Product sales</b>	<b>2012</b>	<b>2011</b>
Brisa	<b>37.089.148</b>	<b>36.769.900</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

**NOTE 27-TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)**

<b>Service sales</b>	<b>2012</b>	<b>2011</b>
Sabancı Holding	79.458	11.092
Brisa	4.592	-
Enerjisa	198	99.339
Ak Emeklilik A.Ş.	-	1.672
Olmuksa	-	1.117
	<b>84.248</b>	<b>113.220</b>

Service sales arise from invoicing of common services incurred for the above companies which operate in the same area.

<b>Product purchases</b>	<b>2012</b>	<b>2011</b>
Olmuksa	240.696	206.322
SASA	40.144	796.650
	<b>280.840</b>	<b>1.002.972</b>

<b>Services received</b>	<b>2012</b>	<b>2011</b>
Enerjisa	29.415.054	34.130.146
Aksigorta	4.168.964	3.773.432
Bimsa	2.141.697	1.555.259
Ak Emeklilik A.Ş.	415.577	322.337
Sabancı Holding	283.564	128.688
Sabancı Üniversitesi	53.590	34.857
Brisa	27.531	24.210
Teknosa	12.095	38.732
Sabancı Telekomünikasyon Hizmetleri A.Ş.	-	534.002
Other	602.439	258.227
	<b>37.120.511</b>	<b>40.799.890</b>

<b>Property, plant and equipment purchases</b>	<b>2012</b>	<b>2011</b>
Bimsa	33.853	140.882
Temsa	-	114.000
Teknosa	-	16.629
Enerjisa	-	9.418
	<b>33.853</b>	<b>280.929</b>



# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 27-TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

	2012	2011
<b>Interest income</b>		
Akbank T.A.Ş.	211.134	676
<b>Interest expense</b>		
Akbank T.A.Ş.	548.455	1.713.952
<b>Foreign exchange gains/(losses)-net</b>		
Akbank T.A.Ş.	448.699	269.815
<b>Rent expense</b>		
Sabancı Holding	486.982	281.942
<b>Rent income</b>		
Bimsa	51.040	48.360
Other	25.157	23.584
	76.197	71.944
<b>Donations</b>		
Sabancı University	2.150.000	3.905.000

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

[Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.]

**NOTE 27-TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)**

**Remunerations:**

The Group defined its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries.

Details of the remunerations provided by the Group for 2012 and 2011 are as follows:

	2012	2011
Short-term employee benefits	10.719.424	11.307.580
Employee termination benefits	1.303.278	35.113
Other long-term benefits	165.942	144.375
Post-employment benefits	-	221.928
	<b>12.188.644</b>	<b>11.708.996</b>

**Security and guarantee letters given**

**2012**

Related party	Amount	Currency	Description	Bank
Kordsa Inc.	1.850.000	USD	Credit Guarantee	GE Capital
Kordsa Argentina	15.000.000	USD	Credit Guarantee	IFC
Kordsa Argentina	8.833.334	USD	Credit Guarantee	CITIBANK NA
Kordsa Argentina	4.473.363	USD	Credit Guarantee	HSBC Argentina
Kordsa Brazil	25.000.000	USD	Credit Guarantee	IFC
Nile Kordsa	11.000.000	USD	Credit Guarantee	IFC

**2011**

Related party	Amount	Currency	Description	Bank
Kordsa Inc.	3.950.000	USD	Credit Guarantee	GE Capital
Kordsa Argentina	2.500.000	USD	Credit Guarantee	Akbank N.V.
Kordsa Argentina	15.000.000	USD	Credit Guarantee	IFC
Kordsa Argentina	6.397.660	USD	Credit Guarantee	Citibank Argentina
Kordsa Argentina	10.000.000	USD	Credit Guarantee	HSBC Argentina
Kordsa Brazil	25.000.000	USD	Credit Guarantee	IFC

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
 (Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT**

**Financial risk management**

*Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Finance department of Kordsa Global under policies approved by the board of directors. Finance department identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

*(a) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below depicts the cash outflows the Group will pay for the financial liabilities in the balance sheet in accordance with the remaining maturities. The amounts in the table are contractual and non-discounted. The Group performs its liquidity risk management by considering expected non-discounted cash flows.

Liquidity risk analysis of the financial liabilities of the Group as of 31 December 2012 and 2011 is as follows:

*Non-derivative financial liabilities (1)(2):*

<b>2012</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>
Financial liabilities	350.769.106	379.816.614	69.448.607	184.987.534	76.958.811	48.421.662
Trade payables	102.398.144	102.452.559	100.318.398	1.717.508	416.653	-
Other payables	20.231.631	20.912.624	18.184.205	1.355.324	555.699	817.396
	<b>473.398.881</b>	<b>503.181.797</b>	<b>187.951.210</b>	<b>188.060.366</b>	<b>77.931.163</b>	<b>49.239.058</b>
<b>2011</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>
Financial liabilities	360.387.148	362.561.921	155.427.852	102.068.965	84.885.836	20.179.268
Trade payables	119.984.288	120.179.965	119.142.242	1.037.723	-	-
Other payables	22.856.726	23.475.366	19.653.179	1.257.501	962.164	1.602.523
	<b>503.228.162</b>	<b>506.217.252</b>	<b>294.223.273</b>	<b>104.364.189</b>	<b>85.248.000</b>	<b>21.781.791</b>

(1) Maturity analyses have been applied solely to financial instruments and exclude legal liabilities.

(2) The aforementioned cash flows are contractual and non-discounted amounts. Since the discount amounts for the balances with a maturity of less than 3 months are immaterial, the discounted amounts are equal to the carrying value.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk*

*Interest rate risk*

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Group utilises its cash by making time deposits and by purchasing company bonds. To keep these exposures at a minimum level, the Group tries to borrow at the most suitable rates. The Group enters into interest rate swap transactions in order to decrease the risks in relation to the increase in interest rates.

Interest rate risk table of the Group as of 31 December 2012 and 2011 is as follows:

	2012	2011
<b>Variable interest financial instruments</b>		
Financial liabilities	289.896.000	179.308.068
Cash and cash equivalents	-	-

Various scenarios are simulated by the Group for floating rate borrowings taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. According to these scenarios:

At 31 December 2012, if interest rates on US Dollar denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 741.754 (2011: TL 806.479), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2012, if interest rates on Euro denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 4.780 (2011: TL 12.263), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2012, if interest rates on Brazilian Real denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 172.326 (2011: TL 3.486), mainly as a result of higher/lower interest expense on floating rate borrowings.

*Foreign exchange risk*

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Turkish Lira. Foreign Exchange risk is monitored with an analysis of foreign exchange positions. In addition, the Group aims to reduce foreign exchange risk arising from assets and liabilities by using currency and interest rate swap instruments. As of 31 December 2012, there are no swap transactions.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
**(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)**

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk (Cont'd)*

*Derivative financial instruments*

The derivative financial instruments of the Group comprise foreign currency and interest rate swap transactions and forward contracts.

Foreign currency and interest rate swap transactions:

Although the stated derivative financial instruments provide an effective hedge against the economic risks, they are treated as available for sale financial instruments since they not match the requirements of IAS 39 "Financial instruments :Recognition and measurement".

Available for sale derivative financial instruments are recognized in the financial statement at cost and carried at fair value after the period of recognition. Profit and loss arising from a change in the fair value of these financial instruments is recognized as income and expense in the consolidated income statement.

The positive fair valued derivative financial instruments are recognized in the asset side of the consolidated balance sheet where the negative fair valued derivative financial instruments are recognized in the liability side of the consolidated balance sheet (Note 18).

As of 31 December 2012, there are no swap transactions.

Foreign currency forward transactions:

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Group does not use hedging for speculative reasons.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income.

The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk (Cont'd)*

*Derivative financial instruments (Cont'd)*

Foreign currency forward transactions (Cont'd):

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The Group entered into foreign currency forward transactions in order to manage the risks emerging from the sales transactions which are expected to occur within 12 months following the balance sheet date. The carrying values of the items hedged against the non-financial risk will be adjusted once the expected sales will take place. The Group also entered into foreign currency forward transactions with due date 2012 in order to hedge its trade receivables and payables from the effects of the changes in foreign currency exchange rates.

The Group also uses fair value hedge with its derivative portfolio to hedge its trade receivables and payables from the effects of the exchange rate differences in the markets. According to this, the net-off figures of the exchange rate change in the balance sheet and the exchange rate change of the derivative portfolio are presented in the income statement and the effectiveness of the hedge accounting is evaluated at each balance sheet date.

**Foreign exchange forward contracts :**

<b>31 December 2012</b>	Average Rate	Foreign Currency (TL)	Contract Value (TL)	Fair Value Amount (TL)
Buy TL Sell EUR				
Less than 3 months	2,3517	32.923.800	32.999.500	(219.636)
3-6 months	2,3806	39.978.900	40.499.950	(332.255)
6-9 months	2,4088	42.330.600	43.313.400	(348.022)
9-12 months	2,4416	47.034.000	48.840.850	(404.555)
Buy BRL Sell US Dollar				
Less than 3 months	2,1009	5.936.637	9.454.150	180.849
3-6 months	2,1228	5.936.637	9.552.800	183.872
6-9 months	2,1459	5.936.637	9.656.500	125.031
9-12 months	2,1717	5.936.637	9.772.650	109.055
				<b>(705.661)</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk (Cont'd)*

*Derivative financial instruments (Cont'd)*

**Foreign exchange forward contracts (Cont'd) :**

<b>31 December 2011</b>	Average Rate	Foreign Currency (TL)	Contract Value (TL)	Fair Value Amount (TL)
USD Buy EUR Sell				
Less than 3 months	2,5172	40.567.080	41.551.550	784.119
3-6 months	2,5619	43.499.640	45.441.180	728.287
6-9 months	2,6041	42.644.310	45.355.565	584.775
9-12 months	2,6511	44.354.970	48.004.150	502.534
TL Buy EUR Sell				
Less than 3 months	1,8664	9.633.390	9.570.705	(103.493)
3-6 months	1,8911	9.633.390	9.696.498	(142.514)
6-9 months	1,9147	9.633.390	9.818.242	(176.314)
9-12 months	1,9369	9.633.390	9.931.930	(209.384)
Indonesian Rupiah Buy USD Sell				
Less than 3 months	9,143	5.940.591	5.989.945	23.791
3-6 months	9,213	6.252.259	6.352.944	18.674
6-9 months	9,285	6.752.818	6.914.508	8.217
9-12 months	9,353	6.233.370	6.429.388	(8.824)
				<b>2.009.868</b>

The unrealized losses resulting from the changes in the fair value of currency derivatives that are designated and effective as cash flow hedges amounting to TL 553.518 has been deferred in equity (2011: unrealized gains TL 1.613.561). Sales are expected to be realized within the upcoming 12 months after the balance sheet date and therefore hedging reserve is expected to be recycled to income statement.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk (Cont'd)*

*Derivative financial instruments (Cont'd)*

Hedges of net investments in foreign operations:

In case there are derivative financial instruments or non-derivative financial liabilities designated to hedge against the financial risks resulting from net investments in foreign operations:

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item. Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

The Company subjected the net investment in one of its foreign subsidiary and the US Dollar borrowings in another subsidiary to the hedge of a net investment in foreign operations. The Company accounted for the foreign exchange losses arising from the related borrowings amounting to TL 3.844.609 (31 December 2011: TL 8.313.771) under Currency Translation Reserves in Equity in accordance with IAS 39 and IFRIC 16.

The Company increased the share capital of its subsidiary Kordsa Brazil. The related share capital increase as of 16 October 2012 amounts to TL 94.786.706 (US Dollar 49.542.515) and the related hedge accounting has been terminated as of this date.

Foreign Currency Position

Group's assets and liabilities denominated in foreign currencies at 31 December 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Assets	334.372.305	401.001.118
Liabilities	(446.086.522)	(504.134.513)
<b>Net foreign currency position</b>	<b>(111.714.217)</b>	<b>(103.133.395)</b>



# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)

2012	Total TL Equivalent	USD <sup>(*)</sup>	EUR <sup>(*)</sup>	Thailand Baht <sup>(*)</sup>	Indonesian Rupiah (000) <sup>(*)</sup>	Brazilian Real <sup>(*)</sup>	Argentinean Pesos <sup>(*)</sup>	Other TL Equivalent
<b>Assets:</b>								
Trade receivables	171.905.674	35.056.849	25.163.120	143.185.166	60.617.400	26.656.371	297.274	2.101.862
Cash and cash equivalent	88.429.173	11.300.624	19.643.579	68.238.760	3.008.491	2.603.968	8.690.180	11.994.273
Monetary other receivables and assets	5.817.654	161.449	284.070	-	-	-	-	10.184
Non-monetary other receivables and assets	44.554.788	5.698.373	522.746	388.989.591	38.291.233	861.945	10.496.274	3.766.821
<b>Current assets</b>	<b>310.707.289</b>	<b>52.217.295</b>	<b>45.613.515</b>	<b>600.413.517</b>	<b>102.717.124</b>	<b>30.122.284</b>	<b>19.483.728</b>	<b>18.873.160</b>
Monetary other receivables and assets	23.665.016	2.506.933	-	412.720	1.745.053	16.182.937	13.059.599	-
<b>Non-current assets</b>	<b>23.665.016</b>	<b>2.506.933</b>	<b>-</b>	<b>412.720</b>	<b>1.745.053</b>	<b>16.182.937</b>	<b>13.059.599</b>	<b>-</b>
<b>Total Assets</b>	<b>334.372.305</b>	<b>54.724.228</b>	<b>45.613.515</b>	<b>600.826.237</b>	<b>104.462.177</b>	<b>46.305.221</b>	<b>32.543.327</b>	<b>17.873.160</b>
<b>Liabilities:</b>								
Trade payables	79.612.244	34.267.199	3.908.467	10.737.794	6.707.995	5.209.107	5.013.969	1.113.105
Financial payables	215.774.079	49.408.006	50.918.458	-	-	-	21.945.409	-
Monetary other payables and liabilities	36.069.111	6.175.733	1.137.416	59.307.513	30.831.668	5.523.871	15.606.916	2.774.814
<b>Total short term liabilities</b>	<b>331.455.434</b>	<b>89.950.938</b>	<b>55.964.341</b>	<b>70.045.307</b>	<b>37.539.663</b>	<b>10.732.978</b>	<b>42.566.294</b>	<b>3.887.919</b>
Financial Payables	97.701.752	54.417.783	296.216	-	-	-	-	-
Monetary other payables and liabilities	16.929.396	-	2.009.623	23.104.575	17.188.317	11.055.373	7.061.126	-
<b>Total long term liabilities</b>	<b>114.131.088</b>	<b>54.417.783</b>	<b>2.305.839</b>	<b>23.104.575</b>	<b>17.188.317</b>	<b>11.055.373</b>	<b>7.061.126</b>	<b>-</b>
<b>Total liabilities</b>	<b>446.086.522</b>	<b>144.268.721</b>	<b>58.270.180</b>	<b>93.149.882</b>	<b>54.727.980</b>	<b>21.788.351</b>	<b>49.627.420</b>	<b>3.887.919</b>
Fair value of financial instruments used for foreign currency hedging	(705.661)	(395.861)	-	-	-	-	-	-
<b>Net foreign currency asset/(liability) position</b>	<b>(111.724.217)</b>	<b>(89.544.493)</b>	<b>(12.656.665)</b>	<b>507.676.355</b>	<b>49.734.197</b>	<b>24.516.870</b>	<b>(17.084.093)</b>	<b>13.985.241</b>
<b>Monetary items net foreign currency asset/(liability) position</b>	<b>(156.269.005)</b>	<b>(95.242.866)</b>	<b>(13.179.411)</b>	<b>118.686.764</b>	<b>11.442.964</b>	<b>23.654.925</b>	<b>(27.580.367)</b>	<b>10.218.420</b>

<sup>(\*)</sup> The amounts are denominated in the related currency.

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)

2011	Total TL Equivalent	USD <sup>(*)</sup>	EUR <sup>(*)</sup>	Thailand Baht <sup>(*)</sup>	Indonesian Rupiah (000) <sup>(*)</sup>	Brazilian Real <sup>(*)</sup>	Argentinean Pesos <sup>(*)</sup>	Other TL Equivalent
<b>Assets:</b>								
Trade receivables	238.846.284	49.504.878	38.304.094	54.869.866	1.154.376	41.253.747	183.062	5.095.872
Cash and cash equivalent	64.783.062	15.198.874	3.112.017	253.956.519	9.652.074	254.506	7.912.632	7.592.683
Monetary other receivables and assets	12.352.254	2.746.860	1.214.156	-	-	-	-	-
Non-monetary other receivables and assets	61.238.691	2.155.071	(940.283)	486.638.378	55.350.610	6423.941	36.145.306	785.284
<b>Current assets</b>	<b>377.220.291</b>	<b>69.605.683</b>	<b>41.689.984</b>	<b>795.464.763</b>	<b>66.157.060</b>	<b>48.202.194</b>	<b>44.241.000</b>	<b>13.473.839</b>
Monetary other receivables and assets	23.780.827	1.684.522	-	361.720	2.036.855	18.136.301	4.192.096	-
<b>Non-current assets</b>	<b>23.780.827</b>	<b>1.684.522</b>	<b>-</b>	<b>361.720</b>	<b>2.036.855</b>	<b>18.136.301</b>	<b>4.192.096</b>	<b>-</b>
<b>Total Assets</b>	<b>401.001.118</b>	<b>71.290.205</b>	<b>41.689.984</b>	<b>795.826.483</b>	<b>68.193.915</b>	<b>66.388.495</b>	<b>48.433.096</b>	<b>13.473.839</b>
<b>Liabilities:</b>								
Trade payables	81.849.774	48.121.414	3.550.473	12.581.544	3.879.140	5.070.618	9.214.187	1.586.639
Financial payables	255.151.613	85.484.985	33.005.462	-	-	13.054.981	-	-
Monetary other payables and liabilities	43.290.042	7.521.616	2.887.080	25.739.385	20.365.590	5.409.246	20.709.048	1.713.769
<b>Total short term liabilities</b>	<b>380.291.429</b>	<b>141.128.015</b>	<b>39.443.015</b>	<b>38.320.929</b>	<b>24.244.730</b>	<b>23.534.845</b>	<b>29.923.235</b>	<b>3.300.408</b>
Financial Payables	104.434.682	54.546.868	573.330	-	-	-	-	-
Monetary other payables and liabilities	19.408.402	-	2.127.640	20.103.657	13.116.044	10.771.833	7.660.147	-
<b>Total long term liabilities</b>	<b>123.843.084</b>	<b>54.546.868</b>	<b>2.700.970</b>	<b>20.103.657</b>	<b>13.116.044</b>	<b>10.771.833</b>	<b>7.660.147</b>	<b>-</b>
<b>Total liabilities</b>	<b>504.134.513</b>	<b>195.674.883</b>	<b>42.143.985</b>	<b>58.424.586</b>	<b>37.360.774</b>	<b>34.306.678</b>	<b>37.583.382</b>	<b>3.300.408</b>
Fair value of financial instruments used for foreign currency hedging	2.009.756	1.063.982	-	-	-	-	-	-
<b>Net foreign currency asset/(liability) position</b>	<b>(103.133.395)</b>	<b>(124.384.678)</b>	<b>(454.001)</b>	<b>737.401.897</b>	<b>30.833.141</b>	<b>32.081.817</b>	<b>10.849.714</b>	<b>10.173.431</b>
<b>Monetary items net foreign currency asset/(liability) position</b>	<b>(164.372.086)</b>	<b>(126.539.749)</b>	<b>486.282</b>	<b>250.763.519</b>	<b>(24.517.469)</b>	<b>25.657.876</b>	<b>(25.295.592)</b>	<b>9.338.147</b>

<sup>(\*)</sup> The amounts are denominated in the related currency.

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)

##### *(b) Market risk (Cont'd)*

##### Foreign Currency Position (Cont'd)

TL equivalents of the foreign currencies where the Group operates are as follows:

	2012	2011
<b>Year-end rates</b>		
American Dollar	1,7826	1,8889
Euro	2,3517	2,4438
Indonesian Rupiah (1000 units)	0,1843	0,2083
Argentinean Peso	0,3625	0,4389
Brazilian Real	0,8723	1,0070
Thai Baht	0,0582	0,0596
Chinese Renminbia	0,2836	0,2998
Egyptian Pound	0,2775	0,3124
	<b>2012</b>	<b>2011</b>
<b>Average rates</b>		
American Dollar	1,7925	1,6715
Euro	2,3045	2,3240
Indonesian Rupiah (1000 units)	0,1910	0,1905
Argentinean Peso	0,3940	0,4048
Brazilian Real	0,9170	0,9979
Thai Baht	0,0577	0,0548
Chinese Renminbia	0,2848	0,2587
Egyptian Pound	0,2948	0,2825

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(b) Market risk (Cont'd)*

Foreign Currency Position (Cont'd)

Foreign currency position as of 31 December 2012 and 2011 in regard to the changes in foreign currency rates is depicted in the table below:

	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<b>2012</b>				
Change in USD against TL by 10%				
USD net assets/liabilities	(26.378.485)	26.378.485	21.020.516	(21.020.516)
Hedged USD (-)	-	-	-	-
<b>USD net effect</b>	<b>(26.378.485)</b>	<b>26.378.485</b>	<b>21.020.516</b>	<b>(21.020.516)</b>
Change in EURO against TL by 10%				
Euro net assets/liabilities	17.834.996	(17.834.996)	23.523.053	(23.523.053)
Hedged Euro (-)	-	-	-	-
<b>Euro net effect</b>	<b>17.834.996</b>	<b>(17.834.996)</b>	<b>23.523.053</b>	<b>(23.523.053)</b>
Change in other currency against TL by 10%				
Other currency net assets/liabilities	-	-	-	-
Hedged other currency (-)	-	-	-	-
<b>Other currency net effect</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>(8.543.489)</b>	<b>8.543.489</b>	<b>44.543.569</b>	<b>(44.543.569)</b>
<b>2011</b>				
Change in USD against TL by 10%				
USD net assets/liabilities	(26.874.571)	26.874.571	20.764.698	(20.764.698)
Hedged USD (-)	-	-	-	-
<b>USD net effect</b>	<b>(26.874.571)</b>	<b>26.874.571</b>	<b>20.764.698</b>	<b>(20.764.698)</b>
Change in EURO against TL by 10%				
Euro net assets/liabilities	5.047.828	(5.047.828)	23.766.450	(23.766.450)
Hedged Euro (-)	-	-	-	-
<b>Euro net effect</b>	<b>5.047.828</b>	<b>(5.047.828)</b>	<b>23.766.450</b>	<b>(23.766.450)</b>
Change in other currency against TL by 10%				
Other currency net assets/liabilities	(27.179)	27.179	-	-
Hedged other currency (-)	-	-	-	-
<b>Other currency net effect</b>	<b>(27.179)</b>	<b>27.179</b>	<b>-</b>	<b>-</b>
	<b>(21.583.922)</b>	<b>21.583.922</b>	<b>44.531.148</b>	<b>(44.531.148)</b>

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

Export and import balances from Turkey as of 31 December 2012 and 2011 is as follows:

	2012		2011	
	Original Balance	TL	Original Balance	TL
Euro	140.717.019	324.588.982	184.240.120	435.908.952
US Dollar	64.817.460	116.175.413	56.752.474	95.508.170
<b>Total Export</b>		<b>440.764.395</b>		<b>531.417.122</b>
			<b>2012</b>	<b>2011</b>
<b>Import</b>			<b>301.718.724</b>	<b>383.451.602</b>

***(c) Funding risk***

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. The borrowings of the Group are from financially strong various financial institutions.

***(d) Credit risk***

Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding receivables.

Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. Group management covers these risks by limiting the aggregate risk from any individual counter party and if necessary by obtaining guarantee.

Group uses internal credit control procedure, credit rating system and internal control policy for the credit risk management of receivables from customers. According to these procedures, Group approves, increases or decreases individual customer credit limits for high balanced customers (excluding related parties). The credit limits are set by taking into account the financial position, past payment performance, the position of trade relations, growth potential and management style of the customers. These limits are annually revised and letter of guarantees, mortgages and other guarantees are received for the high risk customers.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

As of 31 December 2012, the credit risk regarding the financial instruments is as follows:

2012	Trade Receivables		Other Receivables (*)		Bank Deposits	
	Related Party	Other	Related Party	Other	Related Party	Other
<b>Maximum credit risk based on financial instruments as of reporting date</b>	<b>9,409,266</b>	<b>184,174,929</b>	<b>-</b>	<b>5,275,273</b>	<b>4,055,171</b>	<b>84,192,952</b>
<i>- Collateralized or secured with guarantees part of maximum credit risk</i>	-	-	-	-	-	-
Net book value of not due or not impaired financial assets	9,409,266	158,606,274	-	5,275,273	4,055,171	84,192,952
Net book value of past due but not impaired financial assets	-	25,568,655	-	-	-	-
<i>-Collateralized or guaranteed part</i>	-	-	-	-	-	-
Net book value of impaired financial assets	-	1,711,325	-	-	-	-
<i>-Gross amount of overdue part</i>	-	(1,711,325)	-	-	-	-
<i>-Impairment (-)</i>	-	(1,711,325)	-	-	-	-
<i>-Collateralized or guaranteed part of net value</i>	-	-	-	-	-	-

(\*) Excludes tax and other legal receivables.

## KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2011, the credit risk regarding the financial instruments is as follows:

	Trade Receivables		Other Receivables <sup>(1)</sup>		Bank Deposits	
	Related Party	Other	Related Party	Other	Related Party	Other
<b>2011</b>						
Maximum credit risk based on financial instruments as of reporting date	8.839.332	244.837.151	-	7.655.176	2.336.279	61.996.346
<i>- Collateralized or secured with guarantees part of maximum credit risk</i>	-	-	-	-	-	-
Net book value of not due or not impaired financial assets	8.839.332	218.660.586	-	7.655.176	2.336.279	61.996.346
Net book value of past due but not impaired financial assets	-	26.176.565	-	-	-	-
<i>- Collateralized or guaranteed part</i>	-	-	-	-	-	-
Net book value of impaired financial assets	-	1.538.876	-	-	-	-
<i>- Gross amount of overdue part</i>	-	1.538.876	-	-	-	-
<i>- Impairment (-)</i>	-	(1.538.876)	-	-	-	-
<i>- Collateralized or guaranteed part of net value</i>	-	-	-	-	-	-

<sup>(1)</sup> Excludes tax and other legal receivables.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 28-FINANCIAL RISK MANAGEMENT (Cont'd)**

*(d) Credit risk (Cont'd)*

The Group assumes that its receivables from the related parties including the ones which are overdue bear no risk of collection since it takes into account that such receivables are to be collected from the Group companies and that all of such receivables had been collected in the previous periods.

The Group did not make any provisions for doubtful receivables since the overdue receivables are to be collected from the corporate customers who did not delay any collections in the previous periods, and even if they delayed, eventually managed to pay their debts. In addition, when the maturity composition of the receivables which are not impaired are analyzed, it is seen that a little time longer than three months has passed since the maturity date of most of them.

The aging table of the Group's overdue but not impaired trade receivables including the due from related parties which takes into account the overdue terms is as follows:

	2012	2011
0-1 month	20.876.739	23.100.236
1-3 month	3.700.690	2.169.618
3-12 months	991.226	906.711
	<b>25.568.655</b>	<b>26.176.565</b>

*(e) Capital risk management*

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

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

Consistent with others in the industry, the group monitors capital on the basis of the debt/(total capital+net debt+non-controlling interest) ratio. Net debt is calculated as total borrowings (including borrowings as shown in the balance sheet) less cash and cash equivalents.

As of 31 December 2012 and 2011 Net debt/(Equity+net debt+non-controlling interest) ratio is:

	2012	2011
Total financial liabilities	350.769.106	360.387.148
Cash and cash equivalents	(88.248.123)	(64.369.885)
Net debt	262.520.983	296.017.263
Equity	841.799.712	918.503.467
Non-controlling interests	148.394.866	137.169.686
Equity+net debt+non-controlling interest	1.252.715.561	1.351.690.416
Net debt/(Equity+net debt+non-controlling interest) ratio	21%	22%



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

**NOTE 29-FINANCIAL INSTRUMENTS**

*Fair value of financial instruments*

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

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

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

31 December 2012	Loans and Receivables (cash and cash equivalents included)	Available for sale investments	Financial liabilities at amortized cost	Derivative financia instruments	Carrying value <sup>(1)</sup>	Notes
<b>Financial assets</b>						
Cash and cash equivalents	88.248.123	-	-	-	88.248.123	4
Trade receivables	184.208.562	-	-	-	184.208.562	7
Receivables from related parties	9.409.266	-	-	-	9.409.266	7
Financial investments	-	195.967	-	-	195.967	5
Other financial assets <sup>(**)</sup>	13.342.608	-	-	-	13.342.608	8
Derivative financial instruments	-	-	-	1.232.514	1.232.514	18
<b>Financial liabilities</b>						
Borrowings	-	-	350.769.106	-	350.769.106	6
Trade payables	-	-	98.521.928	-	98.521.928	7
Payables to the related parties	-	-	4.292.869	-	4.292.869	7
Other financial liabilities <sup>(**)</sup>	-	-	9.816.243	-	9.816.243	8
Derivative financial instruments	-	-	-	1.938.175	1.938.175	18
31 December 2011	Loans and Receivables (cash and cash equivalents included)	Available for sale investments	Financial liabilities at amortized cost	Derivative financia instruments	Carrying value <sup>(1)</sup>	Notes
<b>Financial assets</b>						
Cash and cash equivalents	64.369.885	-	-	-	64.369.885	4
Trade receivables	244.837.151	-	-	-	244.837.151	7
Receivables from related parties	8.839.332	-	-	-	8.839.332	7
Financial investments	-	205.520	-	-	205.520	5
Other financial assets <sup>(**)</sup>	7.655.176	-	-	-	7.655.176	8
Derivative financial instruments	-	-	-	2.641.573	2.641.573	18
<b>Financial liabilities</b>						
Borrowings	-	-	360.387.148	-	360.387.148	6
Trade payables	-	-	114.726.542	-	114.726.542	7
Payables to the related parties	-	-	5.257.746	-	5.257.746	7
Other financial liabilities <sup>(**)</sup>	-	-	10.867.702	-	10.867.702	8
Derivative financial instruments	-	-	-	631.705	631.705	18

<sup>(1)</sup> The Group believes that the carrying values of the financial instruments approximate their fair values.

<sup>(\*\*)</sup> Excludes tax and other legal receivables.

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

**NOTE 29-FINANCIAL INSTRUMENTS (cont’d)**

*Monetary assets*

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

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values due to their short-term nature.

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

*Monetary liabilities*

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

Since, long term foreign currency loans generally have floating rate, fair value is close to their book value. Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate (Note 6).

*Fair value estimation*

Effective from 1 January 2009, Group has applied the amendment in IFRS 7 related to financial instruments measured at fair value in the balance sheet. This amendment is explained based on the steps in the hierarchy of fair value calculations:

Level: 1: Quoted prices in markets for assets and liabilities

Level: 2: Direct or indirect observable inputs for the assets or liabilities other than quoted prices in market

Level: 3: Inputs for the assets and liabilities where observable market data can not be determined.

# KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

#### NOTE 29-FINANCIAL INSTRUMENTS (Cont'd)

2012	Level 1	Level 2	Level 3
<b>Assets/(Liabilities)</b>			
Financial assets at FVTPL			
- Derivative financial instruments	-	(705.661)	-
Available-for-sale financial assets			
- Common stocks	-	195.967	-
- Corporate bonds	-	-	-
<b>Total Assets/(Liabilities)</b>	<b>-</b>	<b>(509.694)</b>	<b>-</b>

2011	Level 1	Level 2	Level 3
<b>Assets/(Liabilities)</b>			
Financial assets at FVTPL			
- Derivative financial instruments	-	2.009.757	-
Available-for-sale financial assets			
- Common stocks	-	205.520	-
- Corporate bonds	-	-	-
<b>Total Assets/(Liabilities)</b>	<b>-</b>	<b>2.215.277</b>	<b>-</b>

#### NOTE 30-EVENTS AFTER THE BALANCE SHEET DATE

Fikret Comert - CFO/Chief Financial Officer of the Group has resigned as of 18 February 2013.

# 2012 Statutory Audit Report of the Board of Auditors

To the General Assembly of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

**Trade Name** : Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

**Head Office** : Istanbul

**Issued Capital** : TL 194,529,076

**Field of Activity:** Production of fabrics, which are contained in the structure of vehicle tires and constitute the main frame, and of industrial fabrics; production of industrial fabrics and industrial single end cord contained in the structure of rubber and plastic materials such as drive belts, V-belts, rubber hoses; production of heavy denier fibers and liners; transformation of any kind of yarn into tire cord fabric, into fabrics used in mechanical rubber goods and other rubber reinforcement materials, and marketing thereof; production of Nylon 6, Nylon 6.6, and PET (Polyethyleneterephthalate) HMLS (High Modulus Low Shrinkage) polyester and rayon heavy decitex yarn to be used in auto tires and mechanical rubber products; and marketing, sales, importation and exportation of all the above mentioned and other affairs as stated in the General Assembly Meeting minutes and the amendment proposal registered on April 6, 2011.

**Name(s) and Term of Office of the Auditor(s) and whether they are shareholders:**

Levent DEMİRAG April 18, 2012 until 2014 Ordinary General Assembly Meeting

Tansel Barış GENÇ April 18, 2012 until 2014 Ordinary General Assembly Meeting

Term of office is 3 years. They are not shareholders of the Company.

**Number of Board of Directors' Meetings Attended and Number of Board of Auditors' Meetings Held:**

3 Board of Directors' meetings were attended, and 4 Board of Auditors' meetings were held.

**Scope and Dates of the Examinations Conducted on the Corporate Accounts, Books, and Documents and Conclusions:**

Investigations and controls have been carried out on the last weeks of 3rd, 6th, 9th and 12th months according to the Tax Regulations and Commercial Code, no subject for criticism has been detected.

**Number and Dates of Cash Counts Performed at the Company's Treasury, according to Paragraph 3, Clause 1 of Article 353 of the Turkish Commercial Code Law No. 6762 (repealed law):**

Due to the accepted principle of the Company, there is no cash present in the safe.

**Dates and conclusions of examinations performed according to Paragraph 4, Clause 1 of Article 353 of the Turkish Commercial Code Law No. 6762 (repealed law):**

On the examinations conducted on the 1st business day of each month, it is observed that the valuable documents are in compliance with the book records.

**Complaints and Unlawful Acts Noted and Measures Taken:**

No complaints have been received.

We have examined the accounts and transactions of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. for the period of January 1, 2012 – December 31, 2012 according to Turkish Commercial Code Law No. 6762 (repealed law), Company's Articles of Association, other regulations, and Generally Accepted Accounting Principles and Standards.

In our opinion, the Balance Sheet as of December 31, 2012 reflects the true financial status of the Company at the date; the Profit and Loss Statement for period January 1, 2012 – December 31, 2012 reflects the true and accurate operational results of the period.

We hereby submit the approval of the Balance Sheet, Profit and Loss Statement, and ratification of the actions of the Board of Directors to your votes.

**BOARD OF AUDITORS**

Levent DEMİRAG

Tansel Barış GENÇ





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