

# YÜNSA

YÜNLÜ SANAYİ VE TİCARET A.Ş.



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**Plant:**

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Tekirdag / TURKEY

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## Chairman's Message



Distinguished Shareholders,

We have invited you to our Ordinary General Assembly to give you information about the results of activities performed in 2006 and to present for your approval the Balance Sheet and Income Statement for the same period.

We are delighted to be with you once again after a successful year for our company.

Turkey had a positive year from the perspective of economic developments, macroeconomic indices and political stability, except for the current account deficit and deviations in inflation. In parallel with these developments, in 2006, Yünsa achieved significant growth in production and turnover in comparison with the previous year.

In spite of the past two years which were full of adversities for the textile sector, Yünsa increased its capacity approximately twofold over the past four years and it now has Europe's largest production capacity in wool fabrics. In the competitive textile sector where market players are losing ground and market share, Yünsa continues to improve its market position through its high product quality, new products, flexibility in production, stable sales and marketing policies, and financial strength. Yünsa has the ability to adapt rapidly to market conditions and trends due to its customer-focused approach; its differentiation strategy keeps it ahead of competition on the road to success.

Macroeconomic conditions and exchange rates help neither the sector nor the exporters in the textile and ready-to-wear sectors; also unfair competition, illegal exports and the unregistered economy are some of the negative factors that affect this sector. Yünsa continued to manufacture products with high added value by acting with an acute awareness of costs and by emphasizing customer satisfaction constantly. Yünsa achieved the sector's best results in

Turkey and Europe and surpassed its budgetary targets with a financial performance that reached approximately YTL 133.5 million in net sales. In spite of the disadvantages actualized by the facts of the sector, Yünsa was able to achieve such results due to the correct strategic, structural and operational steps it had taken.

Turkey's proximity to European countries and other markets due to its geographical position and its improving relations with these economies are an important opportunity for Yünsa. Yünsa used this advantage, as well as its pace and ability to create new products and successful collections and designs, to become a preferred supplier of European buyers. It strengthened its position among the top fabric vendors in Europe through its effective sales organization and sales to the UK, Germany and Spain increased, as well as Scandinavian countries. In 2006, an active year for the domestic market, ready-to-wear manufacturers admired the new product designs and collections Yünsa produced especially for them. Consequently, Yünsa's sales increased by 36.9% over the previous year.

In parallel with these developments, the results for 2006 were as follows:

- Fabric sales increased by 6.5% in comparison with 2005 and reached 10.3 million meters in 2006.
- Net turnover increased by 18.3% over 2005 and reached YTL 133.5 million in 2006.
- The share of exports in net turnover was 65% and total export revenues were FOB USD 60.4 million.
- Net profit generated as a result of the activities in 2006 was YTL 11.4 million.
- The investments in 2006 focused mainly on capacity increase and modernization and

totalled approximately USD 6.3 million.

Yünsa set two targets for itself for the future. The first target is to make production and supply more global with the belief that production and supply at a single site may generate competitive risks in the future. The second target is to opt for vertical integration and create a ready-to-wear brand. As a part of the vertical integration plan, at the beginning of the current year, a new partnership called SKT Giyim Sanayi ve Ticaret A.Ş. was established together with Basmacı Tekstil Konfeksiyon Sanayi ve Ticaret operating under the brand called UPTOWN in menswear with largely spread stores all over Turkey. The company, which Yünsa participated with 69,99% shareholding, will continue its activities under the UPTOWN brand name and aims at a rapid transformation and growth in 2007 with 20 new stores.

In 2007, Yünsa will watch closely the two elections, as well as the developments in the EU negotiation process, oil prices, concerns over financial discipline and the developments in international markets. We foresee that 2007 will be a year of harsh competition globally.

With the belief that Yünsa will maintain its constant development and sustainable and profitable growth in the future, I thank you on behalf of the Board of Directors for the trust and support you have given it.

Dear Shareholders,

I wish that the Ordinary General Assembly to be held on 30 March 2007 will be beneficial for the company. I ask you to kindly review the Balance Sheet and Income Statement for 2006 and acquit the Board of Directors and Auditors of their activities in 2006.

Yakup Güngör



# Agenda

1. Opening and forming the Chairman's Panel.
2. Authorization of the Chairman's Panel to sign the minutes of the Ordinary General Assembly.
3. Presentation and discussion on the Board of Directors' 2006 Activities Report and Auditors' Report
4. Presentation, discussion and approval of the Balance Sheet and Income Statement for the year 2006 and voting upon the appropriation of the proposal for dividend pay-out.
5. Ratification of the acts of the Board of Directors and the Auditors for the year 2006.
6. Ratification of the independent auditors, determined by the Board of Directors.
7. Authorization of the Chairman and the members of the Board of Directors to conduct the procedures stated by the articles 334 and 335 of the Turkish Commercial Code.

# Sales

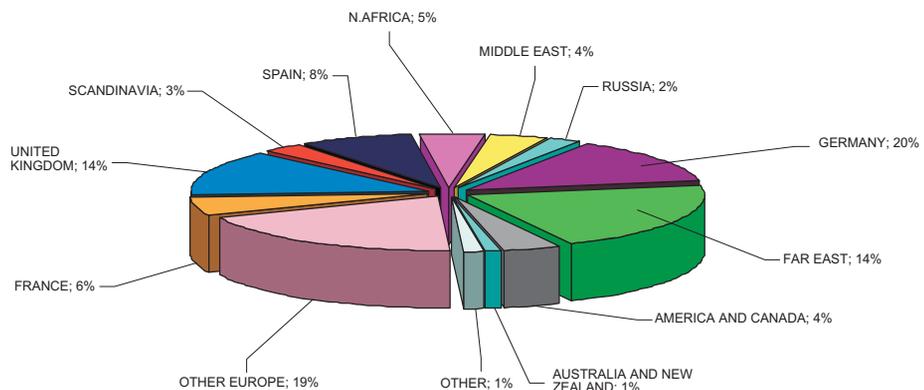
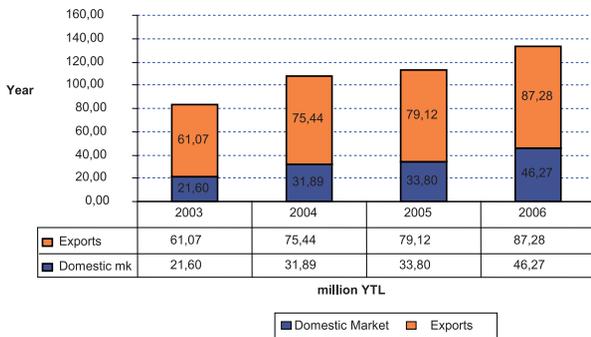
Yünsa is among the top five wool fabric manufacturers of the world thanks to its experience in the sector, sales and marketing organization, production flexibility and vision; it is also Turkey's largest wool fabric manufacturer and exporter.

Its total year-end turnover calculated according to IFRS increased in 2006, in comparison with 2005, and reached YTL 133.5 million.

Yünsa works with over 900 customers in 33 countries and its main markets are European countries, North America and the Far East. In 2006, the new product designs and collections Yünsa prepared especially for ready-to-wear manufacturers have been admired and this led to an increase in our sales by 18.3% over the previous year. The share of exports and domestic sales in total net turnover was 65% and 35% respectively. In 2006, its exports totaled USD 60.4 million out of USD 93 million in turnover. Yünsa aims at continuing its growth in both the domestic and international markets in 2007.



In 2006, Yünsa's total fabric sales increased by 6.5% over the previous year and reached 10.256 km. The sales turnover of its fabrics marketed in many countries reached 6.691 km in 2006. The breakdown of its fabric export revenues on a country basis is as follows:



## Production and Technology

The main objective of our company is to create a difference by putting emphasis on a customer-focused approach and to continue producing high quality products. The main factors to reach this objective are to give importance to innovation, to constantly develop knowledge and technology, and to use these in the most productive manner.

Under the austere conditions of the textile sector, Yünsa uses state-of-the-art technologies in production through its innovation and expansion investments in order to further improve its competitive power that is sustainable from the perspectives of both quality and price. In 2006, a significant part of the investments of our company, which turned its technological advantages into a competitive edge, focused on increasing the production capacity and modernization. In addition, we continued with the investments that aimed at increasing the quality of our products.

In line with the contemporary quality and management approaches, Yünsa seizes on the notion of corporate excellence. In 2006, EQFM Excellence Model was initiated which marks the ultimate dedication of Yünsa to expand excellence and quality to be widespread and well-applied in every process throughout its operations.

While Yünsa has adopted ISO 9001 Quality Standards, the Hohenstein Institute in Germany has licensed the operation with the Eko-Tex 100, which certifies that Yünsa's products are not hazardous to the environment or health.



## Investments

In an environment of severe competition caused by the removal of textile quotas imposed on China, 2006 was a difficult year full of obstacles for the Turkish textile sector. Yünsa continued its marketing and sales activities in order to maintain its market leadership which is the result of its high value added, high quality and differentiated products and short lead times. It also made investments to increase its production capacity in order to meet the increasing order volume. In addition, it continued to make modernization investments that aimed at increasing the quality of products and to decreasing industrial costs. In addition, it increased its weaving capacity, in parallel with the increase in demand, with the new weaving looms that were added to its machinery park.

In the textile sector, countries with cheap labor develop rapidly in textiles and ready-to-wear clothing by making large-scale technological investments. Yünsa had foreseen this adverse development and increased its investments significantly in the past five years by adopting the right strategy and the right organizational structure on time.

As a significant player in the textile sector, Yünsa is aware of the fact that a price focused approach would be insufficient under the current market conditions. It does not limit its investments to advanced technologies and gives utmost importance to improving and developing innovative skills and vocational training for human resources which it sees as its most important power.



# Activities

## A. Investments

### 1) Developments

In 2006, total incentivised investment expenditure regarding locally purchased and imported machinery and equipment reached USD 2.565.916 in accordance with the May 10, 2005 dated and 79575 numbered incentive certificates granted to the company by the Incentives and Implementation Office of the State Planning Organisation.

Considering also the non-incentivised investment expenditure, in 2006 investments reached to a total of USD 6,3 million and 8,9 million in YTL terms.

### 2) Investment Incentives

The Company benefited from import exemption, investment allowances, VAT exemption and other various tax exemption incentives in 2006.

## B. Activities regarding the production of goods and services

### 1) Capacity utilisation and progress

During 2006, capacity utilisation ratios for the production lines were realised as follows.

	<u>2006</u>	<u>Annual change</u>
Worsted Yarn	% 100	-
Fabric	% 100	-

### 2) Developments in production

		<u>2006</u>	<u>Annual change</u>
Worsted yarn	tons	2,796	(+) % 19,2
Fabric	km	11,041	(+) % 9,7



### 3) Change in sales volume and revenue

		<u>2006</u>	<u>Annual change</u>
Fabric	km	10,256	(+) % 6,5
Domestic	km	3,564	(+) % 24,6
Export	km	6,691	(-) % 1,1

The breakdown of 2006 net sales revenue by products is as follows:

		<u>2006</u>	<u>Annual change</u>
Domestic (YTL)		46,265.6	(+) % 36,9
Export (YTL)		87,275.0	(+) % 10,3

# Corporate Governance Principles Compliance Report

## 1. DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Yünsa A.Ş. complies with the "Corporate Governance Principles" of the Capital Market Board (CMB).

### PART I - SHAREHOLDERS

#### 2. Shareholder Relations Unit

Our company's relations with shareholders are coordinated by the Finance Chief Serdar AKKAŞ (Tel : 0212 385 87 00, Fax : 0212 282 50 68, e-mail : sakkas@yunsa.com) who reports to the Financial Affairs Department.

The reason for not establishing a separate unit is that we have a limited number of shareholders and requests for information. In 2006, an average of one shareholder per month contacted us about requests to which the company responded promptly.

#### 3. Shareholders' Exercise of the Right to Information

In the event of developments of interest to the shareholders, the Capital Market Board (CMB) and Istanbul Stock Exchange (ISE) are informed promptly with a special condition report. Our company web site also includes all kinds of information shareholders may need. In addition, we also handle the limited number of information requests by telephone and give relevant information to shareholders.

Individual request by each shareholder from the general assembly to appoint a special auditor devoted to exclusive survey and clarification of a particular material case has not been set as a right in our Company's Articles of Association; and we have not received any requests from shareholders about this right.

#### 4. Information on General Assemblies

The invitation to the General Assembly held on 31 March 2006 was announced to the shareholders with a notice in the Commercial Registry Gazette and one of the national newspapers. Shareholders representing 80.17% of the shares attended this meeting. Since all of the shares are issued in the bearer's name, there are no time limitations on registry in the stock register. There were no proposals and/or questions brought by shareholders. The results of the activities in 2005 were prepared and ready for the perusal of shareholders 15 days prior to the General Assembly; they were also sent by mail to the shareholders that requested them.

The Articles of Association does not contain a provision about the General Assembly taking decisions of importance. No need was felt for such a provision since the Board of Directors represents the will of the General Assembly.

The minutes of the General Assembly are available at [www.yunsa.com](http://www.yunsa.com).

#### 5. Voting and Minority Rights

Voting and Minority Rights

#### 6. Profit Distribution Policy and Period

In line with the provisions of the CMB and legal regulations, the company has the tendency to distribute at least half of the profit that can be distributed. Every year, the Board of Directors prepares a profit distribution proposal based on the national and macroeconomic conditions of Turkey, projects on the company's agenda and its financial resources.

The 2005 Annual Report contained a separate section on the proposal for profit distribution which was communicated to the shareholders before the General Assembly. The said Annual Report is also available to the public at [www.yunsa.com](http://www.yunsa.com).

#### 7. Transfer of Shares

There are no provisions contained in the Company's Articles of Association restricting the transfer of shares.

### PART II - INFORMING THE PUBLIC AND TRANSPARENCY

#### 8. Company Policy on Sharing Information

The company does not have a special policy on sharing information. The company makes its financial statements for the 3, 6, 9 and 12th months of the year public through its Internet site, CMB and ISE.

#### 9. Special Situation Reports

The company issued 9 Special Condition Reports in 2006. Neither CMB, nor ISE requested an additional explanation about any of these reports. The company's shares are not traded in any overseas stock exchange.

#### 10. Company's Internet Site and its Contents

The company has an Internet site with the following address:

[www.yunsa.com](http://www.yunsa.com)

The company's Internet site includes the commercial registry information, the company's current shareholding and management structure, detailed information on shares, the current version of the Articles of Association along with the dates and numbers of the Commercial Registry Gazettes in which the amendments were published, special condition reports, periodic financial statements and reports, memoranda and public offering circulars, the agendas of General Assemblies, lists of participants and meeting minutes, form for proxy voting, mandatory information forms and other forms for collecting shares or powers of attorney by invitation, minutes of important Board of Directors decisions which may have an impact on the value of the Capital Market instruments, and frequently asked questions which include the information requests, questions and notices received by the company and its responses to these.

The restructuring of our website will be completed in 2007, to furnish our visitors with effective and update information.

The web site also includes information on products, production activities, human resources and international fairs that the company participated in.

The information on the Internet site is also available in English for the benefit of foreign investors.

### **11. Disclosing the Natural Person(s) Holding Dominant Shares**

The company does not have any natural persons who hold the dominant of the shares.

### **12. Disclosing the Individuals who have Access to Insider's Information**

The list of individuals who have access to insider's information is given in the Annual Report under the heading of Members of the Board of Directors and Top Management and is disclosed to the public with the Annual Report.

## **PART III - STAKEHOLDERS**

### **13. Informing Stakeholders**

The company's employees are kept informed through meetings, seminars and trainings held on their areas of expertise or on subjects of general interest.

The company's network also hosts a portal which gives the employees access to all sorts of information and documents



that may be of interest to them.

### **14. Stakeholders' Participation in Management**

The employees participate in management through periodic company meetings, the annual target setting and performance evaluation meetings and procedures such as the Proposal and Award System, Business Evaluation and Career Management, the Contracted and Outsourced Employee Performance Management System.

Thanks to meetings and process improvement interviews with customers and suppliers, the company receives feedback to ensure its effective management and their outputs are used to contribute to the business processes.

### **15. Human Resources Policy**

Aware of the fact that its most important asset to succeed in the changing future is its human resources, the company has the objective of maintaining a working environment where:

- The employees are proud to be a part of the company,
- The employees can manifest their creativity,
- There is an environment based on mutual trust and open communication,
- Successes are appreciated and

# Corporate Governance Principles Compliance Report

- Individuals take responsibility to reach common objectives.

Therefore, the company recruits and hires its human resources, according to the principle of equal opportunity, from among individuals who have a good potential for development, are flexible and can make positive contributions to change. We offer trainings and development opportunities that contribute to our employees' personal and professional development, business efficiency and productivity. We use fair, systematic, comprehensible and measurable performance systems based on predefined criteria to evaluate the extent to which our employees reach their targets. The employees have not filed any complaints about discrimination in or before 2006.

## 16. Information on Relations with Customers and Suppliers

The office of the Vice President for Sales and Marketing establishes direct links with the market to reach its sales objectives in target markets, ensures the production within the plant's limits of the products and designs the market needs, and adopts flexible pricing strategies to ensure the company's survival and growth under changing market and competitive conditions. Taking into consideration the significance of personal relationships in marketing and selling fabrics, it tries to enhance and strengthen customer relations through means such as trade fairs and customer visits. It ensures the commercial confidentiality of information about costumers and suppliers and takes all sorts of measures to create harmonious working relationships.

Our mission is to establish and maintain sound and long-term purchasing relationships with suppliers, to work with suppliers who are sensitive about laws on unfair competition, other relevant laws and ethical values, to prefer working with companies that are sensitive towards issues concerning quality, cost, productivity, delivery, occupational health and safety, and environmental health.

## 17. Social Responsibility

In compliance with the Discharge Permit Certificate our company obtained according to the Regulation on the Control of Water Pollution which entered into force upon its publication in the Official Gazette dated 04.09.1998, no. 19919, our plant treats its waste waters beyond legal limits in order to prevent the pollution of above- and underground waters. Yünsa's priorities include

management, monitoring and measurement activities for the residential and industrial waste waters the facility generates, classifying, collecting, transporting, treating, recycling, utilization of solid wastes so that they do not harm the environment or public health, and the proper disposal of those wastes that cannot be recycled.

The company also fulfills its social responsibilities by making donations to the schools, health centers, foundations and associations in Çerkezköy where our plant is, offering internship positions to approximately 75 students every year and hiring disabled individuals or ex-convicts.

There were no suits filed against the company in 2006 concerning environmental pollution.

## PART IV - BOARD OF DIRECTORS

### 18. The Structure and Formation of the Board of Directors and the Independence of its Members

The company is managed and represented by a Board of Directors composed of 5 members elected by the General Assembly from among shareholders and in accordance with the provisions of the Turkish Commercial Code.

ADI SOYADI	ÜNVANI	KONUMU
Yakup Güngör	Chairman	Non-executive
Demet Çetindoğan	Deputy Chairperson	Non-executive
Can Piyale	Member	Non-executive
Mevlüt Aydemir	Member	Non-executive
Engin Tuncay	Member	Non-executive
Cem Çelikoğlu	General Manager	Executive

There are no rules concerning the employment of members of the Board of Directors outside the company, neither are there any limitations on such employment. The members of the Board of Directors have been given freedom by the General Assembly to execute duties and transactions in accordance with Articles 334 and 335 of the Turkish Commercial Code.

### 19. Qualities of the Members of the Board of Directors

In principle, qualified individuals who have extensive knowledge and skills, have a certain background and experience, are knowledgeable about the company's sector and corporate management, have gained experience by working in the private or public sectors, and preferably

hold a university degree shall be nominated for and elected member of the Board of Directors.

The Articles of Association does not stipulate the minimum qualities members of the Board of Directors should have.

## **20. The Company's Mission, Vision and Strategic Objectives**

The company's mission is to become a preferred, value-generating and leading company by adopting pioneering and competitive approaches in different areas of textiles. In addition, our vision is set forth as to grow by creating a difference in textile products and services and to become a global power.

The company's Board of Directors has knowledge about creating, approving and implementing the strategic targets adopted by top management. The monthly Board of Directors meetings enable the monitoring of target realization and of the company's performance.

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

The Quality Assurance Department established according to our Quality Certificate carries out the company's risk management and internal control activities. The Corrective Action Procedure ensures the correction of problems and the Preventative Action Procedure takes measures before potential risks arise. In addition, the regular internal examinations carried out by the Quality Assurance Department keep all of the departments informed about these issues.

In our Company, in addition to the Audit Committee, formed by two members of the Board of Directors, there is an Internal Audit Unit. Proposing measures and practices for minimization of all internal and external risks to protect rights and interests of the Company and auditing, monitoring of such practices constitute the basic duties of this unit.

## **22. The Authorities and Responsibilities of the Directors and Members of the Board of Directors**

The authorities and responsibilities of the Board members are explicitly laid down in the Articles of Association of our Company with references to the Turkish Commercial Code. However, the Articles of Association does not stipulate the authorities and responsibilities of the company's directors.



# Corporate Governance Principles Compliance Report

The said authorities and responsibilities have been determined by the company's Board of Directors.

## **23. The Working Principles of the Board of Directors**

In 2006, the company's Board of Directors held a total of 27 meetings; 12 of these were held after obtaining one-on-one approvals and 15 after obtaining written approvals according to the provisions of the Turkish Commercial Code and the Articles of Association. The Board of Directors meets when the company's business and transactions necessitate it. However, it must meet at least once a month.

The duties of the Secretariat are carried out by the Office of the Deputy General Manager for Financial Affairs. The Secretariat is responsible for information sharing and communication about meeting agendas and for preparing the meeting minutes.

In 2006, there were no dissenting opinions concerning the decisions taken by the members of the Board of Directors.

When the Board of Directors met to take decisions about issues falling under Section IV., Article 2.17.4 of the CMB Corporate Governance Principles, the active participation of members without excuses in the Board of Directors meetings has been ensured. Since the members of the Board of Directors had no questions about these issues, there is no such record in the minutes.

The members of the Board of Directors are not granted weighted vote and/or veto rights on decisions concerning such issues.

The members of the Board of Directors have the right to state their negative opinions in writing or orally. This right was not exercised by any of the members of the Board of Directors in meetings held in 2006.

## **24. Prohibition on Doing Transactions with or Competing against the Company**

In 2006, the members of the Board of Directors have not done any transactions with or been involved in initiatives which may compete with the company in the same sector.

## **25. Ethics Rules**

The ethics rules for the company and its employees were prepared and approved by the Board of Directors in 2006. The stakeholders were informed about the ethics rules. The said rules are also available on the company's website.

## **26. The Number, Structure and Independence of the Committees of the Board of Directors**

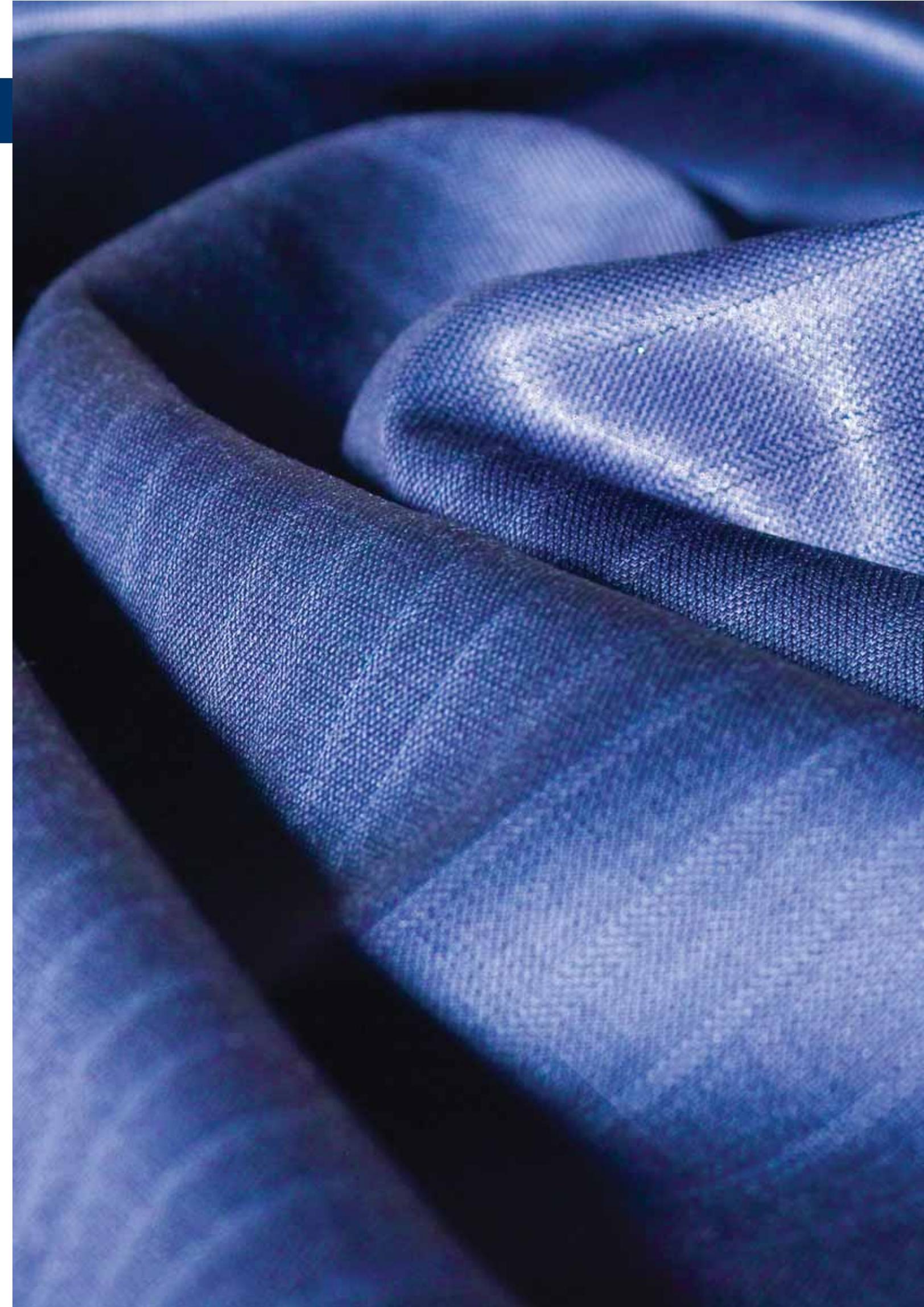
The company has set up an Audit Committee in order to ensure that the Board of Directors fulfills its duties and responsibilities in a sound manner. This committee works according to its authorities and responsibilities and makes recommendations to the Board of Directors. The Audit Committee is composed of two people who are also members of the Board of Directors. There were no conflicts of interest between the committee members in 2006. Also the Internal Audit Committee has started to practice its duties, the results of which are reported directly to the Board of Directors by one of its members.

Since the Board of Directors is directly involved with the corporate governance principles and the compliance with these principles, there was no need to establish a separate committee for this purpose.

## **27. Financial Rights Granted to the Board of Directors**

The per diems and fees of the members of the Board of Directors are determined by the General Assembly according to the Articles of Association. There is no award system which bases the financial rights of the members of the Board of Directors according to the performance of the members or of the company.

In 2006, our Company has neither lent any loan or credit to any Board Member, nor extended the terms of any loans or credits, improved the credit conditions or served any personal loan to any beneficiary through any third party and has not served any security or guarantee such as indemnity to the interest of any third party.



## Board of Directors



**Yakup GÜNGÖR**

Chairman of the Board of Directors



**Demet ÇETİNDÖĞAN**  
Deputy Chairperson of the Board of Directors



**Can PİYALE**  
Member of the Board of Directors



**Mevlut AYDEMİR**  
Member of the Board of Directors



**Engin TUNCAY**  
Member of the Board of Directors

# Auditors' Report Summary

## **To the General Assembly of Yünsa Yünlü Sanayi ve Ticaret A.Ş.**

Trade Name	: Yünsa Yünlü Sanayi ve Ticaret A.Ş.
Head Office	: İstanbul
Issued Capital	: YTL 29.160.000.-
Business Line	: Production of worsted line and fabric
Auditors' names, duty periods, and relations with the company	: Cezmi KURTULUŞ, Levent DEMİR AĞ, Rıza Murat YILMAZ We are not shareholders of the company We are not the personnel of the company Our term of office is 3 years.
Number of board meetings attended and auditors' meeting held	: 6 board meetings were attended by the auditors and 6 Auditors' Meetings were held
Scope of examination conducted on the Company's records, documents, shareholder accounts and dates of examinations and related findings	: As a result of the controls realised at the end of 3rd, 6th, 9th and 12th months, nothing that is not in accordance with the Turkish Tax Legislation and Commercial Code, was found.
Number and findings of cash inventory conducted in accordance with subparagraph 3 of paragraph 1 of Article 353 of the Turkish Commercial Code	: It is found that the results of 4 cash inventories are in line with the records.
Dates and findings of audits in accordance with subparagraph 4 of paragraph 1 of Article 353 of Turkish Commercial Code	: Examinations conducted every last working day of each month revealed that existing documents are in line with the records.
Irregularities and complaints noted and measures taken	: There are no complaints or irregularities.

We have examined the records and transactions of YÜNSA YÜNLÜ SANAYİ ve TİCARET A.Ş. for the period 01.01.2006 - 31.12.2006 in accordance with generally accepted accounting principles, the Turkish Commercial Code, the Articles of Association of the Company and other related regulations.

In our opinion, the accompanying balance sheet as of December 31, 2006 fairly represents the financial position of the company at this date and the income statement for the period 01.01.2006 - 31.12.2006 reflects the accurate results of operations.

We, hereby, submit the balance sheet and the ratification of the actions of Board of Directors to the approval of the General Assembly.

### **AUDITORS' COMMITTEE**

**Cezmi KURTULUŞ**

**Levent DEMİR AĞ**

**Rıza Murat YILMAZ**

# Profit Distribution Policy

In line with the provisions of the CMB and legal regulations, the company has the tendency to distribute at least 50% of the profit that can be distributed. Every year, the Board of Directors prepares a profit distribution proposal based on the national and macroeconomic conditions of Turkey, projects on the company's agenda and its financial resources.

## Proposal for Profit Distribution

The distribution chart of our profit which was calculated by abstracting corporate tax, income tax, fund shares and first group of statutory reserves from our profit for the term 01.01.2006 - 31.12.2006 and prepared in accordance with the Article 30 of Articles of Association, is given below:

### Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

#### Profit Distribution Chart of the Year 2006 (in YTL)

##### A. DISTRIBUTION OF TERM PROFIT

1. Term profit	15.198.967
2. Taxes payable	(3.796.731)
3. First group of statutory reserves	(627.186)

##### B. DISTRIBUTABLE NET TERM PROFIT

10.775.050

4. First dividend to shareholders	(1.458.000)
5. Second dividend to shareholders	( 3.936.600)
6. Second group of statutory reserves	( 393.660)
7. Extraordinary reserves	( 4.986.790)

##### C. DISTRIBUTABLE NET TERM PROFIT PER SHARE

36,95 YKr / %36,95

##### D. PROFIT PER SHARE

Resident Corporate Shareholders (Gross=Net)	18,50 YKr / %18,50
Other Shareholders	Gross 18,50 YKr (%18,50), Net 15,73 YKr (%15,73)

The Board of Directors hereby submits and requests resolution for distribution of dividends for the shares representing YTL 29.160.000 capital to be made on 13 April 2007 as cash.

Chairman of the Board of  
Directors

**Yakup GÜNGÖR**

## Top Management



### **Cem ÇELİKOĞLU**

General Manager

Born in 1962, he graduated from METU Faculty of Administrative Sciences, International Relations Department. He has been working in our company since 17.12.1987 and was appointed as the General Manager of the company on 01.12.2002.



### **Semih UTKU**

Assistant General Manager  
(Finance)

Born in 1962, he graduated from University of Baltimore with a BS degree in Business Administration-Finance. He has joined our company on 01.06.1999 and has been appointed to his current position on 01.01.2000.



### **Derya KINIK**

Assistant General Manager  
(Technical)

Born in 1957. He graduated from Manchester University with BS and MS degrees in Textile Engineering. He has joined our company on 01.04.1999 and been appointed to his current position on 01.05.2000.



### **Hakan DEĞİRMENCI**

Assistant General Manager  
(Marketing and Sales)

Born in 1965. He graduated from Middle East Technical University, Faculty of Administrative Sciences and has been working for the company since 17.12.1990. He was appointed to his current position on 01.01.2004.



### **Mehmet Emin ÇİĞDEM**

Technical Coordination Director

Born in 1952, graduated from Istanbul Technical University, Faculty of Electronics and Communications Engineering. He has been working in our company since 17.02.1981 and was appointed to his current position on 20.01.2003.

# Top Management

## **Muhterem BAHÇIVANOĞLU**

(Production Planning Manager)

Born in 1958. He graduated from the Istanbul University, Faculty of Economics. He has been working for the company since 03.10.1984 and was appointed to his current position on 01.03.1995.



## **Ercan ÖZDEMİR**

(Production and Product Management Manager)

Born in 1959. He graduated from the Marmara University, Faculty of Fine Arts. He joined our company in 01.09.1987 and was appointed to his current position on 01.04.2004.



## **D. Hakan AYDINLIK**

(Chief Designer-Men's Fabric)

Born in 1965. He graduated from the Marmara University, Faculty of Fine Arts. He has been working for the company since 03.07.1989 and was appointed to his current position on 01.12.1997.



## **Tarkan AYDIN**

(Chief Designer-Ladies' Fabric)

Born in 1967. He graduated from the Marmara University, Faculty of Fine Arts. He has been working for the company since 01.12.1997.



## **Mehmet Kemal AKIN**

(Spinning and Weaving Manager)

Born in 1967. He graduated from Ege University, Textile Engineering. He has joined our company in 01.10.1990 and was appointed to his current position on 10.11.2005.



## **Muhammet EKEN**

(Yarn Manager)

Born in 1968. He graduated from Istanbul Technical University, Textile Engineering with BS degree and from Victoria University of Manchester Textile Tech. with MS degree. He has joined our company on 15.06.1995 and was appointed to his current position on 10.11.2005.



## **Necdet ATMACAN**

(Accounting and Finance Manager)

Born in 1951. He graduated from Şişli School of Political Sciences. He has been working for the company since 01.08.1982 and was appointed to his current position on 22.05.2001.



## **Melik ERDİNÇ**

(Purchasing Manager)

Born in 1970. He graduated from Istanbul University, Faculty of Business Administration. He received further education in Finance - Management at Fairleigh Dickinson University, from where he received his master's degree. He has joined our company on 26.07.1999 and was appointed to his current position on 01.01.2003.



**Birol KANTUR**

(Marketing Manager - Domestic Market and Uniform Fabric)

Born in 1973. He graduated from Istanbul University, Economics Department. He received his master's degree from NY Business Institute of Technology. He has joined our company in 01.12.1999 and was appointed to his current position on 01.06.2004.

**Bora BIRGIN**

(Marketing Manager - Export - Men's Fabric)

Born in 1973. He graduated from University of Nottingham, Industrial Economics Department. He received his master's degree at UMIST. He has been working in the company since 19.03.1998 and was appointed to his current position on 01.06.2004.

**Erdal IHLAMUR**

(Finishing Manager)

Born in 1949. He graduated from Yıldız Technical University, Chemical Engineering Department. He has worked for our company between 01.05.1985 - 16.02.1998. He joined us back in 25.10.2005 and was appointed to his current position on 01.05.2006.

**Tamer TOK**

(Human Resources Manager)

Born in 1967. He graduated from Ankara University Faculty of Political Sciences, Business Administration Department. He has been working in our company since 01.04.1996 and was appointed to his current position on 29.12.2006.

**Gürhan AKINCIÖĞLU**

(Dyeing Manager)

Born in 1971. He graduated from Trakya University, Chemistry Department. He has been working in our company since 16.09.1996 and was appointed to his current position on 29.12.2006.

**Murat YILDIRIM**

(Quality Control Manager)

Born in 1968. He graduated from Uludag University, Textile Engineering Department. He has been working in our company since 19.07.1993 and was appointed to his current position on 01.05.2006.



**Yünsa Yünlü Sanayi  
ve Ticaret Anonim Şirketi**

Financial Statements for the Year Ended 31 December 2006  
Together with Independent Auditor's Report

# Independent Auditor's Report

## To the Board of Directors of Yünsa Yünlü Sanayi ve Ticaret A.Ş.

1. We have audited the accompanying financial statements of Yünsa Yünlü Sanayi ve Ticaret A.Ş. which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards issued by the Capital Markets Board. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 judgement, 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*

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Yünsa Yünlü Sanayi ve Ticaret A.Ş. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the Capital Markets Board (See Note 2).

5. Additional paragraph for convenience translation into English:

The effects of differences between financial reporting standards issued by the CMB, the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

## **Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi**

a member of  
PricewaterhouseCoopers

**Coşkun Şen, SMMM**  
Partner

Istanbul, 7 March 2007

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Balance Sheets at 31 December 2006 and 31 December 2005

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	Notes	31 December 2006	31 December 2005
<b>ASSETS</b>			
<b>Current assets:</b>		<b>95.905.684</b>	<b>80.217.917</b>
Cash and cash equivalents	4	3.994.462	192.997
Trade receivables (net)	7	23.419.019	19.415.455
Due from related parties (net)	9	29.018.915	22.875.057
Other receivables (net)	10	372.061	227.494
Inventories (net)	12	37.610.857	35.957.234
Other current assets	15	1.490.370	1.549.680
<b>Non-current assets</b>		<b>49.503.491</b>	<b>47.820.479</b>
Financial assets (net)	16	783.025	783.025
Property, plant and equipment (net)	19	47.068.481	44.681.628
Intangible assets (net)	20	164.155	278.476
Deferred tax assets	14	1.487.767	2.077.350
Other non-current assets	15	63	-
<b>Total assets</b>		<b>145.409.175</b>	<b>128.038.396</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>		<b>66.199.765</b>	<b>54.487.301</b>
Short-term borrowings (net)	6	50.164.433	38.938.492
Trade payables (net)	7	12.392.287	11.665.950
Due to related parties (net)	9	762.856	353.916
Advances received	21	10.845	1.317.782
Provisions	23	337.994	-
Other liabilities (net)	10	2.531.350	2.211.161
<b>Non-current liabilities:</b>		<b>3.932.584</b>	<b>3.844.505</b>
Provisions	23	3.932.584	3.844.505
<b>Shareholders' Equity:</b>		<b>75.276.826</b>	<b>69.706.590</b>
<b>Share capital</b>	<b>25</b>	<b>29.160.000</b>	<b>29.160.000</b>
<b>Capital reserves</b>	<b>26</b>	<b>30.753.885</b>	<b>30.753.885</b>
Share premium		2.319	2.319
Inflation adjustment to shareholders' equity		30.751.566	30.751.566
<b>Profit reserves</b>	<b>27</b>	<b>3.960.705</b>	<b>3.059.179</b>
Legal reserves		1.314.590	482.497
Extraordinary reserves		2.646.115	2.576.682
<b>Current year profit</b>		<b>11.402.236</b>	<b>6.733.526</b>
<b>Total shareholders' equity and liabilities</b>		<b>145.409.175</b>	<b>128.038.396</b>

These financial statements were approved by the Board of Directors for issue on 7 March 2007.

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

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Statements of Income for the Years Ended 31 December 2006 and 31 December 2005

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	Notes	31 December 2006	31 December 2005
<b>Operating revenue</b>			
Sales (net)	36	133.540.590	112.924.416
Cost of sales	36	(95.652.452)	(85.676.527)
<b>Gross operating profit/loss</b>		<b>37.888.138</b>	<b>27.247.889</b>
Operating expenses	37	(20.805.083)	(16.747.842)
<b>Net operating profit/loss</b>		<b>17.083.055</b>	<b>10.500.047</b>
Other income and profits	38	881.940	1.306.157
Other expenses and losses (-)	38	(837.858)	(813.004)
Financial income/(expenses)	39	(1.928.170)	(2.608.009)
<b>Income before monetary loss, taxes and minority interests</b>		<b>15.198.967</b>	<b>8.385.191</b>
Monetary gain/loss	40	-	-
<b>Income/loss before taxes</b>		<b>15.198.967</b>	<b>8.385.191</b>
Taxes on income	41	(3.796.731)	(1.651.665)
<b>Net income/loss</b>		<b>11.402.236</b>	<b>6.733.526</b>
Earnings per share (YKr)	42	0,3910	0,2309

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

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Statement of Changes in Equity for the Years Ended 31 December 2006 and 31 December 2005

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	Share capital	Share premium	Inflation adjustment to shareholders' equity	Legal reserves	Extraordinary reserves	Net income for the period	Total shareholders' equity
<b>Balance at 1 January 2005</b>	<b>29.160.000</b>	<b>2.319</b>	<b>30.751.566</b>	<b>-</b>	<b>-</b>	<b>5.771.059</b>	<b>65.684.944</b>
Transfer to legal and extraordinary reserves	-	-	-	482.497	2.576.682	(3.059.179)	-
Dividend paid	-	-	-	-	-	(2.711.880)	(2.711.880)
Net income for the period	-	-	-	-	-	6.733.526	6.733.526
<b>Balance at 31 December 2005</b>	<b>29.160.000</b>	<b>2.319</b>	<b>30.751.566</b>	<b>482.497</b>	<b>2.576.682</b>	<b>6.733.526</b>	<b>69.706.590</b>
Transfer to legal and extraordinary reserves	-	-	-	832.093	69.433	(901.526)	-
Dividend paid	-	-	-	-	-	(5.832.000)	(5.832.000)
Net income for the period	-	-	-	-	-	11.402.236	11.402.236
<b>Balance at 31 December 2006</b>	<b>29.160.000</b>	<b>2.319</b>	<b>30.751.566</b>	<b>1.314.590</b>	<b>2.646.115</b>	<b>11.402.236</b>	<b>75.276.826</b>

The accompanying notes form an integral part of these financial statements

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Statement of Cash Flows for the Years Ended 31 December 2006 and 31 December 2005

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	Notes	31 December 2006	31 December 2005
<b>Cash flows from operating activities</b>			
Net income for the period		11.402.236	6.733.526
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortisation	19-20	6.587.037	6.867.505
Taxation		3.796.731	1.674.882
Provision for employment termination benefits		1.343.828	1.108.590
Interest income		(1.850.887)	(1.649.050)
Interest expense		4.707.365	3.155.130
Gain on sale of property, plant and equipment		(113.700)	(555.934)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>25.872.610</b>	<b>17.334.649</b>
Change in marketable securities		-	5.499.594
Change in trade receivables		(4.003.564)	(4.282.676)
Change in due from related parties		(6.143.858)	(2.104.154)
Change in inventories		(1.653.623)	(11.298.170)
Change in other current assets		(85.320)	213.416
Change in trade payables		726.337	7.210.500
Change in due to related parties		408.940	(521.387)
Change in other current liabilities		(986.748)	1.372.873
Taxes paid		(2.869.154)	(2.960.065)
Employment termination benefits paid		(1.255.749)	(545.756)
<b>Net cash provided from operating activities</b>		<b>10.009.871</b>	<b>9.918.824</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(8.859.569)	(10.434.300)
Purchase of intangible assets		-	(96.347)
Proceeds from sale of property, plant and equipment		113.700	563.105
Interest received		1.850.887	1.893.901
<b>Net cash used in investing activities</b>		<b>(6.894.982)</b>	<b>(8.073.641)</b>
<b>Financing activities</b>			
Change in borrowings		11.125.916	3.118.179
Dividend paid		(5.832.000)	(2.711.880)
Interest paid - net		(4.607.340)	(2.862.095)
<b>Net cash used in financing activities</b>		<b>686.576</b>	<b>(2.455.796)</b>
Net increase / (decrease) in cash and cash equivalents		3.801.465	(610.613)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>192.997</b>	<b>803.610</b>
<b>Cash and cash equivalents at the end of the period 4</b>		<b>3.994.462</b>	<b>192.997</b>

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

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Yünsa Yünlü Sanayi ve Ticaret A.Ş. (the "Company" or "Yünsa") was established on 21 June 1973. The main operation of the Company is production and marketing of woolen textile products. Average number of personnel as of 31 December 2006 is 1999 (2005: 1.089). The address of the registered office of the Company is as follows:

Sabancı Center  
Kule 2 Kat: 20 34330, 4.Levent  
İstanbul

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

#### 2.1 Accounting standards

##### Preparation principles of the financial statements

The financial statements of the Company have been prepared in accordance with the accounting and reporting principles published by the Capital Markets Board ("CMB"), namely "CMB Accounting Standards". The CMB published a comprehensive set of accounting principles in Communiqué No: XI-25 "The Accounting Standards in the Capital Markets". In the aforementioned communiqué, it has been stated that applying the International Financial Reporting Standards "IFRS" issued by the International Accounting Standards Board ("IASB") is accepted as an alternative to conform with the CMB Accounting Standards.

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

These financial statements and the related notes have been presented in accordance with the formats required by the CMB with the announcement dated 20 December 2004.

The financial statements are prepared in New Turkish Lira ("YTL") based on the historical cost conversion except for the financial assets and liabilities which are expressed with their fair values.

#### 2.2 Financial reporting in hyperinflationary periods

The CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Accounting Standards, accordingly inflation adjustments has not been applied starting from 1 January 2005.

#### 2.3 Comparatives

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The balance sheet of the Company at 31 December 2006 includes the comparative financial information of 31 December 2005 and the statement of income, the statement of changes in shareholders' equity and the statement of cash flows for the year ended 31 December 2006, including the comparative financial information of the year ended 31 December 2005.

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below:

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### a) Related parties

For the purpose of these financial statements, shareholders, 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. A number of transactions are entered into with related parties in the normal course of business (Note 9).

### b) Cash and cash equivalents

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).

### c) Trade receivables

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

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

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

### d) 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 cost of inventories is determined on the monthly moving weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### e) Investment Securities

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity.

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

Other investments in which the Company, has interest below 20%, or over which the Company does not exercise a significant influence, or which are immaterial, 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 diminution in value.

## **f) Property, plant and equipment and related depreciation**

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis (Note 19). Land is not depreciated as it is deemed to have an indefinite life.

The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	<u>Years</u>
Land improvements	10-25
Buildings	25-50
Machinery and equipment	4-12
Motor vehicles	5
Fixture and furnitures	3-10
Special costs	5

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

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

## **g) Intangible assets**

Intangible assets comprise acquired intellectual property and computer software. They are recorded at acquisition cost and amortised on a straight-line basis over their estimated economic lives for a period not exceeding 5 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount (Note 20).

## **h) Borrowings**

Borrowings are recognized initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between the proceeds and redemption value is recognized in the income statement over the period of the borrowings. Borrowing costs are charged to the income statement when they incur (Note 6).

## **i) Deferred income taxes**

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. Currently enacted tax rates are used to determine deferred income taxes.

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

Deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and deferred tax assets and liabilities are offset accordingly (Note 14).

## **j) Provision for employment termination benefits**

Provision for employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 23).

## **k) Foreign currency transactions and translation**

Transactions in foreign currencies during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

translated at the exchange rates prevailing at year-end. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the statements of income.

### **l) 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 Company at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commissions, and exclude sales taxes.

### **m) Share capital and dividends**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### **n) Provisions**

Provisions are recognised when the Company 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.

### **o) Contingent assets and liabilities**

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities (Note 31).

### **p) Financial instruments and financial risk management**

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

#### **Interest rate risk**

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

#### **Funding risk**

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

#### **Credit risk**

Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. These risks are monitored by credit ratings and limiting the aggregate risk from any individual counter party (excluding related parties). The credit risk is generally highly diversified due to the large number of entities comprising the customer bases and their dispersion across many different industries.

#### **Foreign currency risk**

The Company is exposed to the foreign exchange risk through the impact of rate changes at the translation of foreign currency denominated liabilities to local currency. These risks are monitored and limited by the analysis of foreign currency position (Note 29).

#### **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 Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company can realize in a current market exchange.

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

#### *Monetary assets*

The fair values of balances denominated in foreign currencies, which are translated at year end exchange rates, 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 and negligible credit losses.

The carrying values of trade receivables along with the related allowances for uncollectability 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.

Long-term borrowings, which are denominated in foreign currencies, are translated at year-end exchange rates and accordingly their fair values approximate their carrying values.

Trading liabilities have been estimated at their fair values.

### **r) Earnings per share**

Earnings per share disclosed in these statements of income are determined by dividing net profit by the weighted average number of shares that have been outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus (Note 25). For the purpose of earnings per share computations, such Bonus Shares issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

### **s) Offsetting**

Financial assets and liabilities are offset and the net amount is 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.

## **NOTE 4 - CASH AND CASH EQUIVALENTS**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Banks		
- demand deposits	972.282	191.749
- time deposits	3.020.932	-
Other	1.248	1.248
	<b>3.994.462</b>	<b>192.997</b>

At 31 December 2006, the maturity of time deposits is less than three months and interest rates are between 20% and 20,20% (31 December 2005: None).

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 5 - MARKETABLE SECURITIES

None (2005: None).

### NOTE 6 - BORROWINGS

	31 December 2006		31 December 2005	
	Effective interest rate %	YTL	Effective interest rate %	YTL
<b>Short term bank borrowings:</b>				
USD borrowings	%5,95 - %6,47	18.645.284	%5,22 - %5,62	18.107.591
Euro borrowings	%3,98 - %4,60	17.718.855	%3,34 - %4,46	14.944.725
GBP borrowings	%6,04 - %6,14	6.285.732	%5,82 - %5,85	5.271.588
YTL borrowings	%14,5	7.000.000	-	-
		49.649.871		38.323.904
Interest accrued		514.562		614.588
		<b>50.164.433</b>		<b>38.938.492</b>

### NOTE 7 - TRADE RECEIVABLES AND PAYABLES

<b>Short term trade receivables:</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Trade receivables	23.977.014	19.068.315
Notes receivables	355.000	1.066.717
	<b>24.332.014</b>	<b>20.135.032</b>
Less: Unearned credit finance income	(593.423)	( 398.005)
Provision for doubtful receivables (-)	(319.572)	( 321.572)
<b>Trade receivables, net</b>	<b>23.419.019</b>	<b>19.415.455</b>
<b>Short term trade payables:</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Payables to foreign suppliers	9.379.896	9.167.236
Payables to domestic suppliers	1.967.522	1.717.834
Payables for services	1.305.253	975.802
Unincurred credit finance charges (-)	(260.384)	(194.922)
	<b>12.392.287</b>	<b>11.665.950</b>

**NOTE 8 - LEASING RECEIVABLES AND PAYABLES**

None (31 December 2005: None).

**NOTE 9 - DUE TO AND DUE FROM RELATED PARTIES**

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>a) Due from related parties:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	28.936.596	23.060.657
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	475.027	15.837
Exsa Americas Inc	57.104	72.619
Hacı Ömer Sabancı Holding A.Ş.	15.252	-
Unearned credit finance income (-)	(465.064)	(274.056)
	<b>29.018.915</b>	<b>22.875.057</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>b) Due to related parties</b>		
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	337.546	-
Advansa Sasa Polyester Sanayi A.Ş.	327.722	131.460
Ak Sigorta A.Ş.	48.610	49.831
Universal Trading (Jersey) Ltd.	39.531	100.874
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	25.508	11.261
Hacı Ömer Sabancı Holding A.Ş.	13.604	22.194
Exsa UK Limited	2.286	44.654
Sabancı Telekomünikasyon Hizmetleri A.Ş.	1.757	2.712
Unincurred credit finance charges (-)	(33.708)	(9.070)
	<b>762.856</b>	<b>353.916</b>

<b>c) Bank deposits:</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Akbank T.A.Ş.	967.582	189.567
	<b>967.582</b>	<b>189.567</b>

<b>d) Bank borrowings:</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Akbank T.A.Ş.	17.128.692	38.938.492
	<b>17.128.692</b>	<b>38.938.492</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>e) Sales to related parties:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	86.562.453	78.547.158
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	714.011	55.831
Hacı Ömer Sabancı Holding A.Ş.	25.516	-
Advansa Sasa Polyester Sanayi A.Ş.	1.803	-
	<b>87.303.783</b>	<b>78.602.989</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	31 December 2006	31 December 2005
<b>f) Purchases from related parties:</b>		
Advansa Sasa Polyester San. A.Ş.	1.285.687	844.211
Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş.	720.868	-
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	444.739	77.477
Universal Trading (Jersey) Ltd.	-	1.254.926
Exsa UK Limited	-	301.374
	<b>2.451.294</b>	<b>2.477.988</b>

	31 December 2006	31 December 2005
<b>g) Service purchases from related parties:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	6.979.199	4.770.708
Aksigorta A.Ş.	540.434	439.636
Hacı Ömer Sabancı Holding A.Ş.	413.738	375.176
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	121.939	163.160
Exsa Americas Inc.	72.619	72.619
Sabancı Telekomünikasyon Hizmetleri A.Ş.	62.320	50.445
Exsa UK Limited	51.099	73.336
Sabancı Üniversitesi	1.765	29.881
Teknosa İç ve Dış Ticaret A.Ş.	678	-
Universal Trading (Jersey) Ltd.	-	865
	<b>8.243.791</b>	<b>5.975.826</b>

	31 December 2006	31 December 2005
<b>h) Fixed asset purchases from related parties:</b>		
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	81.688	5.779
	<b>81.688</b>	<b>5.779</b>

	31 December 2006	31 December 2005
<b>i) Fixed asset sales to related parties:</b>		
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	69.900	-
	<b>69.900</b>	-

	31 December 2006	31 December 2005
<b>j) Other income:</b>		
Aksigorta A.Ş.	57.179	50.112
Akbank T.A.Ş.	-	33.401
	<b>57.179</b>	<b>83.513</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>k) Interest and foreign exchange income:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma TA.Ş.	4.484.899	-
Akbank T.A.Ş.	3.801.111	2.567.869
Advansa Sasa Polyester San. A.Ş.	34.183	32.208
Aksigorta A.Ş.	145	4.012
Universal Trading (Jersey) Ltd.	-	13.072
	<b>8.320.338</b>	<b>2.617.161</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>l) Interest and foreign exchange expense:</b>		
Akbank T.A.Ş.	11.297.872	426.616
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	1.848.678	3.439.909
Advansa Sasa Polyester Sanayi A.Ş.	69.516	4.023
Universal Trading (Jersey) Ltd.	6.163	-
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş.	3.978	-
Aksigorta A.Ş.	483	-
	<b>13.226.690</b>	<b>3.870.548</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>m) Other expense:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	57.056	46.917
	<b>57.056</b>	<b>46.917</b>

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>n) Rent expense:</b>		
Hacı Ömer Sabancı Holding A.Ş.	292.483	275.106
	<b>292.483</b>	<b>275.106</b>

o) Remuneration paid to top management by the Company amounts to YTL1.430.925 (2005: YTL1.193.942).

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 10 - OTHER RECEIVABLES AND PAYABLES

#### Other Receivables

	31 December 2006	31 December 2005
Job advances	235.136	21.805
Receivable from personnel	87.473	177.750
Other	49.452	27.939
	<b>372.061</b>	<b>227.494</b>

#### Other Payables

	31 December 2006	31 December 2005
Social security withholding payables	1.063.189	967.582
Taxes and funds payable	724.957	525.668
Payables to personnel	448.643	389.587
Other liabilities	246.405	293.805
Payables to shareholders	4.497	3.657
Other	43.659	30.862
	<b>2.531.350</b>	<b>2.211.161</b>

### NOTE 11 - BIOLOGICAL ASSETS

None (31 December 2005: None).

### NOTE 12 - INVENTORIES

	31 December 2006	31 December 2005
Raw materials	5.634.740	6.048.340
Semi-finished goods	15.240.820	12.349.877
Finished goods	6.836.655	5.277.251
Order advances	9.486.289	12.099.177
Other inventories	227.540	102.507
Trade goods	184.813	80.082
	<b>37.610.857</b>	<b>35.957.234</b>

### NOTE 13 - CONSTRUCTION CONTRACT RECEIVABLES AND PROGRESS BILLING

None (31 December 2005: None).

### NOTE 14 - DEFERRED TAX ASSETS AND LIABILITIES

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for CMB purposes and their statutory tax financial statements.

Deferred income taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using a principal tax rate of 20% (31 December 2005: 30%).

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) provided at 31 December 2006 and 31 December 2005 using the enacted future tax rates are as follows:

	<b>Cumulative temporary differences</b>		<b>Deferred tax assets / (liabilities)</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Net difference between the carrying and tax values of non-monetary assets	(2.747.530)	(2.640.046)	549.505	792.014
Employment termination benefits	(3.932.584)	(3.844.505)	786.517	1.153.352
Unincurred credit finance charges (net)	(758.722)	(439.949)	151.745	131.984
Deferred tax assets / liabilities (net)			1.487.767	2.077.350
<b>Deferred tax asset - net</b>			<b>1.487.767</b>	<b>2.077.350</b>

The movement of deferred taxes is as follows:

<b>Balance at 31 December 2005</b>	<b>2.077.350</b>
Deferred tax expense for the period	(589.583)
<b>Balance at 31 December 2006</b>	<b>1.487.767</b>

#### **NOTE 15-OTHER CURRENT-NON CURRENT ASSETS AND OTHER CURRENT-NON CURRENT LIABILITIES**

##### **Other Current Assets**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Other VAT	1.308.146	1.336.152
Prepaid expenses	182.224	190.312
Other current assets	-	23.216
	<b>1.490.370</b>	<b>1.549.680</b>

##### **Other Non-Current Assets**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Prepaid expenses	63	-
	<b>63</b>	<b>-</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 16 - FINANCIAL ASSETS

	31 December 2006		31 December 2005	
	(%)	YTL	(%)	YTL
Exsa Deutschland Gmbh (*)	100	661.350	100	661.350
Yünsa Italia SRL (*)	100	110.977	100	110.977
Enerjisa Enerji Üretim A.Ş.	-	10.698	-	10.698
		<b>783.025</b>		<b>783.025</b>

(\*) Exsa Deutschland GmbH and Yünsa Italia SRL are carried at restated cost with the equivalent purchasing power of YTL at 31 December 2004 due to the insignificance of their combined impact on the net worth, financial position and results of the Company.

### NOTE 17 - GOODWILL / NEGATIVE GOODWILL

None (31 December 2005: None).

### NOTE 18 - INVESTMENT PROPERTIES

None (31 December 2005: None).

### NOTE 19 - PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment within the year is as follows:

	1 January 2006	Additions	Disposals	Transfers	31 December 2006
<b>Cost:</b>					
Land	482.197	-	-	-	482.197
Land improvements	5.382.467	149.049	-	-	5.531.516
Buildings	35.753.052	704.684	-	234.807	36.692.543
Machinery and equipment	137.328.924	6.023.635	(1.959.951)	1.975.048	143.367.656
Motor vehicles	1.185.920	5.848	(124.607)	-	1.067.161
Furniture and fixtures	2.928.275	265.579	-	-	3.193.854
Special costs	741.749	-	-	-	741.749
Advances given and construction in progress	2.374.877	1.672.113	-	(2.209.855)	1.837.135
	<b>186.177.461</b>	<b>8.820.908</b>	<b>(2.084.558)</b>	<b>-</b>	<b>192.913.811</b>

	1 January 2006	Additions	Disposals	Transfers	31 December 2006
<b>Accumulated depreciation:</b>					
Land improvements	(5.019.511)	(132.754)	-	-	(5.152.265)
Buildings	(16.680.104)	(1.096.746)	-	-	(17.776.850)
Machinery and equipment	(115.956.682)	(4.850.150)	1.959.951	-	(118.846.881)
Motor vehicles	(600.393)	(213.010)	124.607	-	(688.796)
Furniture and fixtures	(2.497.394)	(141.395)	-	-	(2.638.789)
Special costs	(741.749)	-	-	-	(741.749)
	<b>(141.495.833)</b>	<b>(6.434.055)</b>	<b>2.084.558</b>	<b>-</b>	<b>-(145.845.330)</b>
<b>Net book value</b>	<b>44.681.628</b>				<b>47.068.481</b>

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<b>Cost:</b>					
Land	482.197	-	-	-	482.197
Land improvements	5.283.728	98.739	-	-	5.382.467
Buildings	33.818.568	1.934.484	-	-	35.753.052
Machinery and equipment	134.894.179	6.022.046	(5.501.234)	1.913.933	137.328.924
Motor vehicles	1.149.999	157.000	(121.079)	-	1.185.920
Furniture and fixtures	2.817.287	110.988	-	-	2.928.275
Special costs	741.749	-	-	-	741.749
Advances given and construction in progress	2.177.767	2.111.043	-	(1.913.933)	2.374.877
	<b>181.365.474</b>	<b>10.434.300</b>	<b>(5.622.313)</b>	<b>-</b>	<b>186.177.461</b>
<b>Accumulated depreciation:</b>					
Land improvements	(4.855.816)	(163.695)	-	-	(5.019.511)
Buildings	(15.638.106)	(1.041.998)	-	-	(16.680.104)
Machinery and equipment	(116.287.400)	(5.170.516)	5.501.234	-	(115.956.682)
Motor vehicles	(506.914)	(207.387)	113.908	-	(600.393)
Furniture and fixtures	(2.365.903)	(131.491)	-	-	(2.497.394)
Special costs	(741.749)	-	-	-	(741.749)
	<b>(140.395.888)</b>	<b>(6.715.087)</b>	<b>5.615.142</b>	<b>-</b>	<b>-(141.495.833)</b>
<b>Net book value</b>	<b>40.969.586</b>				<b>44.681.628</b>

## NOTE 20 - INTANGIBLE ASSETS

The movement of intangible assets within the year is as follows:

	1 January 2006	Additions	Disposals	Transfers	31 December 2006
<b>Cost:</b>					
Rights	38.497	-	-	-	38.497
Computer software	2.744.201	38.661	-	-	2.782.862
	<b>2.782.698</b>	<b>38.661</b>	<b>-</b>	<b>-</b>	<b>2.821.359</b>
<b>Accumulated amortisation:</b>					
Rights	(38.497)	-	-	-	(38.497)
Computer software	(2.465.725)	(152.982)	-	-	(2.618.707)
	<b>(2.504.222)</b>	<b>(152.982)</b>	<b>-</b>	<b>-</b>	<b>(2.657.204)</b>
<b>Net book value</b>	<b>278.476</b>				<b>164.155</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<b>Cost:</b>					
Rights	38.497	-	-	-	38.497
Computer software	2.647.854	96.347	-	-	2.744.201
	<b>2.686.351</b>	<b>96.347</b>	-	-	<b>2.782.698</b>
<b>Accumulated amortisation:</b>					
Rights	(38.497)	-	-	-	(38.497)
Computer software	(2.313.307)	(152.418)	-	-	(2.465.725)
	<b>(2.351.804)</b>	<b>(152.418)</b>	-	-	<b>(2.504.222)</b>
<b>Net book value</b>	<b>334.547</b>				<b>278.476</b>

### NOTE 21 - ADVANCES RECEIVED

	31 December 2006	31 December 2005
Order advances received	10.845	1.317.782
	<b>10.845</b>	<b>1.317.782</b>

### NOTE 22 - RETIREMENT PLANS

The Company does not have retirement plans other than the provision for employment termination benefits described in Note 23.

### NOTE 23 - PROVISIONS

	31 December 2006	31 December 2005
Provision for employment termination benefits	3.932.584	3.844.505
Tax provision	337.994	-
	<b>4.270.578</b>	<b>3.844.505</b>

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to the length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of YTL1.857,44 for each year of service as of 31 December 2006 (31 December 2005: YTL1.727,15).

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.

The Communique requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Discount rate (%)	5.71%	5.45%
Turnover rate to estimate the probability of retirement (%)	99%	99%

Movements in the provision for employment termination benefits for the year ended as of 31 December 2006 are as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
1 January	3.844.505	3.281.671
Increase during the period	1.343.828	1.108.590
Paid during the period	(1.255.749)	(545.756)
<b>31 December</b>	<b>3.932.584</b>	<b>3.844.505</b>

Number of employees with right to obtain employment termination benefits as of 31 December 2006 are 1.013 (31 December 2005: 898).

#### **NOTE 24 - MINORITY INTEREST**

None (31 December 2005: None).

#### **NOTE 25 - CAPITAL/ADJUSTMENT TO SHARE CAPITAL**

The composition of the Company's statutory paid-in capital at 31 December 2006 and 31 December 2005 are as follows:

	<u><b>31 December 2006</b></u>		<u><b>31 December 2005</b></u>	
	YTL	Share (%)	YTL	Share (%)
Hacı Ömer Sabancı Holding A.Ş.	14.084.007	48,30	14.084.007	48,30
Sabancı Family	4.298.354	14,75	4.298.354	14,75
Pilsa Plastik Sanayi A.Ş.	2.794.500	9,58	2.794.500	9,58
Akbank T.A.Ş. Mensupları				
Tekaüt Sandığı Vakfı	2.412.548	8,27	2.412.548	8,27
Ak Sigorta A.Ş.	435.567	1,49	435.567	1,49
Public quotation	5.135.024	17,61	5.135.024	17,61
	<b>29.160.000</b>	<b>100,00</b>	<b>29.160.000</b>	<b>100,00</b>
Adjustment to share capital	30.657.866		30.657.866	
	<b>59.817.866</b>		<b>59.817.866</b>	

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 26 - 27 - 28 CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS

Retained earnings, as per the statutory financial statements, other than legal reserves, are available for distribution, subject to the legal reserve requirement referred to below.

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

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

In accordance with the Communiqué No: XI-25 Section 15 paragraph 399, the accumulated deficit amounts arising from the first application of inflation adjustment, in line with CMB's profit distribution regulations, are considered to be deductive when computing the distributable profit. The accumulated deficit will first be netted-off from net income and retained earnings, and the remaining amount of deficit from extraordinary reserves, legal reserves and adjustment to share capital.

Effective from 1 January 2004, the IFRS net income computed in accordance with Communiqué No: XI-25 must be distributed in the ratio of a minimum of 30% of total distributable profit. This distribution may be made either as cash, as pro-rata shares or as a combination of both.

For the purposes of profit distribution in accordance with related CMB regulations, items of statutory shareholders' equity such as share capital, share premium, legal reserves, other reserves, special reserves and extraordinary reserves, are presented at their historical amounts. The difference between the inflated and historical amounts of these items is presented in shareholders' equity in total as restatement difference.

Restatement difference of shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' losses, used in distribution of bonus shares and distributions of dividends to shareholders.

In accordance with the Communiqué No: XI-25, at 31 December 2006 and 31 December 2005, the shareholders' equity schedule, based on which the dividend will be distributed, is as follows:

	31 December 2006	31 December 2005
Share capital	29.160.000	29.160.000
Share premium	2.319	2.319
Legal reserves	1.314.590	482.497
Extraordinary reserves	2.646.115	2.576.682
Inflation adjustment to shareholders equity	30.751.566	30.751.566
Net income for the period	11.402.236	6.733.526
Accumulated losses	-	-
<b>Total shareholders' equity</b>	<b>75.276.826</b>	<b>69.706.590</b>

At 31 December 2006, the restated amounts and the shareholders' equity restatement differences of the aforementioned nominal values are as follows:

	Historic values	Shareholders' equity restatement differences	Restated amounts
Share capital	29.160.000	30.657.866	59.817.866
Share premium	2.319	93.700	96.019
	<b>29.162.319</b>	<b>30.751.566</b>	<b>59.913.885</b>

## NOTE 29 - FOREIGN CURRENCY POSITION

The Company's foreign currency denominated assets and liabilities at 31 December 2006 is as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Assets	29.891.363	24.242.411
Liabilities	(52.440.745)	(48.206.605)
<b>Net foreign currency position</b>	<b>(22.549.382)</b>	<b>(23.964.194)</b>

		<b>31 December 2006</b>		<b>31 December 2005</b>		
		<b>Original currency</b>	<b>Amount in original currency</b>	<b>YTL</b>	<b>Amount in original currency</b>	<b>YTL</b>
<b>Assets</b>	Cash and cash equivalents	USD	141.185	198.450	384	515
		EUR	365.224	676.212	2.663	4.228
		CHF	425	489	520	529
		JPY	-	-	790	9
		GBP	5.111	14.090	995	2.301
Trade receivables	USD	3.104	4.363	20.234	27.150	
	EUR	1.394	2.581	128.334	203.730	
Due from related parties	USD	3.302.399	4.641.852	3.403.806	4.567.226	
	EUR	9.582.935	17.742.804	8.326.748	13.218.712	
	GBP	2.397.810	6.610.522	2.689.335	6.218.011	
			<b>29.891.363</b>		<b>24.242.411</b>	

		<b>31 December 2006</b>		<b>31 December 2005</b>		
		<b>Original currency</b>	<b>Amount in original currency</b>	<b>YTL</b>	<b>Amount in original currency</b>	<b>YTL</b>
<b>Liabilities</b>	Trade payables	USD	4.963.154	6.976.209	6.440.383	8.641.706
		EUR	1.113.512	2.061.667	299.204	474.987
		SFR	264.688	304.471	14.385	14.656
		GBP	2.835	7.816	15.523	35.891
		JPY	2.714.000	32.017	-	-
Due to related parties	USD	28.124	39.531	75.178	100.874	
Bank borrowings	USD	13.433.448	18.882.055	13.869.978	18.610.736	
	EUR	9.627.309	17.824.963	9.470.339	15.034.163	
	GBP	2.289.534	6.312.016	2.289.517	5.293.592	
			<b>52.440.745</b>		<b>48.206.605</b>	

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOTE 30 - GOVERNMENT BONDS

There is no investment incentive allowance of the Company utilized between 1 January - 31 December 2006 (2005: YTL2.643.468).

### NOTE 31 - PROVISION, COMMITMENTS AND LIABILITIES

	31 December 2006	31 December 2005
Guarantee letters given	2.406.309	2.013.860
	<b>2.406.309</b>	<b>2.013.860</b>
Promissory notes and collaterals taken	10.535.214	7.895.261
Letters of guarantees taken	315.022	273.522
Mortgages taken	58.050	58.050
	<b>10.908.286</b>	<b>8.226.833</b>

The Company has USD26.957.902 export commitments related with the investment incentives obtained (31 December 2005: USD28.299.534).

### NOTE 32 - BUSINESS COMBINATIONS

None (31 December 2005: None).

### NOTE 33 - SEGMENT REPORTING

None (31 December 2005: None).

### NOTE 34 - SUBSEQUENT EVENTS

At the Board of Director's meeting held on 10 January 2007, it was decided that a new Company called SKT Giyim Sanayi ve Ticaret A.Ş. will be established together with Basmacı Tekstil Konfeksiyon Sanayi ve Ticaret operating under the brand called UPTOWN in menswear with largely spread stores all over Turkey and Yünsa will be participating to the new established company with YTL14.615.900 capital and 69,99% shareholding.

### NOTE 35 - DISCONTINUED OPERATIONS

None (31 December 2005: None).

### NOTE 36 - OPERATING INCOME (NET)

	31 December 2006	31 December 2005
<b>a) SALES</b>		
Foreign sales	87.275.009	79.120.389
Domestic sales	46.265.581	33.804.027
	<b>133.540.590</b>	<b>112.924.416</b>
<b>b) COST OF SALES</b>		
Cost of foreign sales	(60.445.293)	(57.464.737)
Cost of domestic sales	(35.207.159)	(28.211.790)
	<b>(95.652.452)</b>	<b>(85.676.527)</b>

### NOTE 37 - OPERATING EXPENSES

	31 December 2006	31 December 2005
Consultancy and auditing	(4.643.537)	(3.254.436)
Personnel	(3.983.816)	(3.805.518)
Export and freight	(3.920.870)	(2.617.343)
Marketing	(3.123.326)	(2.826.317)
Transportation	(1.814.168)	(1.319.260)
Rent	(422.437)	(416.566)
Other	(2.896.929)	(2.508.402)
	<b>(20.805.083)</b>	<b>(16.747.842)</b>

**NOTE 38 - OTHER INCOME/EXPENSES AND PROFIT/LOSSES**

	31 December 2006	31 December 2005
<b>Other income:</b>		
Income from stock count differences	315.528	433.349
Income from scrap sales	135.537	120.007
Income from sales of property, plant and equipment	113.700	555.934
Commission income	57.179	50.112
Prior period income	16.034	56.044
Rent income	2.119	2.074
Other	241.843	88.637
	<b>881.940</b>	<b>1.306.157</b>
<b>Other expenses:</b>		
Disallowable expenses	(205.649)	(133.976)
Prior period expenses	(170.655)	(51.561)
Expense from stock count differences	(11.724)	(252.188)
Other	(449.830)	(375.279)
	<b>(837.858)</b>	<b>(813.004)</b>
<b>Other income/(expenses) - net</b>	<b>44.082</b>	<b>493.153</b>

**NOTE 39 - FINANCIAL (EXPENSE)/INCOME**

	31 December 2006	31 December 2005
<b>Financial expense:</b>		
Foreign exchange losses	(12.353.051)	(3.414.674)
Interest expense	(4.707.365)	(3.155.130)
	<b>(17.060.416)</b>	<b>(6.569.804)</b>
<b>Financial income:</b>		
Foreign exchange gains	13.281.359	2.312.745
Interest income	1.850.887	1.649.050
	<b>15.132.246</b>	<b>3.961.795</b>
<b>Financial expense - net</b>	<b>(1.928.170)</b>	<b>(2.608.009)</b>

**NOTE 40 - NET MONETARY POSITION GAIN/LOSSES**

With the decision taken on 17 March 2005, the CMB has announced that the application of inflation accounting is no longer required for the companies operating in Turkey (Note 2).

Consequently, since inflation adjustment is not made for the periods beginning on or after 1 January 2005, there is no monetary gain / loss in the financial statements.

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2006

(Amounts expressed in New Turkish Lira ("YTL") unless otherwise indicated)

### NOT 41 - TAXES ON INCOME

	31 December 2006	31 December 2005
Corporation tax payable	3.207.148	2.312.614
Less: Prepaid taxes (-)	(2.869.154)	(2.335.830)
<b>Taxes on income, net</b>	<b>337.994</b>	<b>(23.216)</b>
<b>Deferred tax asset</b>	<b>1.487.767</b>	<b>2.077.350</b>

Corporate Tax Law was amended by the Law No. 5520 dated 13 June 2006. Law no. 5520 came into force as of 21 June 2006, but many of the provisions came into force effective from 1 January 2006. Accordingly the corporation tax rate of the fiscal year 2006 is 20% (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment allowance, etc) and corporate income tax deductions (like research and development expenditures deduction).

No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,8% on the investment incentive allowance utilised within the scope of the Income Tax Law Transitional Article 61).

In Turkey, withholding tax is not imposed on dividend payments to corporations' resident in and to foreign-based taxpayers which draws income through their permanent representatives or a business in the country. Excluding these, withholding tax with a rate of 15% is imposed on dividend payments made to individuals and corporations. Additions of net income to capital are not deemed as dividend payment.

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 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.

The taxation on income for the years ended 31 December 2006 and 2005 is summarised as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
- Current tax	(3.207.148)	(2.312.614)
- Deferred	(589.583)	660.949
	<b>(3.796.731)</b>	<b>(1.651.665)</b>

The reconciliation of current period tax charge is stated below:

	<b>31 December 2006</b>
Statutory income before taxation	15.750.869
Disallowable expenses	205.649
Other exempt income	79.411
Investment allowances	(190)
Corporation tax base	16.035.739
Withholding tax base	-
Effective tax charge %20	3.207.148
Period tax charge	3.207.148
<b>Current period tax charge</b>	<b>3.207.148</b>

#### **NOTE 42 - EARNINGS PER SHARE**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Net income for the period	11.402.236	6.733.526
Weighted average number of shares with nominal value of 1 YKr	2.916.000.000	2.916.000.000
Earnings per share (YKr)	0,3910	0,2309

#### **NOTE 43 - STATEMENT OF CASH FLOW**

The statement of cash flows is presented with other financial statements.

#### **NOTE 44 - DISCLOSURE OF OTHER MATTERS**

None (31 December 2005: None).

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