



YÜNLÜ SANAYİ VE TİCARET A.Ş.



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## From the Chairman



Dear Shareholders,

We have invited you to our Ordinary General Assembly to give you information about the results of activities performed in 2005 and to present the Balance Sheet and Income Statement of the same year for your approval.

We are delighted to meet with you once again after a successful year.

In 2005, various factors including overvalued New Turkish Lira, energy and employment costs prevailed to deceleration in exports, which was one of the basic components of economic growth in recent years. Although sectors that are highly affected by the level of foreign currency rates, such as textiles and ready-wear clothing sectors, experienced hard times, our company, despite the effect and burden of currency rates, acting with cost awareness, increased its unit sales price and sales quantities, produced in high capacities and reached a net sales level of approximately YTL 113 million. In general, the company displayed a financial performance above its budget targets.

Yünsa has become a preferred supplier by European buyers adding its talents in providing rapid service, in creating new products and its success in collections and design to its main advantage of geographical proximity and to its highly efficient sales organization, to stand against the competition from the East, particularly from China. Yünsa has taken its place among the leading fabric suppliers in Europe with sales mainly to England, Germany, Spain, France and Scandinavian countries. In addition, the stagnation experienced in the North American market is revitalizing gradually.

2005 has been an active year for the domestic market as well. New product designs and collections

that have been created particularly for ready-made clothing producers have been admired and this led to an increase in our sales by 6% compared to 2004. The overall positive atmosphere in the markets caused Yünsa's sales to grow by 5.2% in 2005.

A brief review of our results in 2005 shows that:

- Fabric sales increased by 14.6% compared to 2004 and reached 9.6 million meters in 2005.
- Our net turnover was YTL 112.9 million.
- The share of exports in our net turnover was 70% and our total FOB export proceeds reached USD 60 million.
- Our net profit in 2005 was YTL 6.7 million.
- The capital investments focused primarily on increasing capacity and also on modernization; they totaled \$7.8 million in 2005.

Some of the projects and activities that contributed to our success in 2005 are:

- As always, we continued to produce products with high added value considering customer satisfaction as our primary target.
- Our voice was constantly heard in various markets, mainly in the European market with the collections that we renewed every month.
- We developed our finishing capacity with new investments in 2005 and increased our yarn production capacity by 29% using new modern yarn machines. We purchased additional weaving machines to support the increasing weaving capacity as the result of such developments.
- We continued our total quality applications and efforts in order to better comply with the highly competitive conditions that are the consequences of changing consumption and consumer behavior.

- We continued to provide training activities to improve personal and professional developments of our employees who made the highest contribution to our success.
- In addition to all these activities, workers' health, occupational safety and environmental sensitivity have been among the primary issues of our agenda as always.

As in the past year, we foresee that 2006 will be a year of harsh competition globally. Yünsa will maintain its effective position in the textile sector in 2006 with its sales and marketing organization, flexibility in production, cost structure, vision and experience.

Dear Shareholders,

I wish that the Ordinary General Assembly to be held on 31 March 2006 will be beneficial to our company. I ask you to kindly review the Balance Sheet and Income Statement for 2005 and to acquit our Board of Directors and Auditors for their activities in 2005.

**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' 2005 Activities Report and Auditors' Report
4. Presentation, discussion and approval of the Balance Sheet and Income Statement for the year 2005 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 2005.
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.
8. Discussion and confirmation of the amendment of Article 6 of the Articles of Association, in accordance with the February 16, 2006 dated and 1018 numbered confirmation granted by Ministry of Industry and Trade Directorate General of Domestic Trade and the February 14, 2006 dated and 2223 numbered confirmation granted by Capital Markets Board.

# Amended Article of the Articles of Association of the Company

## FORMER WORDING - CAPITAL

Article 6 – The Company accepted registered capital system according to the provisions of Law no. 2499 and adopted this system under authorization no. 289 of the Capital Markets Board issued on 3.5.1990.

The registered capital of the company is TL 35.000.000.000.000.-

The issued capital of the company is TL 16.200.000.000.000.- fully paid and divided into 16.200.000.000 shares each of TL 1.000 par value.

TL 1.093.450.000.000.- of the issued capital was paid in. The part of TL 14.906.550.000.000.- was provided from the fixed asset revaluation fund calculated and determined according to the Tax Procedures Code no. 213 and share certificates issued in consideration of this amount were distributed to shareholders of the company pro rata to the number of shares they hold. The remaining part of TL 200.000.000.000.- was provided from dividends of 1995 added to the capital pursuant to the resolution of General Assembly dated 29.03.1996 and distributed to shareholders as share certificates pro rata to the number of shares they hold.

The Board of Directors is authorized to increase the issued capital by issuing bearer or registered share certificates, provided that it remains within the top limit of the registered capital. The Board of Directors may resolve for having the value of the new issued share certificates higher than their nominal value.

Amounts of shares subscribed for in cash will be paid in full and in cash at the time of subscription.

Share certificates are bearer certificates.

The Board of Directors may also decide to limit the right of shareholders to acquire new shares.

Each share is represented by one share certificate. However, share certificates representing several shares may be issued under a respective resolution of the Board of Directors.

Class A, B, C, D and E share certificates in Groups 1, 2, 3, 4, 5 and 6 representing TL 1.800.000.000.000. - issued capital have been united under Group 7. All rights of our shareholders, who have not replaced their existing shares gathered under Group 7, are reserved arising from former share certificates they hold.

## AMENDED WORDING - CAPITAL

Article 6 – The Company accepted registered capital system according to the provisions of Law no. 2499 and adopted this system under authorization no. 289 of the Capital Markets Board issued on 3.5.1990.

The registered capital of the company is YTL 35.000.000, divided into 3.500.000.000 bearer shares each of 1 YKr par value.

The issued capital of the company is YTL 29.160.000.- fully paid and divided into 2.916.000.000 shares each of YKr 1 par value.

Of this capital, the part of YTL 1.093.450.- was paid in cash and the part of YTL 26.707.590,07.- was provided from fixed assets revaluation fund, the part of YTL 3.960,74 from participations revaluation fund and YTL 1.154.999,19.- from increased cost fund and shares issued in consideration of these amounts were distributed to shareholders of the company as bonus. The balance of YTL 200.000 was provided from the dividend of year 1995 that has been added to the capital pursuant to the resolution of the General Assembly passed on 29.03.1996.

Amounts of shares corresponding to capital subscribed for in cash will be paid in full and in cash at the time of subscription.

The Board of Directors is authorized to increase the issued capital by issuing bearer shares up to the top limit of the registered capital whenever considers necessary in accordance with the provisions of the Capital Markets Law.

The Board of Directors may not decide to limit the right of shareholders to acquire new shares.

The par value of the shares, which was TL 1,000 formerly was amended as 1 New Kuruş (YKr) under the law for amending the Turkish Commercial Code no. 5274. Due to this amendment the total number of shares was reduced and 1 share of 1 YKr will be given for each 10 shares of TL 1,000. The rights of the shareholders arising from the shares they hold with respect to the said amendment are reserved.

Shares representing the capital will be traced in records under the principles of dematerialization.



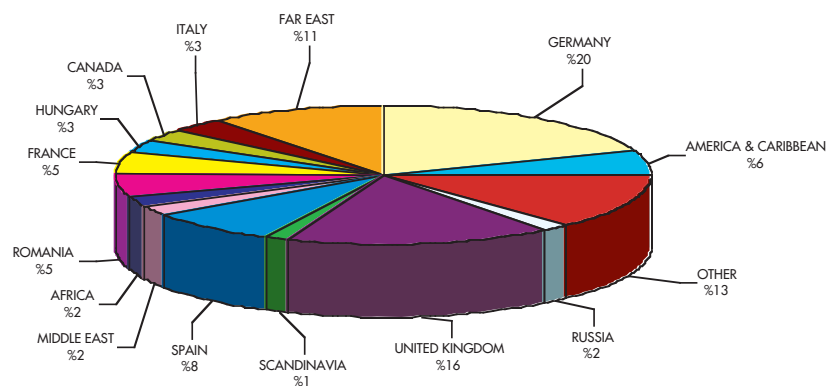
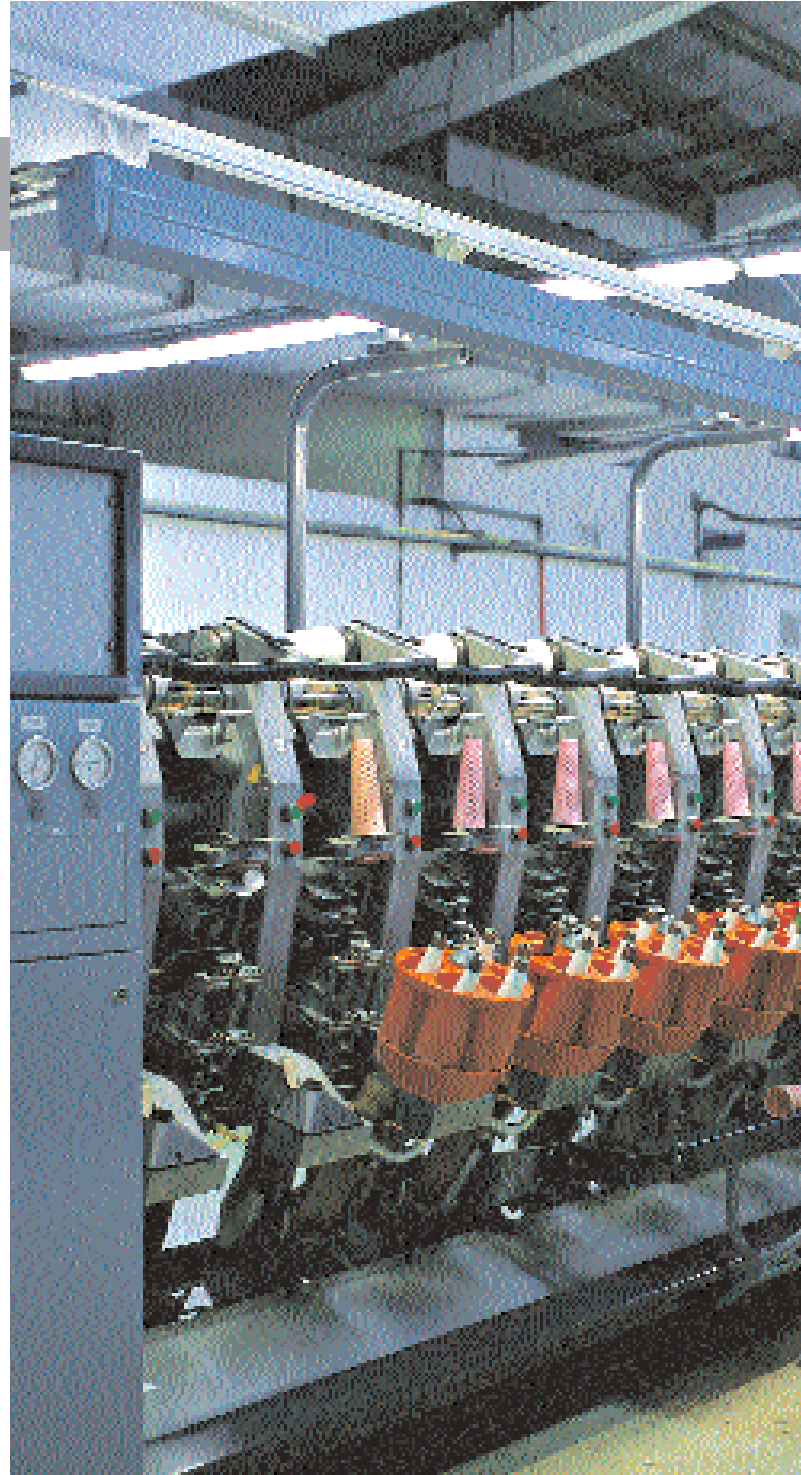
## Sales

Our year-end turnover revalued according to IFRS, reached YTL 112,92 million in 2005 with an increase of 5,2% over 2004.

In 2005, the total fabric sales increased by 15% and reached 9.629 km, generating a net turnover of USD 83,8 million. The proceeds from the fabrics we market in 60 countries increased by 10% in 2005 and reached 6.769 km with a FOB value of USD 60 million.

We continued to have our voice heard constantly in especially Europe, the heart of the fashion world, with the collections we renewed every month.

The country breakdown of our fabric export revenues is as follows:



## Production and Technology

The main objective of our company is to manufacture goods with high added value, with a special focus on customer satisfaction. One of the most vital elements in reaching this objective is to further develop modern information and put technology forth in the most efficient manner.

The only way of creating a cost advantage while increasing the product quality, in other words of strengthening our competitive power in terms of price and quality even more, is to bring modern technology to our production process through investments for expansion and innovation.

In 2005, a significant part of the investments of our company, which turned its technological advantages into a competitive edge, focused on increasing the capacity of our production park and modernization. In addition, we continued with the investments that aimed at increasing the quality of our products.





## Investments

In 2005, our company not only maintained its power but also made investments to increase its capacity in order to meet the increasing orders under competitive conditions, which have grown fiercer over the year. In addition, it continued to make modernization investments that aimed at increasing the quality of products and decreasing the industrial costs.

One of the main investment items in 2005 was the investment made to modernize and increase the capacity of the finishing department.

Our yarn production capacity grew further with the modern yarn machines and additional spool machines were purchased in order to match this increase. Also, a yarn warehouse investment was made in order to support the new capacity.

Our weaving capacity increased parallel to the rise in customer demands and we added new weaving looms in order to support our capacity.





# Activities

## A. Investments

### 1) Developments

In 2005, total incentivised investment expenditure regarding locally purchased and imported machinery and equipment reached USD 4,905,285 in accordance with the March 18, 2002 dated and 67518 numbered and also 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.

Based on the change on the investment incentives legislation in 2003, we have realised our investment with value of USD 780,412 in 2005 by benefiting from the investment allowance by 40% rather than utilizing incentive certificate.

Considering also the non-incentivised investment expenditure, in 2005 investments reached to a total of USD 7,8 million and 10,5 million in YTL terms.

### 2) Investment Incentives

The Company benefited from import exemption, investment allowances and other various tax exemption incentives in 2005.

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

### 1) Capacity utilization and progress

During 2005, capacity utilization ratios for the production lines were realised as follows:

	<b>2005</b>	<b>annual change</b>
Worsted Yarn	% 100	-
Fabric	% 100	-

### 2) Developments in production

		<b>2005</b>	<b>annual change</b>
Worsted Yarn	tons	2,346	(+) 28,7 %
Fabric	km	10,065	(+) 14,6 %

### 3) Change in sales volume and revenue

		<b>2005</b>	<b>annual change</b>
Worsted Yarn	tons	12	(-) 36,8 %
Fabric	km	9,629	(+) 14,6 %
Domestic	km	2,860	(+) 24,9 %
Export	km	6,769	(+) 10,7 %

The breakdown of 2005 net sales revenue by products is as follows:

	<b>2005</b>	<b>annual change</b>
Domestic (YTL)	33.804,0	(+) 6,0 %
Expot (YTL)	79.120,4	(+) 4,9 %

# Report on Compliance with Corporate Governance Principles

## 1. DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

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

## PART 1 - SHAREHOLDERS

### 2. Shareholder Relations Unit

Our company's relations with shareholders are coordinated by the Finance Chief Serdar AKKAŞ (tel : 0212 278 72 42, 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 2005, 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 Markets 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.

Our Article of Association envisages the right to have a private auditor appointed; we have not received any requests from shareholders about this right.

### 4. Information on General Assemblies

The invitation to the General Assembly held on 28 March 2005 was announced to the shareholders with a notice in the Commercial Registry Gazette and one of the national newspapers. Shareholders representing 71.36% 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. Five proposals brought by shareholders were accepted and the Presidium replied to one question. The results of the activities in 2004 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) as of 2005.

### 5. Voting and Minority Rights

The Articles of Association does not envisage privileged voting rights. Shareholders have one vote per share. The Articles of Association does not include any arrangements concerning cumulative votes.

### 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 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.

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**

The Articles of Association does not contain any provisions limiting 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 11 Special Situation Reports in 2005. Neither CMB, nor ISE requested an additional explanation about any of these reports. The company was subject to a notice by ISE due to a failure in issuing a special situation report on time. 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, 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 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 that gives the employees access to all sorts of information and documents that may be of interest to them.



# Report on Compliance with Corporate Governance Principles

## 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 developing and changing future is its human resources, the company has the objective of creating and 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
- 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 2005.

## 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 100 students every year and hiring disabled individuals or ex-convicts.

There were no suits filed against the company in 2005 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.

<b>NAME &amp; LAST NAME</b>	<b>TITLE</b>	<b>POSITION</b>
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 ensure 'Full and Unconditional Customer Satisfaction' by delivering on time environment-friendly, economical and high quality products through policies concerning:

- The use of high quality raw materials,
- Efficient production,
- A highly motivated Yülsa team,
- Compliance with the standards of the Quality Management System.

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.

# Report on Compliance with Corporate Governance Principles

## 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 January 2003, an Audit Committee was formed by two members of the Board of Directors. In addition, the Internal Audit Unit has been established in the company in 2005 which reports directly to the Board of Directors about the way the internal audit system works, its efficiency and improvement.

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

The authorities and responsibilities of the members of the Board of Directors are defined in the Articles of Association with references to the Turkish Commercial Code. However, the Articles of Association does not stipulate the authorities and responsibilities of the company's directors. 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 2005, the company's Board of Directors held a total of 38 meetings; 12 of these were held after obtaining one-on-one approvals and 26 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 2005, 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 2005.

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

In 2005, 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. Ethic Rules

The ethic rules for the company and its employees were prepared and approved by the Board of Directors in 2005. The stakeholders were informed about the ethic rules and the said rules will also be available on the company's Internet site in 2006.

## 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



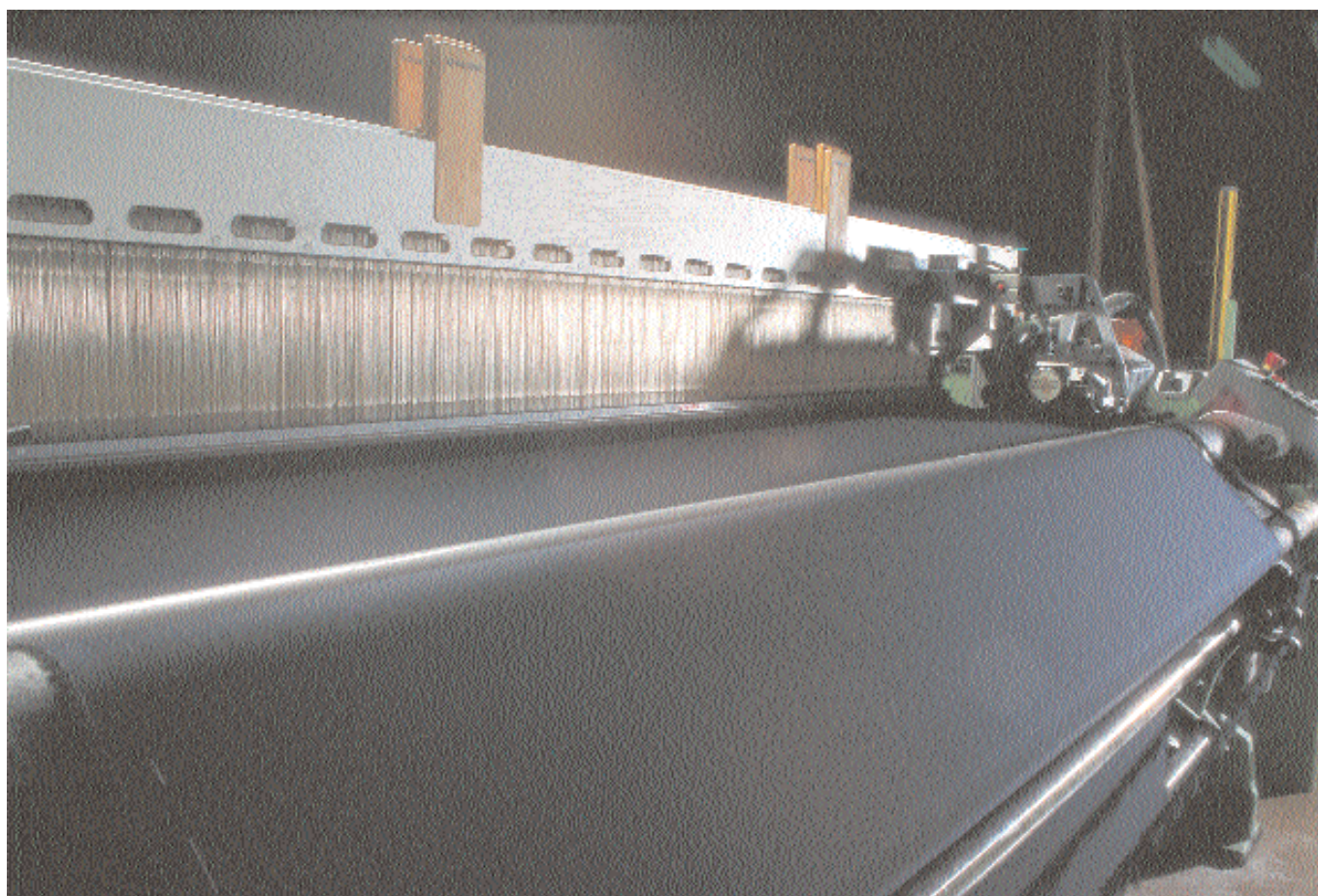
recommendations to the Board of Directors. The Audit Committee is composed of two people who are also members of the Board of Directors. There were no conflicts of interest between the committee members in 2005. An Internal Audit Committee was established in 2005 and has started to practice its duties, the results of which will be 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 2005, the company did not give a loan to any member of the Board of Directors; it did not give them credits, extend the terms of any loans or credits, improve the credit conditions, extend personal loans through a third party, or give guarantees such as sureties



## 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



**Mevlüt 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 DEMİRAG, 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 meeting 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 examination and related findings.	: As a result of the controls realised at the end of 3 <sup>rd</sup> , 6 <sup>th</sup> , 9 <sup>th</sup> and 12 <sup>th</sup> 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 result of 4 cash inventories are in line with the records.
Dates and finding 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 irregularities.	: There are no complaints or irregularities.

We have examined the records and transactions of YÜNSA YÜNLÜ SANAYİ ve TİCARET A.Ş. for the period 01.01.2005 – 31.12.2005 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, 2005 fairly represents the financial position of the company at this date and the income statement for the period 01.01.2005 – 31.12.2005 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 DEMİRAG**

**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 01.01.2005 - 31.12.2005 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 2005 (in YTL)

##### A. DISTRIBUTION OF TERM PROFIT

1. Term profit	8.385.191
2. Taxes payable	(1.651.665)
3. First group of statutory reserves	(394.693)

##### B. DISTRIBUTABLE NET TERM PROFIT

6.338.833

4. First dividend to shareholders	(1.458.000)
5. Second dividend to shareholders	(4.374.000)
6. Second group of statutory reserves	(437.400)
7. Extraordinary reserves	(69.433)

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

21,74 YKr / 21,74 %

##### D. PROFIT PER SHARE

Resident Corporate Shareholders (Gross = Net)	20 YKr / 20,00 %
Other Shareholders	Gross 20 YKr (20,00 %), Net 18YKr (18,00 %)

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 14 April 2006 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**

(Project 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 BİRGİN**

(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.







**Yünsa Yünlü Sanayi  
ve Ticaret Anonim Şirketi**

Convenience Translation Into English of Financial Statement for the  
Year Ended 31 December 2005 Together With Independent Auditor's Report

# Independent Auditor's Report

## **Yünsa Yünlü Sanayi ve Ticaret A.Ş.**

### **To the Board of Directors**

1. We have audited the balance sheet of Yünsa Yünlü Sanayi ve Ticaret A.Ş. (the "Company") at 31 December 2005 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing principles issued by the Capital Market Board ("CMB") and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary under the circumstances.
2. In our opinion, financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Yünsa Yünlü Sanayi ve Ticaret A.Ş. as at 31 December 2005 and the results of its operations for the year then ended in accordance with generally accepted accounting principles issued by the CMB (Note 2).
3. Additional paragraph for convenience translation into English:

As of 31 December 2005, the accounting principles described in Notes 2 (defined as CMB Accounting Standards) to the accompanying financial statements differ from International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board with respect to the application of inflation accounting, presentation of the basic financial statements and the notes to them. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

## **Başaran Nas Serbest Muhasebeci**

### **Mali Müşavirlik Anonim Şirketi**

a member of

PricewaterhouseCoopers

## **Coşkun Şen, SMMM**

Istanbul, 13 March 2006

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Balance Sheets at 31 December 2005 and 31 December 2004

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

	Notes	31 December 2005	31 December 2004
<b>ASSETS</b>			
<b>Current assets</b>		<b>80.217.917</b>	<b>69.101.391</b>
Cash and cash equivalents	4	192.997	803.610
Marketable securities (net)	5	-	5.744.445
Trade receivables (net)	7	19.415.455	15.132.779
Due from related parties (net)	9	22.875.057	20.770.903
Other receivables (net)	10	227.494	158.648
Inventories (net)	12	35.957.234	24.659.064
Other current assets	15	1.549.680	1.831.942
<b>Non-current assets</b>		<b>47.820.479</b>	<b>43.503.559</b>
Financial assets (net)	16	783.025	783.025
Property, plant and equipment (net)	19	44.681.628	40.969.586
Intangible assets (net)	20	278.476	334.547
Deferred tax assets	14	2.077.350	1.416.401
<b>Total assets</b>		<b>128.038.396</b>	<b>112.604.950</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>54.487.301</b>	<b>43.638.335</b>
Short-term borrowings(net)	6	38.938.492	35.527.278
Trade payables (net)	7	11.665.950	4.455.450
Due to related parties (net)	9	353.916	875.303
Advances received	21	1.317.782	844.625
Provisions	23	-	624.234
Other liabilities (net)	10	2.211.161	1.311.445
<b>Non-current liabilities</b>		<b>3.844.505</b>	<b>3.281.671</b>
Provisions	23	3.844.505	3.281.671
<b>Shareholders' Equity:</b>		<b>69.706.590</b>	<b>65.684.944</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>3.059.179</b>	-
Legal reserves		482.497	-
Extraordinary reserves		2.576.682	-
<b>Current year profit</b>		<b>6.733.526</b>	<b>5.771.059</b>
<b>Total shareholders' equity and liabilities</b>		<b>128.038.396</b>	<b>112.604.950</b>
Commitments and contingent liabilities	31		

These financial statements were approved by the Board of Directors for issue on 13 March 2006  
The accompanying notes form an integral part of these financial statements



# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Statement of Income for the Years Ended 31 December 2005 and 31 December 2004

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

	Notes	December 2005	December 2004
Sales (net)	36	112.924.416	107.331.167
Cost of sales	36	(85.676.527)	(81.112.651)
<b>Gross operating profit / loss</b>		<b>27.247.889</b>	<b>26.218.516</b>
Operating expenses	37	(16.747.842)	(17.918.067)
<b>Net operating profit/loss</b>		<b>10.500.047</b>	<b>8.300.449</b>
Other income and profits	38	1.306.157	1.256.168
Other expenses and losses (-)	38	(813.004)	(486.608)
Financial income / (expenses)	39	(2.608.009)	(1.062.887)
<b>Income before monetary loss, taxes and minority interests</b>		<b>8.385.191</b>	<b>8.007.122</b>
Monetary gain/loss	40	-	(25.756)
<b>Income/loss before taxes</b>		<b>8.385.191</b>	<b>7.981.366</b>
Taxes on income	41	(1.651.665)	(2.210.307)
<b>Net income/loss</b>		<b>6.733.526</b>	<b>5.771.059</b>
Earnings per share (YKr)	42	0.2309	0.1979

The accompanying notes form an integral part of these financial statements

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Statement of Changes in Shareholders' Equity for the Years Ended 31 December 2005 and 2004

(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	Accumulated losses (-)	Total Shareholders' Equity
<b>Balance at 1 January 2004</b>	29,160,000	2,319	146,115,749	1,776,447	2,732,378	3,272,492	(123,145,500)	59,913,885
Netting-off of accumulated losses	.	.	(115,364,183)	(1,776,447)	(273,2379)	(3,272,492)	123,145,500	.
Net income for the period	.	.	.	.	.	5,771,059	.	5,771,059
<b>Balance at 31 December 2004</b>	29,160,000	2,319	30,751,566	-	-	5,771,059	-	65,684,944
Transfer to reserves	.	.	.	482,497	2,576,682	(3,059,179)	.	.
Dividend paid	.	.	.	.	.	(2,711,000)	.	(2,711,000)
Net income for the period	.	.	.	.	.	6,733,526	.	6,733,526
<b>Balance at 31 December 2005</b>	29,160,000	2,319	30,751,566	482,497	2,576,682	6,733,526	-	69,706,590

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 2005 and 31 December 2004

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

	Notes	31 December 2005	31 December 2004
<b>Cash flows from operating activities</b>			
Net income for the period		6.733.526	5.771.059
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortisation	19-20	6.867.505	7.229.132
Taxation		1.674.882	2.079.073
Provision for employment termination benefits		1.108.590	992.851
Interest income		(1.649.050)	(2.444.897)
Interest expense		3.155.130	2.163.996
Gain on sale of property, plan and equipment		(555.934)	(165.818)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>			
		<b>17.334.649</b>	<b>15.625.396</b>
Change in marketable securities		5.499.594	(5.499.594)
Change in trade receivables		(4.282.676)	(3.031.222)
Change in due from related parties		(2.104.154)	421.806
Change in inventories		(11.298.170)	1.232.057
Change in other current assets		213.416	(199.334)
Change in trade payables		7.210.500	(246.992)
Change in due to related parties		(521.387)	(10.550.677)
Change in other current liabilities		1.372.873	507.555
Taxes paid		(2.960.065)	(1.945.456)
Employment termination benefits paid		(545.756)	(768.486)
<b>Net cash provided from operating activities</b>			
		<b>9.918.824</b>	<b>(4.454.947)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(10.434.300)	(10.476.978)
Purchase of intangible assets		(96.347)	(47.193)
Proceeds from sale of property, plant and equipment		563.105	401.090
Interest received		1.893.901	2.200.046
<b>Net cash used in investing activities</b>			
		<b>(8.073.641)</b>	<b>(7.923.035)</b>
<b>Financing activities</b>			
Change in borrowings		3.118.179	13.613.194
Dividend paid		(2.711.880)	-
Interest paid -net		(2.862.095)	(2.026.254)
<b>Net cash used in financing activities</b>			
		<b>(2.455.796)</b>	<b>11.586.940</b>
Net increase/(decrease) in cash and cash equivalents		(610.613)	(791.042)
<b>Cash and cash equivalents at the beginning of the period</b>			
		<b>803.610</b>	<b>1.594.652</b>
<b>Cash and cash equivalents at the end of the period</b>			
	4	<b>192.997</b>	<b>803.610</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 2005

(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 2005 is 1.089 (2004: 882).

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

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. The financial statements of the Company presented for the comparison purposes are expressed in the purchasing power of YTL at 31 December 2004. 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

At 31 December 2004, the financial statements are expressed in terms of the purchasing power of YTL at 31 December 2004. 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 the companies operating in Turkey and preparing their financial statements in accordance with CMB Accounting Standards.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement of the comparative amounts was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Indices and conversion factors used to restate the comparative amounts until 31 December 2004 are given below:

<u>Date</u>	<u>Index</u>	<u>Conversion factors</u>	<u>Cumulative 3-year %</u>
<b>31 December 2004</b>	<b>8.403,8</b>	<b>1,000</b>	<b>69,7</b>
31 December 2003	7.382,1	1,138	181,1
31 December 2002	6.478,8	1,297	227,3

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

The main procedures for the aforementioned restatement and the effects of ceasing inflation accounting are as follows:

- As the hyperinflationary period ceases, the current year financial statements are not restated and financial information related to previous reporting periods are expressed in terms of purchasing power of the last reporting period in which inflation adjustment was applied.
- As the hyperinflationary period ceases, the restated amount of the non-monetary assets, liabilities and equity which are expressed in terms of purchasing power at the last balance sheet date; are accepted as the opening balances of such items at 1 January 2005.
- The financial statements of the previous reporting periods are expressed in the purchasing power at the last balance sheet date in which inflation adjustment was applied.
- Inflation effect on the net monetary asset/liability position of the Company is reflected to income statement of income as net monetary position loss/gain in hyperinflationary periods.

### 2.3 New Turkish Lira

Through the enactment of the Law numbered 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 30 January 2004, New Turkish lira ("YTL") and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The hundredth part of the YTL is the YKr (1 YTL=100YKr). When the prior currency, Turkish lira ("TL"), values are converted into the YTL, one million TL is equivalent to one YTL (1 YTL). Accordingly, the currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

All references made to Turkish lira or lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in keeping and presenting of the books, accounts and financial statements.

As stated in the announcement of CMB dated 30 November 2004, financial statements for the year ended 31 December 2005, including the prior period financial data which will be used for comparison purposes, are presented in YTL, and prior period financial statements are to be presented in YTL only for comparative purposes.

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 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:

	Years
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).



# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

### **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 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 dividiends**

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.

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

	31 December 2005
Shareholders' net profit	6.733.526
Weighted average number of shared issued	2.916.000.000
Earnings per share	0,2309

### 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

	31 December 2005	31 December 2004
Banks		
- demand deposits	191.749	702.166
- time deposits	-	-
Other	1.248	101.444
	<b>192.997</b>	<b>803.610</b>

### NOTE 5 - MARKETABLE SECURITIES

Held to maturity securities at 31 December 2005 are as follows:

	31 December 2005	31 December 2004
Government bonds	-	5.201.251
Treasury bills	-	543.194
	<b>-</b>	<b>5.744.445</b>

### NOTE 6 - BORROWINGS

	31 December 2005		31 December 2004	
	Effective interest rate %	YTL	Effective interest rate %	YTL
<b>Short term bank borrowings:</b>				
USD borrowings	%5,22 - %5,62	18.107.591	%3,38 - %4,48	17.440.590
Euro borrowings	%3,34 - %4,46	14.944.725	%3,89 - %4,17	12.265.135
GBP borrowings	%5,82 - %5,85	5.271.588	-	-
YTL borrowings	-	-	19-20	5.500.000
		38.323.904		35.205.725
Interest accrued		614.588		321.553
		<b>38.938.492</b>		<b>35.527.278</b>



**NOTE 7 - TRADE RECEIVABLES AND PAYABLES**

<b>Short term trade receivables:</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
Trade receivables	19.068.315	15.033.531
Notes receivables	1.066.717	680.140
	<b>20.135.032</b>	<b>15.713.671</b>

Less: Unearned credit finance income (-)	(398.005)	(259.320)
Provision for doubtful receivables (-)	(321.572)	(321.572)

<b>Trade receivables, net</b>	<b>19.415.455</b>	<b>15.132.779</b>
-------------------------------	-------------------	-------------------

<b>Short term trade payables:</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
Payables to foreign suppliers	9.167.236	2.873.708
Payables to domestic suppliers	1.717.834	907.954
Payables for services	975.802	757.788
Unincurred credit finance charges (-)	(194.922)	(84.000)
	<b>11.665.950</b>	<b>4.455.450</b>

**NOTE 8 - LEASING RECEIVABLES AND PAYABLES**

None (31 December 2004: None).

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

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>a) Due from related parties</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	23.060.657	20.957.002
Exsa Americas Inc	72.619	-
Bossa Ticaret ve Sanayi İşletmeleri A.Ş.	15.837	22.500
Unearned credit finance income (-)	(274.056)	(208.599)
	<b>22.875.057</b>	<b>20.770.903</b>

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>b) Due to related parties</b>		
Advansa Sasa Dupont Sabancı		
Polyester Sanayi A.Ş.	131.460	148.790
Universal Trading (Jersey) Ltd.	100.874	676.058
Ak Sigorta A.Ş.	49.831	26.630
Exsa UK Limited	44.654	178
Hacı Ömer Sabancı Holding A.Ş.	22.194	4.541
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	11.261	11.332
Sabancı Telekomünikasyon Hizmetleri A.Ş.	2.712	426
Teknosa İç ve Dış Ticaret A.Ş.	-	15.750
Exsa Free Zone	-	14.645
Unincurred credit finance charges (-)	(9.070)	(23.047)
	<b>353.916</b>	<b>875.303</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

<b>c) Bank deposits:</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
Akbank T.A.Ş.	189.567	702.164
	<b>189.567</b>	<b>702.164</b>

<b>d) Bank borrowings:</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
Akbank T.A.Ş.	38.938.492	29.705.724
	<b>38.938.492</b>	<b>29.705.724</b>

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>e) Sales to related parties:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	78.547.158	77.067.013
Bossa Ticaret ve Sanayi İşletmeleri A.Ş.	55.831	-
	<b>78.602.989</b>	<b>77.067.013</b>

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>f) Purchases from related parties</b>		
Universal Trading (Jersey) Ltd.	1.254.926	12.298.453
Advansa Sasa Dupont Sabancı		
Polyester San. A.Ş.	844.211	1.221.527
Exsa UK Limited	301.374	-
Bossa Ticaret ve Sanayi İşletmeleri A.Ş.	77.477	180.382
Teknosa İç ve Dış Ticaret A.Ş.	-	13.347
Olmuksa International Paper Sabancı Ambalaj San. ve Tic. A.Ş.	-	905
İnsa Naylon Sanayi ve Ticaret A.Ş.	-	230
	<b>2.477.988</b>	<b>13.714.844</b>

<b>g) Service purchases from related parties</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	4.770.708	4.749.256
Aksigorta A.Ş.	439.636	654.716
Hacı Ömer Sabancı Holding A.Ş.	375.176	402.929
I-Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	163.160	121.939
Exsa UK Limited	73.336	436.806
Exsa Americas Inc.	72.619	-
Sabancı Telekomünikasyon Hizmetleri A.Ş.	50.445	44.891
Sabancı Üniversitesi	29.881	-
Universal Trading (Jersey) Ltd.	865	221.847
Holsa Inc.	-	209.431
	<b>5.975.826</b>	<b>6.841.815</b>

<b>h) Fixed asset purchases from related parties:</b>		
Universal Trading (Jersey) Ltd.	-	2.392.776
I-Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	5.779	37.690
Sabancı Telekomünikasyon Hizmetleri A.Ş.	-	3.760
	<b>5.779</b>	<b>2.434.226</b>

	31 December 2005	31 December 2004
<b>i) Other income :</b>		
Akbank T.A.Ş.	33.401	79.617
Aksigorta A.Ş.	50.112	48.792
	<b>83.513</b>	<b>128.409</b>
<b>j) Interest and foreign exchange income:</b>		
Akbank T.A.Ş.	2.567.869	1.369.597
Advansa Sasa Dupont Sabancı		
Polyester San. A.Ş.	32.208	-
Universal Trading (Jersey) Ltd.	13.072	695.018
Aksigorta A.Ş.	4.012	-
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	-	1.395.115
	<b>2.617.161</b>	<b>3.459.730</b>
<b>k) Interest and foreign exchange expense:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	3.439.909	1.526.435
Universal Trading (Jersey) Ltd.	-	1.232.699
Akbank T.A.Ş.	426.616	1.219.771
Advansa Sasa Dupont Sabancı		
Polyester Sanayi A.Ş.	4.023	31.588
Bossa Ticaret ve Sanayi İşletmeleri A.Ş.	-	227
	<b>3.870.548</b>	<b>4.010.720</b>
<b>l) Other expense:</b>		
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	46.917	152.085
Hacı Ömer Sabancı Holding A.Ş.	-	9.314
	<b>46.917</b>	<b>161.399</b>
<b>m) Rent expense:</b>		
Hacı Ömer Sabancı Holding A.Ş.	275.106	337.230
	<b>275.106</b>	<b>337.230</b>

**n)** Remuneration paid to top management by the Company is YTL 1.193.942 (2004: 1.395.126 YTL).

## NOTE 10 - OTHER RECEIVABLES AND PAYABLES

### Other Receivables

	31 December 2005	31 December 2004
Receivable from personnel	177.750	84.910
Job advances	21.805	67.167
Other	27.939	6.571
	<b>227.494</b>	<b>158.648</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

### Other Payables

	31 December 2005	31 December 2004
Social security withholding payables	967.582	387.755
Taxes and funds payable	525.668	388.502
Payables to personnel	389.587	217.017
Other liabilities	293.805	309.804
Payables to shareholders	3.657	3.634
Other	30.862	4.733
	<b>2.211.161</b>	<b>1.311.445</b>

### NOTE 11 - BIOLOGICAL ASSETS

None (31 December 2004: None).

### NOTE 12 - INVENTORIES

	31 December 2005	31 December 2004
Raw materials	6.048.340	2.868.026
Semi-finished goods	12.349.877	11.422.592
Finished goods	5.277.251	5.377.761
Order advances	12.099.177	3.994.770
Other inventories	102.507	722.050
Trade goods	80.082	273.865
	<b>35.957.234</b>	<b>24.659.064</b>

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

None (31 December 2004: 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 IFRS 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 30%.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) provided at 31 December 2005 and 31 December 2004 using the enacted future tax rates are as follows:



	Cumulative temporary differences		Deferred tax assets /(liabilities)	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
Net difference between the carrying and tax values of non-monetary assets	(2.640.046)	(1.097.898)	792.014	329.370
Employment termination benefits	(3.844.505)	(3.281.671)	1.153.352	984.502
Unincurred credit finance charges (net)	(439.949)	(341.765)	131.984	102.529
Deferred tax assets / liabilities (net)			2.077.350	1.416.401
<b>Deferred tax asset - net</b>			<b>2.077.350</b>	<b>1.416.401</b>

The movement of deferred taxes is as follows:

<b>Balance at 31 December 2004</b>	<b>1.416.401</b>
Deferred tax income for the period	- 660.949
<b>Balance at 31 December 2005</b>	<b>2.077.350</b>

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

##### Other Current Assets

	31 December 2005	31 December 2004
Other VAT	1.336.152	1.636.463
Prepaid expenses	190.312	180.575
Other current assets	23.216	14.904
	<b>1.549.680</b>	<b>1.831.942</b>

#### NOTE 16 - FINANCIAL ASSETS

	31 December 2005		31 December 2004	
	(%)	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.

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

### NOTE 17 - GOODWILL/NEGATIVE GOODWILL

None (31 December 2004: None).

### NOTE 18 - INVESTMENT PROPERTIES

None (31 December 2004: None).

### NOTE 19 - PROPERTY, PLANT AND EQUIPMENT

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

	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>

### Accumulated depreciation:

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>

	1 January 2004	Additions	Disposals	Transfers	31 December 2004
<b>Cost:</b>					
Land	482.197	-	-	-	482.197
Land improvements	5.249.632	34.096	-	-	5.283.728
Buildings	33.916.421	182.811	(280.664)	-	33.818.568
Machinery and equipment	127.130.631	7.724.147	(307.648)	347.049	134.894.179
Motor vehicles	1.046.923	363.917	(260.841)	-	1.149.999
Furniture and fixtures	2.786.143	31.144	-	-	2.817.287
Special costs	741.749	-	-	-	741.749
Advances given and construction in progress	383.954	2.140.862	-	(347.049)	2.177.767
	<b>171.737.650</b>	<b>10.476.977</b>	<b>(849.153)</b>	<b>-</b>	<b>181.365.474</b>

**Accumulated depreciation:**

Land improvements	(4.686.144)	(169.672)	-	-	(4.855.816)
Buildings	(14.658.628)	(1.035.844)	56.366	-	(15.638.106)
Machinery and equipment	(110.999.518)	(5.595.532)	307.650	-	(116.287.400)
Motor vehicles	(580.035)	(176.746)	249.867	-	(506.914)
Furniture and fixtures	(2.235.336)	(130.567)	-	-	(2.365.903)
Special costs	(741.749)	-	-	-	(741.749)
	<b>(133.901.410)</b>	<b>(7.108.361)</b>	<b>613.883</b>	<b>-</b>	<b>(140.395.888)</b>
<b>Net book value</b>	<b>37.836.240</b>				<b>40.969.586</b>

**NOTE 20 - INTANGIBLE ASSETS**

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

	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>-</b>	<b>-</b>	<b>2.782.698</b>

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

	1 January 2005	Additions	Disposals	Transfers	31 December 2005
<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>

	1 January 2004	Additions	Disposals	Transfers	31 December 2004
<b>Cost:</b>					
Rights	38.497	-	-	-	38.497
Computer software	2.600.662	47.192	-	-	2.647.854
	<b>2.639.159</b>	<b>47.192</b>	-	-	<b>2.686.351</b>

<b>Accumulated amortisation:</b>					
Rights	(38.497)	-	-	-	(38.497)
Computer software	(2.192.536)	(120.771)	-	-	(2.313.307)
	<b>(2.231.033)</b>	<b>(120.771)</b>	-	-	<b>(2.351.804)</b>
<b>Net book value</b>	<b>408.126</b>				<b>334.547</b>

### NOTE 21 - ADVANCES RECEIVED

	31 December 2005	31 December 2004
Order advances received	1.317.782	844.625
	<b>1.317.782</b>	<b>844.625</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 2005	31 December 2004
Provision for employment termination benefits	3.844.505	3.281.671
Tax provision	-	624.234
	<b>3.844.505</b>	<b>3.905.905</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 YTL 1.727,15 for each year of service as of 31 December 2005 (31 December 2004: YTL 1.574,74).

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.

IFRS require 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:

	31 December 2005	31 December 2004
Discount rate (%)	5.45 %	5.45 %
Turnover rate estimate the probability of retirement (%)	99 %	99 %

Movements in the provision for employment termination benefits for the year ended as of 31 December 2005 are as follows:

	31 December 2005	31 December 2004
1 January	3.281.671	3.057.306
Increase during the period	1.108.590	1.393.060
Paid during the period	(545.756)	(768.486)
Monetary gain	-	(400.209)
<b>31 December 2005</b>	<b>3.844.505</b>	<b>3.281.671</b>

Number of employees with right to obtain employment termination benefits as of 31 December 2005 are 898 (31 December 2004: 699).

#### NOTE 24 - MINORITY INTEREST

None (31 December 2004: None).

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

The composition of the Company's statutory paid-in capital at 31 December 2005 and 31 December 2004 are as follows

	31 December 2005		31 December 2004	
	YTL	Share (%)	YTL	Share (%)
Hacı Ömer Sabancı Holding A.Ş.	14.084.007	48.30	11.197.167	38.40
Akbank T.A.Ş.Mensupları				
Tekaüt Sandığı Vakfı	2.412.548	8.27	5.336.363	18.30
Sabancı Family	4.298.354	14.75	4.772.205	16.37
Pilsa Plastik Sanayi A.Ş.	2.794.500	9.58	2.794.500	9.58
Ak Sigorta A.Ş.	435.567	1.49	435.567	1.49
Public quotation	5.135.024	17.61	4.624.198	15.86
	<b>29.160.000</b>	<b>100</b>	<b>29.160.000</b>	<b>100</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 2005

(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 2005 and 31 December 2004, the shareholders' equity schedule, based on which the dividend will be distributed, is as follows:

	31 December 2005	31 December 2004
Share capital	29.160.000	29.160.000
Share premium	2.319	2.319
Legal reserves	482.497	-
Extraordinary reserves	2.576.682	-
Inflation adjustment to shareholders equity	30.751.566	30.751.566
Net income for the period	6.733.526	5.771.059
Accumulated losses (-)	-	-
<b>Total shareholders' equity</b>	<b>69.706.590</b>	<b>65.684.944</b>

At 31 December 2005, 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 2005 are as follows:

	<b>31 December 2005</b>	<b>31 December 2004</b>
Assets	24.242.411	21.094.171
Liabilities	(47.592.018)	(33.255.671)
<b>Net foreign currency position</b>	<b>(23.349.607)</b>	<b>(12.161.500)</b>

<b>Assets</b>	<b>31 December 2005</b>			<b>31 December 2004</b>	
	<b>Original currency</b>	<b>Amount in original currency</b>	<b>YTL</b>	<b>Amount in original currency</b>	<b>YTL</b>
Cash and cash equivalents	USD	384	515	3.368	4.520
	EUR	2.663	4.228	2.667	4.872
	CHF	520	529	-	-
	JPY	790	9	-	-
	GBP	995	2.301	1.023	2.636
Trade receivables	USD	20.234	27.150	6.579	8.830
	EUR	128.334	203.730	63.669	116.311
Due from related parties	USD	3.403.806	4.567.226	2.249.524	3.019.086
	EUR	8.326.748	13.218.712	6.042.450	11.038.348
	GBP	2.689.335	6.218.011	2.677.884	6.899.568
		<b>24.242.411</b>		<b>21.094.171</b>	

<b>Liabilities</b>	<b>31 December 2005</b>			<b>31 December 2004</b>	
	<b>Original currency</b>	<b>Amount in original currency</b>	<b>YTL</b>	<b>Amount in original currency</b>	<b>YTL</b>
Trade payables	USD	6.440.383	8.641.706	1.982.080	2.660.150
	EUR	299.204	474.987	116.903	213.558
	CHF	14.385	14.656	-	-
	GBP	15.523	35.891	-	-
Due to related parties	USD	75.178	100.874	437.498	587.166
	EUR	-	-	48.661	88.894
	GBP	-	-	69	178
Bank borrowings	USD	13.495.000	18.107.591	12.995.000	17.440.590
	EUR	9.414.000	14.944.725	6.714.000	12.265.135
	GBP	2.280.000	5.271.588	-	-
		<b>47.592.018</b>		<b>33.255.671</b>	

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

### NOTE 30 - GOVERNMENT BONDS

The investment incentive allowance of the Company utilized between 1 January – 31 December 2005 is YTL 2.643.468.

### NOTE 31 - PROVISION, COMMITMENTS AND LIABILITIES

	31 December 2005	31 December 2004
Guarantee letters given	2.013.860	1.994.372
	<b>2.013.860</b>	<b>1.994.372</b>
	31 December 2005	31 December 2004
Promissory notes and collaterals taken	7.895.261	7.629.363
Letters of guarantees taken	273.522	360.022
Mortgages taken	58.050	58.050
	<b>8.226.833</b>	<b>8.047.435</b>

The Company has USD 28.299.534 export commitments related with the investment incentives obtained (31 December 2004: USD 20.941.472).

### NOTE 32 - BUSINESS COMBINATIONS

None (31 December 2004: None).

### NOTE 33 - SEGMENT REPORTING

None (31 December 2004: None).

### NOTE 34 - SUBSEQUENT EVENTS

There is no significant event affecting the financial statements after the balance sheet date.  
(31 December 2004: None).

### NOTE 35 - DISCONTINUED OPERATIONS

None (31 December 2004: None).

### NOTE 36 - OPERATING INCOME (NET)

	31 December 2005	31 December 2004
<b>a) Sales</b>		
Foreign sales	79.120.389	75.437.410
Domestic sales	33.804.027	31.893.757
	<b>112.924.416</b>	<b>107.331.167</b>
<b>b) Cost of Sales</b>		
Cost of foreign sales	(57.464.737)	(52.721.599)
Cost of domestic sales	(28.211.790)	(28.391.052)
	<b>(85.676.527)</b>	<b>(81.112.651)</b>

### NOTE 37 - OPERATING EXPENSES

	31 December 2005	31 December 2004
Consultancy and auditing	(3.254.436)	(4.692.079)
Personnel	(3.805.518)	(4.477.724)
Marketing	(2.826.317)	(2.560.679)
Export and freight	(2.617.343)	(1.717.053)
Transportation	(1.319.260)	(1.473.895)
Rent	(416.566)	(372.737)
Other	(2.508.402)	(2.623.900)
	<b>(16.747.842)</b>	<b>(17.918.067)</b>



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

	31 December 2005	31 December 2004
<b>Other income:</b>		
Income from sales of property, plant and equipment	555.934	165.818
Income from stock count differences	433.349	512.705
Income from scrap sales	120.007	67.575
Prior period income	56.044	5.001
Commission income	50.112	48.793
Rent income	2.074	1.951
Dividend income	-	266.675
Other	88.637	187.650
	<b>1.306.157</b>	<b>1.256.168</b>
<b>Other expenses:</b>		
Prior period expenses	(51.561)	(120.951)
Expense from stock count differences	(252.188)	(64.839)
Disallowable expenses	(133.976)	(91.062)
Other	(375.279)	(209.756)
	<b>(813.004)</b>	<b>(486.608)</b>
<b>Other income / (expenses) - net</b>	<b>493.153</b>	<b>769.560</b>

**NOTE 39 - FINANCIAL EXPENSE / INCOME**

	31 December 2005	31 December 2004
<b>Financial expense:</b>		
Foreign exchange losses	(3.414.674)	(2.700.160)
Interest expense	(3.155.130)	(4.917.855)
	<b>(6.569.804)</b>	<b>(7.618.015)</b>
<b>Financial income:</b>		
Foreign exchange gains	2.312.745	4.202.028
Interest income	1.649.050	2.353.100
	<b>3.961.795</b>	<b>6.555.128</b>
<b>Financial expense - net</b>	<b>(2.608.009)</b>	<b>(1.062.887)</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 period beginning on or after 1 January 2005, there is no monetary gain / loss in the financial statements for the year ended 31 December 2005.

	31 December 2005	31 December 2004
Net monetary position gain	-	25.756

# Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

## Notes to The Financial Statements For The Year Ended 31 December 2005

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

### NOTE 41 - TAXES ON INCOME

	31 December 2005	31 December 2004
Corporation tax payable	2.312.614	1.930.474
Less: Prepaid taxes (-)	(2.335.830)	(1.306.240)
<b>Taxes on income, net</b>	<b>(23.216)</b>	<b>624.234</b>
<b>Deferred tax asset</b>	<b>2.077.350</b>	<b>1.416.401</b>

Corporation tax rate of the fiscal year 2005 is 30%. Corporation tax is payable at a rate of 30% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law", effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. As the conditions according to the Tax Law article 298 were not fulfilled, no inflation adjustment has been performed in 2005.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% 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.

Exception for participation share and property sales profit which took part in Corporation Tax Law temporary Articles 28 and 29 has been ended as of 31 December 2004. However, this arrangement has been added to Corporation Tax Law article 8 as permanent exception with 5281 numbered law dating from 1 January 2005.

According to this, profit of corporations' participation share and property sales which has taken part in assets at least for two years –dependent on corporation capital addition commitment in definite conditions- will be exempted from Corporation Tax. The two year commitment will not be required when debtors of the banks and their guarantors transfer their property and participation shares as a compensation for the debt.

Capital expenditures, with some exceptions, over YTL 10.000 are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses can not be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 15th 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.

The taxation on income for the years ended 31 December 2005 and 2004 is summarised as follows:

	<b>31 December 2005</b>	<b>31 December 2004</b>
- Current tax	(2.312.614)	(2.061.709)
- Deferred	660.949	(148.598)
	<b>(1.651.665)</b>	<b>(2.210.307)</b>

The reconciliation of current period tax charge is stated below:

	<b>31 December 2005</b>
Statutory income before taxation	10.206.483
Disallowable expenses	133.975
Other exempt income	12.827
Investment allowances	(2.643.468)
Other allowances	(1.102)
Corporation tax base	7.708.715
Withholding tax base	-
Effective tax charge 30%	2.312.614
Period tax charge	2.312.614
Monetary gain	-
<b>Current period tax charge</b>	<b>2.312.614</b>

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

	<b>31 December 2005</b>	<b>31 December 2004</b>
Net income for the period	6.733.526	5.771.059
Weighted average number of shares with nominal value of 1 YKr	2.916.000.000	2.916.000.000
Earnings per share (YKr)	0.2309	0.1979

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

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

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

None.





